

## ASSESSMENT OF THE MAIN PETROLEUM PRODUCT DISTRIBUTION STRATEGY

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**Abstract:** *This paper investigates the main petroleum product distribution strategy. Three main criteria are identified in this respect: the economic criterion, the control criterion and adjustment criterion. In addition, aspects pertaining to the administration of petroleum product distribution network are also revealed.*

**Key words:** *assessment, strategy, distribution, petroleum products*

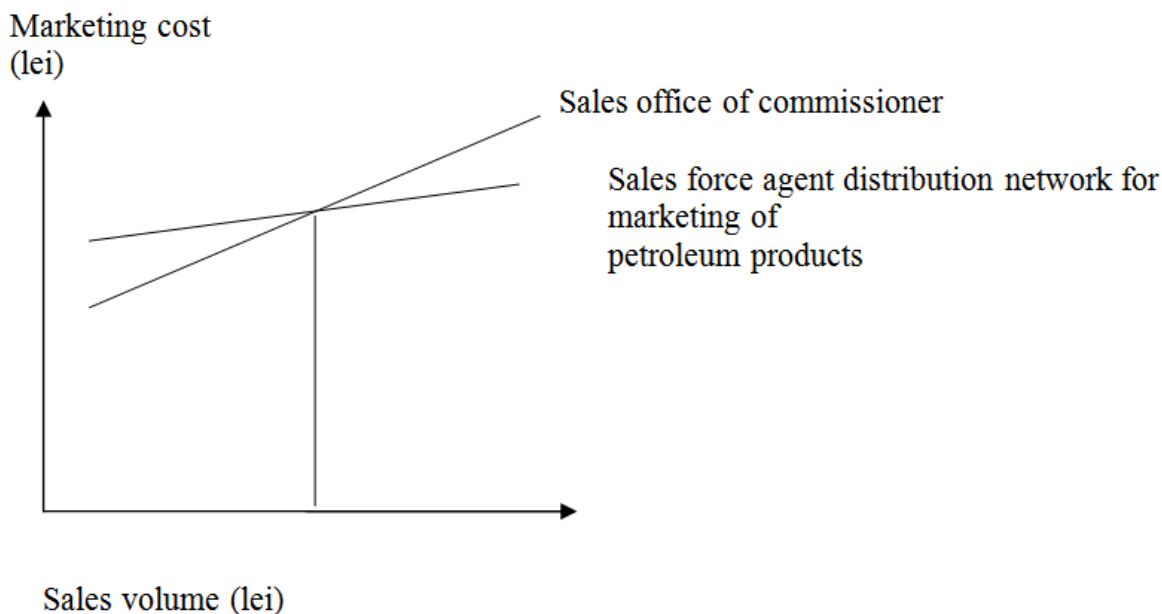
### INTRODUCTION

The idea of the present article emerges from the assumption that the agent for the marketing of oil products distribution identified several strategic options and wants to know which one is the best. To this end, he must evaluate each alternative based on three criteria: the economic criterion, the control criterion and adjustment criterion.

**1. The Economic Criterion.** Each strategic option will result in different levels in terms of sales and costs. Selecting a variant depends, according to the criterion of efficiency, on maximizing sales under minimum distribution costs. For reasons of strategic nature, however, there can be, at least on short term, exemptions from this principle, depending on the phase of the product life cycle or business. Nonetheless, applying this criterion of selection for strategic alternatives of distribution implies:

- ☞ Maximization of sales volume, taking into account:
  - Sales aggressiveness
  - Consumer's preferences
- ☞ Marketing cost evaluation of different volumes of cargo distribution in each variant
  - Determination of the cost of balance
- ☞ Using breakeven.

*The cost of equilibrium* for two types of distribution through the strength of the agent's own distribution network selling for the marketing of petroleum products and through the sales office of commissioner is represented in the following image:



**Fig 1 – Cost of balance for two types of distribution**

**2. The Control Criterion.** In assessing the distribution strategy the issue of control should also be discussed. In the example above, using a commercial office of commissioners raises some serious problems in this regard. First, bear in mind that such a commercial office is an independent firm seeking to maximize profit. It is possible that its employees (commissioners) focus on customers who purchase, for example, a larger amount of LPG cargo, which may not necessarily belong to the agent for marketing of petroleum products (perhaps it belongs to the competition). In addition, it is possible that these agents do not know the technical details of the product (LPG.) or not to engage in a campaign to promote it effectively

**3. The Adjustment Criterion.** To form a distribution network, members must, for a certain period of time, to take a series of mutual obligations. But these obligations invariably lead to a decrease in the agent's capacity of marketing to react to changes in market environment. In volatile market conditions, the agent for marketing of petroleum products must choose those distribution networks that enable him to maximize control and quickly.

In conclusion, we consider that designing a distribution system of a manufacturer of petroleum products, as a result of the local possibilities and conditions, requires a set of operations as follows: analysing consumer needs, setting distribution objectives, identifying the main distribution strategies, but also valuation of the distribution strategies. Unfortunately, this approach is hampered by problems manufacturers face when either the refinery or the manufacturers are new companies, or when these are already on the market. Consequently, any trader that sells oil and has identified some strategic options for distribution, needs to know which one is the best, so he will proceed to an assessment, following the economic criterion, the control criterion and adjustment criterion.

*The distribution strategy* is established by the provider of logistics distribution and marketing, a determining factor in its process of operation and achievement of the objectives is occupied by members of the distribution network selection, concluding commercial agreements with them, motivation and their assessment.

## SELECTION OF THE MEMBERS OF THE DISTRIBUTION NETWORK OF OIL PRODUCT

The provider of logistics service distribution and marketing of petroleum products and other petroleum products marketing companies are distinguished by their ability to draw in their distribution network or in the distribution channels, performing members. Service provider of logistics distribution and marketing of petroleum products and complementary will have to define very well *the number and type of product line* it distributes through its own distribution network, and *the size and level of training of the sales force*. Attracting new members is done in some cases through the promise of granting exclusive distribution rights or selectively to companies specialized in the marketing of petroleum products.

If members of their network marketing agent for petroleum products are fixed sales commission cylinders, or resellers of petroleum products through their own stations that will hold exclusive distribution rights, logistics service provider will have to take into account the location of these fixed points or the stations owned by the members of the distribution network of the agent for marketing of petroleum products, their potential for future development and *the characteristics of their customers*. The recruitment of distributors and selection of firms / qualified individuals and with availability of involvement in such business is extremely complex and difficult.

Among *the features* considered for selection of *companies* as potential members of the network, these are the most important:

- ☞ Years in business
- ☞ Experience and management training
- ☞ Company reputation and image
- ☞ Volume and structure of activity
- ☞ Pace of business development
- ☞ Availability for cooperation
- ☞ Economic and financial performance
  - ▶ Size and dynamic of revenue and profit
  - ▶ The level and dynamics of liquidity and solvency.

In the selection of new individual members of its distribution network we may turn to specialized companies or specialists within HR services, marketing, commercial, financial of the agent for marketing of petroleum products, the most important elements of selection are:

- ❑ Double experience of people in the distribution of petroleum products, LPG cargo and complementary products (agent, distributor, dealer - seller).
- ❑ Specialization and experience in marketing, the ability to shape the distribution of a product line.
- ❑ Compensation for the network member (commission / salary offered in USD / year to which discounts will be added / bonuses)
- ❑ Marketing exclusivity for the logistics service provider.
- ❑ The service staff training.

## MOTIVATING MEMBERS OF THE DISTRIBUTION NETWORK

The performance of the members of their own distribution network is closely linked to the permanence and their motivation level. *The criteria* determining their involvement in the distribution of petroleum products or marketing agent distribution channel can contribute to their *motivation*. *Training, assistance and stimulating* members of the distribution network have an additional role to these criteria. The stimulation of members of the distribution network, which is done in a way to achieve the highest performance, must be based on knowledge of **the needs and requirements** network members face. The main aspects that drive to network members' knowledge are grouped in Table 1, and mobilizing forces distribution networks in Table 2.

**Table 1**

### Distribution members' needs and requirements

NO.	DOMAIN	NEEDS/REQUIREMENTS
1	Customer orientation	<ul style="list-style-type: none"> <li>• recipe member must act as a purchasing agent for its clients (individuals, businesses, institutions, etc.) and only secondly as a salesman for his supplier (manufacturer, supplier of logistics services for the distribution and marketing of petroleum products)</li> <li>• he is interested in selling any product tanker, LPG cargo or complementary product that customers want to buy from him</li> </ul>
2	Package of products / services	<ul style="list-style-type: none"> <li>• the network member is trying to form in petroleum products (including LPG cargo) and complementary products a family of products has in order to sell them to individual consumers</li> <li>• Marketing efforts are directed primarily toward obtaining orders for a whole range of products</li> </ul>
3	Monitoring sales	<ul style="list-style-type: none"> <li>• Network members will not keep separate records of sales or brand product assortment, unless they have an incentive to do so</li> <li>• relevant information on the product purchase are kept secret by the supplier</li> </ul>
4	Power to mobilize	<ul style="list-style-type: none"> <li>• logistics service providers differ greatly depending on how they know whether or not to draw the members of their networks</li> <li>• power to win the cooperation network members takes different forms</li> </ul>

Forms of power in mobilizing distribution network members

NO.	FORMS OF POWER	MANIFESTATION	ADVANTAGES / DISADVANTAGES
1	<b>Power based on constraint</b>	<i>threat of reduction or cessation of resources collaboration if network members don not cooperate</i>	<ul style="list-style-type: none"> <li>- it is very effective if members of the network depends largely on the agent for marketing of petroleum products</li> <li>- it may cause dissatisfaction among network members may resist</li> <li>- can be effective in the short term, its long-term effectiveness is minimal.</li> </ul>
2	<b>Power based on reward</b>	<i>there is an opportunity to gain additional performance by members of certain activities network</i>	<ul style="list-style-type: none"> <li>- usually there are superior results based power constraint provided that its effect should not be overstated</li> <li>- members of own agent network marketing petroleum products comply with its wishes not from their own persuasion, but being encouraged by additional gain</li> <li>- when reward is cancelled network members may feel cheated</li> </ul>
3	<b>Power based on the law</b>	<i>members are required to a certain conduct, corresponding the hierarchical relations and the contract</i>	<ul style="list-style-type: none"> <li>- it can be insisted that their network members form stocks within the limits set by the contract</li> <li>- as long as network members see the oil marketing agent for legitimate leader this power works</li> </ul>
4	<b>Power based on knowledge in the domain</b>	<i>when the service provider of logistics distribution and marketing of petroleum products and complementary has special knowledge useful to the members of their network</i>	<ul style="list-style-type: none"> <li>- effective because members of the network would not be able to conduct business properly without help from the agent for marketing of petroleum products</li> <li>- once the network members get possession of the necessary knowledge, power efficiency is reduced</li> <li>- the solution is that the agent for</li> </ul>

			marketing of petroleum products acquires new knowledge, so that network members are interested in further cooperation with him
	<b><i>Power based on references</i></b>	<i>when the service provider of logistics distribution and marketing has such a good name that their network members are proud to identify with it</i>	- better cooperation from network members can be obtained by applying, in order, reference power based on expertise, on the law and reward, and if it is the case of those based on constraint

To win cooperation between network members the agent for marketing of petroleum products needs to turn to several sources of power. Power is the capacity of agent for marketing of petroleum products as part of its distribution network to obtain from another member of their network performing an act which otherwise would not have been executed. There are generally five types of power: based on constraint, on reward, on the law, on knowledge and on references. The characteristics of these types of power are presented Table 2.

To achieve its policy objectives distribution the agent for the marketing of petroleum products can implement ***cooperation programs, association and distribution business planning***. Using a variety of motivators based on a simplistic conception to report stimulus-response, the risk is that many programs are not only some commercial transactions concluded in haste, uninspired conflicts with members of the network and rebates without prior verification. Therefore it is essential to know the needs, problems, strengths and weaknesses of network members.

It is generally considered that the main issue is that of attracting and cooperation with network members. What can be used to solve it, for example, is a policy of outreach by providing incentives (profits, special contracts, awards, collaborative work promoting agent for marketing of petroleum products, the right to display the demonstrations, participation in certain contests with commercial etc.) When appropriate, certain sanctions may be applied (threat of reduced profits, reduced rates or interruption delivery reports).

It may also be used with long-term associations with its network members. In this case it is necessary to know about the requirements of market coverage, stock size, expanding the marketing of oil products and LPG cargoes, accounting, technical support, professional services and market information being able to apply a functional compensation plan in order to attract their consent to these conditions.

## FINAL CONCLUSIONS

Finally, we consider that the distribution program consists of developing and implementing a planned system, specialized, of vertical distribution, which takes into account both the needs of the main provider of distribution and marketing logistics, as well as the members of its distribution network.

In this sense a marketing department in planning service relationships with distributors is created, with the following functions:

- *Establish the activity of oil products, LPG cargoes and complementary products*
- *Identifying network members*
- *Develop marketing programs to help every member of its distribution network to operate under the most favorable*
- *Establish requirements for staff training*
- *Establish business promotion, advertising*
- *Determine the size of stocks, and the organization of the surface of fixed points, gas stations*

It aims to change distributors' attitudes, sales forces, in general, replacing the concept that their profits come, primarily by purchases from the main intermediary, since its profits result from trading activities undertaken by members of its distribution recipe. Agent for marketing of petroleum products should not consider the members of their network as customers, but partners.

Some **methods** to optimize distribution network members:

- *Establish a council distributors that meets regularly to discuss issues and trends in the field of marketing*
- *Knowledge of network members by assisting them by specialists in marketing and commercial service*
- *Informing members of its distribution network of new products and how to use them, advising them what to do to increase sales*
- *Collaboration with members of the distribution network for making marketing plans for their rigorous*
- *Creating a rapid response to requests from network members*
- *Having permanently phone connection with sales personnel*

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