

# THE PRIMACY OF CIRCULATION AND THE NEW FUNCTIONS OF WHOLESALE COMPANIES IN THE SPATIAL CIRCUITS OF PRODUCTION IN BRAZIL

<sup>1</sup>Marcos Xavier

<sup>1</sup>Universidade Federal da Integração Latino Americana (UNILA), Brasil, marcos.xavier@unila.edu.br

**Abstract** *Efficacy in the circulation of goods has assumed a central role in the action strategies of many enterprises. In Brazil, the importance of circulation is due to two related facts: the transformation of production processes to involve great territorial expansion and the social and territorial expansion of consumption. Since Brazil encompasses a vast and heterogeneous territory, the distribution process is quite complex, and wholesale companies have assumed a strategic importance in the spatial circuits of production. A focus on logistic operations enables these companies to offer industries a territorial enlargement of markets, while at the same time giving consumers access to a more diversified range of products. The result has been that wholesalers and their connections have contributed to the deepening of the territorial division of labour in the country.*

Key-words *Circulation, logistics, territory, wholesale*

## Introduction

The importance of efficacy in the flow of goods and information involved in supply chains has been accentuated due to the deepening of the territorial division of labour, as well as attempts of enterprises to reduce stocks and, more recently, modifications in consumer behavior. Various strategies have been adopted to guarantee speed and precision in physical distribution systems and expansion in the range of markets reached to establish a competitive advantage for companies. On the one hand, the Brazilian State tries to extend the infrastructure for the circulation of goods and promotes the modernization of what exists, combining concessions with the creation of regulatory agencies. On the other, companies have modified their organizational structure, implementing technological innovations, establishing new circles of cooperation and redefining their topologies in an attempt to enhance the efficacy of the flow of

goods. It is this second set of actions that is of concern in the present text, which will consider the modernization of grocery wholesale companies in Brazil in an attempt to understand the new uses of geographical space which have arisen through improved efficacy in the circulation of goods.

This article thus deals initially with the centrality of the circulation of goods and information in the productive process and the consequent value aggregated by logistic activities, which contribute to greater productivity in certain locations and to greater competitiveness for companies. Next, the dynamics of recent wholesale activities in Brazil are considered, as well as the relationship between the growing focus on logistic operations and their territorial implications. It has been concluded that the primacy of circulation on one hand and the dimensions and diversity of the Brazilian territory on the other make the survival and modernization

of wholesale activities possible, both in relation to strategies of company marketing and to the territorial expansion of consumption, thus contributing to a redefinition of the territorial division of labour.

### **The primacy of circulation and the importance of distribution activities**

Since the 1990's, the efficacy of operations in the flow of goods and merchandise throughout the supply chain has been treated as an indispensable condition for maintaining the competitiveness of companies in Brazil. This situation has arisen largely from the need to reduce operational costs, as well as those reflecting the variety of products required to serve different profiles of consumption and the need for speed in replacement of stock as a result of more frequent trips to points of purchase by consumers.

The diffusion of modern means of transportation and communication has enhanced the social and territorial division of labour and the social and territorial expansion in consumption. As Santos (1994a, p. 51) observed, the amount of goods and people circulating has grown enormously, and, as a consequence, the importance of trade increases, particularly because of the diversity of products, especially noticeable in larger cities.

The territory as a whole, even if selectively, is occupied by companies of different technical, capital, and organizational levels. The greater specialization of places and the dispute for markets have led to a new geometry of trade, in which demands not met by larger and more modern companies are reached by companies with less technology, capital, and organization inputs, which are able to meet more popular demands and regional tastes (Xavier 2008, p. 17).

Moreover, the efficient realization of the flows of raw materials, feedstock, parts, and consumer goods depends more and more on the mapping, treatment and circulation of information about demands, stocks, and the tastes and habits of consumers, as well as that related to orders and their processing and financial transfers.

These changes have enthroned circulation in a central position in the productive process as a whole. The expansion of technical-scientific-informational milieu, in addition to the increasing importance of both fixed capital (highways,

harbours, silos, ploughed fields, etc.) and constant capital (machines, vehicles, specialized seeds, fertilizers, fungicides, etc.) also stimulates a need for movement, increasing the number and importance of flows. Consequently, circulation has become increasingly important in the use of territory by companies.

The capacity to distribute goods on a wider geographical scale in a reduced period of time has become not only a condition for survival, but also a mandatory competitive strategy. The efficient circulation of goods throughout the systems of distribution has thus become the rule, just like the efficacy of the circulation of information and money. As Raffestin (1993, p. 202) states, circulation is a function of power, an instrument created by political and economic actors. This is the reason why more powerful companies are exactly those which "can more rapidly put their production in the most distant places; a shorter period of time also means a reduced cost" (Santos 1992, p. 63).

The production of a large quantity of goods is not sufficient. The increased size of the market area makes it "indispensable to transform production into flow, in order to recover the money that was invested and restart the productive cycle" (Santos 1992, p. 63, translation by authors). In this way, circulation takes over the process (Silva Junior 2007b), and the organization of production ends up being a function of the conditions of distribution of goods. Consequently, the management of the manufacturing and sales departments of companies must proceed in an integrated way, along with plans for strategies for the supply of raw materials, distribution and marketing. The incapacity or inefficiency of geographical objects to generate flows both before and after production itself can limit the geographical scale of companies, or even lead them to failure. The ability to use time better and increase speed has thus become a rule, and logistics emerges as a catalyst capable of reducing the time a company requires to act.

Logistics, a product of the scientific-technological revolution, emerges as a way of "energizing circulation" in order to assure territorial fluidity for companies (Silveira 2009, p.1), playing a key role in production-circulation-consumption circuit changes (Silva Junior 2007a, p. 132). Its relevance for the productive process arises from the importance of time in placing a product or service at the fingertips of consumers through efficacy in speed before

the competition is able to do so, because quick and reliable delivery has become an important facet of quality (Moura et al. 2003, p. 15). Thus, logistics is becoming the new paradigm for company planning, taking territorial policies along with it.

### **Logistics: basis of spatial productivity and a new paradigm for territorial planning**

From a geographical point of view, logistics can be understood as a system of technical objects and a system of actions dedicated to the circulation of goods and constituted by infrastructure, strategies, and state rules and regulatory activities (Castillo 2007) that, being present in a given subspace, confer fluidity and competitiveness to economic agents. As Monié observed (2001, p. 21), logistics assumes a “technical-institutional arrangement that mobilizes local economic, social, political and cultural resources”, aggregating value to material and immaterial flows and conferring competitiveness to regions.

Logistics has thus ended up playing a key role in public policies designed to create adequate territorial conditions for companies (Cataia 2003) and has consequently become an overriding issue in the discussion, regulation and planning of Ministries and regulatory agencies on the federal level (Castillo 2007), a situation reproduced for offices of planning and development in certain State Governments. On a national level, large investments in infrastructure for transportation are emblematic and are foreseen in the *Planos Plurianuais* (Pluriannual Plans), the *Programa de Aceleração do Crescimento* (Growth Acceleration Program) and the *Plano Nacional de Logística e Transportes* (National Logistics and Transportation Plan), as well as on an intra-state level, with the *Plano Diretor de Desenvolvimento de Transportes* (Master Plan for the Development of Transportation) of the state of São Paulo and the *Plataforma Logística de Anápolis* (Logistics Platform of Anápolis) of the state of Goiás.

The importance of logistics in public policies arose from the failure of the existing transportation system to keep up with demands for more fluidity. In the 1990's, highway, railroad, and harbor concessions failed to meet the increasing demands of Brazilian production, whether in relation to external circulation focusing on the exportation of commodities, or to internal circulation stimulated by the growth of consumption in various regions of the country.

However, in the face of the delay of the Federal Government in modernizing and implementing infrastructure, various companies have created their own systems of logistics using sophisticated organizational engineering designed to foster efficacy in the circulation of their goods. In this context, Brazilian wholesale companies which focus on logistics operations have improved their capacity for dealing with the mosaic of uneven spaces in terms of circulation conditions that constitute the totality of the territory. This investment has enabled them not only to survive, but also to grow.

### **Recent evolution of wholesale distribution activity in Brazil**

Since the wholesale distribution activity in Brazil is extremely sensitive to variations in production and consumption, it has had to respond rapidly to oscillations in the national economy in the past twenty years. In 1990, there was a drop of 5.4% in the number of wholesale companies operating in the country, as well as of 29% in the sales of the sector. According to Cleps (1997, p. 73), the reason for this decrease was a reduction in sales, accompanied by high interest rates and a lack of credit, as well as the price freeze in effect since the enactment of the Plano Collor (Collor's Presidential Plan) in March 1990. This forced companies to reduce their stock, increase product turnover, and concentrate sales on the richest regions, especially the Southeast. After this period of cooling off, however, the wholesale market again started to expand, as can be seen in operations sustained by the high inflation rates in effect up to 1994.

The currency stability generated by the Plano Real in 1994 brought new challenges, but an increase in consumption and a focus on the efficacy of operations allowed the stable growth of companies until 2002. From then on, the readjustment of the minimum wage above the rate of inflation, easy access to credit, the maintenance of monetary stability, and economic growth in general, partially sustained by increased exportation, have led to the development of internal trade and promoted changes in consumption, thus providing a springboard for growth.

Billing in nominal values for the grocery wholesale distributing sector increased 156.2% between 2000 and 2007. According to *Associação*

*Brasileira de Distribuidores Atacadistas* (Brazilian Association of Wholesale Distributors), this increase was rooted in the growth of consumption by small retail companies, which constitute the main clients of the wholesalers. Some 32,4% of the total billed by the wholesalers in 2007 came from sales to small stores with one to four check-out counters, while 26.1% was from traditional retail businesses (stores with counter service: emporiums, grocery stores and greengrocers). The same phenomenon has been observed in relation to the number of points of sale. One of the main reasons for the rising importance of small retail businesses is the difficulty of access of the low-income population to the hypermarkets located along important access roads of the largest urban centers; moreover, the control of inflation has made more frequent purchases of lesser volume possible, thus reducing the need to maintain larger stocks at home. Also important in this scenario is territorial capillarity of these businesses, which are spread throughout central and peripheral neighbourhoods, from small towns to large cities.

This growth in the wholesale sector has been accompanied by transformations in the logistics operations of these companies, as a strategy for surviving in the context of growth of domestic demand and low inflation.

### **Consequences of logistic efficacy in the use of territory**

Up until the 1980's, wholesalers survived due to their capacity to buy large batches of industrial products and sell them to small retail businesses on the basis of interest speculation in financial markets, which was enhanced by the high inflation rates. However, since the 1990's, monetary stability has led to new behavior of Brazilian consumers and an increase in demands for greater performance of companies, which have forced wholesalers to adopt other strategies. They have started promoting new products to contribute to the expansion into internal markets, assuming the additional costs and the risk of maintaining stocks while reducing the time of delivery and financing retail and production, as well as collecting information about the consumers. There has thus been a qualitative change in the strategies adopted to focus on value-added post-aggregation services

through more efficient logistics that provides a broader capillary coverage of the territory.

In Brazil, social and territorial expansion of urban consumption, especially in the low-income population, has led wholesalers of groceries (food, hygiene and cleaning products) to take on the role of mediator between the industry and the small retail businesses (grocery stores, mini-marts, greengrocers, bakeries, drug stores, bars, snack bars, restaurants, and convenience stores). This mediatory role results from the difficulty of industries to reach these markets, due to the costs and conditions of distribution. It is also true that small retail companies have a greater dependence on mediators for their supplies. The smaller the batches they buy, the weaker their position for negotiating directly with suppliers.

The focus on logistic operations has allowed wholesale companies to overcome the obstacles of distance which arose from the poor conditions of the infrastructure of transportation and the scattered nature of the markets. This improved logistic efficacy means that wholesalers have been contributing to the deepening of the territorial division of labour in Brazil, because they have installed a more extensive capillary distribution of products which makes consumption feasible in thousands of urban centers located in different regions throughout the country.

Many technical innovations have been created as solutions for the complex logistic operations of wholesalers. These include the structure of warehouses and the diversity of equipment for the movement of packages, as well as the hardware and software used for processing orders (including separation, dispatch, emission of invoices, and the itineraries of vehicles) and activities related to the control and management of stock.

Warehouses which were built for the storage of large batches of goods to be left in storage in the expectation of the profits guaranteed by an increasing inflation have been replaced by distribution centers (DC's) focused on the constant flow of stock. These centers serve as intermediate storage points for products, but the rapid turnover of goods tends to convert them into geographical objects "producers of flow", making them an integral part of the totality of the space of circulation.

Endowed with the technology and competence that are essential for increasing the efficacy of logistic processes, these distribution centers are not

used exclusively by wholesale companies. Specialized distributors and logistic operators also use them to deliver services to their industrial clients and large retail chains. Regional chains and even business centers maintain their own DCs, where they receive goods from their suppliers and from which they distribute them to their stores. But it is precisely the efficacy of these centers in the process of distribution that has led wholesale companies to be among the first to make use of them as a strategic resource in their operations. These concrete technical objects (Simondon 1980), which have been modernized by technological and organizational innovation, provide businesses with the capacity to act at a high level of intentionality, and have recently become a sine qua non for the existence of efficacy in the capillary distribution of a diversified mix of products from a single point in the territory.

The technology installed in the DC's involves a system of technical objects under the command of transactional systems of information. These systems, according to Nazario (2000, p. 288) consist of formal rules and functional communication focused on daily activities, such as receiving, storing, separating orders, emitting invoices, plotting and controlling the itinerary of vehicles, and dispatching, all of which integrate these DC's with other agents in the supply chain.

Information technologies act as a system throughout the supply chain. These technologies consist of hardware and software distributed throughout the network, not only in the distributing centers, but also in the delivery trucks, the check-outs of retail stores, and even the hands of the salesmen. This information arriving at hardware centers is decoded, interpreted, and reorganized by special software. Provided with the results, automated systems generate answers on the basis of specific programming so that the results can function as orders or provide conditions for making decisions.

## Final Comments

The distribution of goods, organized by information technologies, is an indispensable condition for the survival of manufacturing activities. Large wholesale companies dedicating themselves to more efficient logistic services through the use of new organizational methods have inserted themselves in this system, thus sustaining their importance in the spatial circuits of production in the national

territory. These wholesale companies have adopted strategies focused on value-added post-aggregation services; hence, they do not sustain their profits only from their ability to buy large batches of goods and sell them to retail companies for higher prices.

The flow of goods is not enough. This must be accomplished in a way that permits the aggregation of value of quality in association with the efficacy with which this is done. Hence, investing in the optimization of distribution logistics has become a central issue for today's wholesale companies, in contrast to their operation in the period of high inflation when profits arose from financial speculation. Today they justify their maintenance and guarantee profits through the improved quality of their operations.

This renewed activity of distribution by wholesalers of industrial products has contributed to the expansion of consumption and to an extension of the range of companies, even in a context of regional diversity such as that seen in the vast territory of Brazil. It is the territory itself which provides wholesalers with the conditions for their survival, because it is difficult for a company to be present in various places at the same time without the mediation of the wholesale company in the distribution of their products.

## References

- Castillo R. 2007. Agronegócio e logística em áreas de cerrado: expressão da agricultura científica globalizada. *Revista da Anpege*, 3:33-43.
- Cataia M. 2003. A alienação do território: o papel da guerra fiscal no uso, organização e regulação do território brasileiro. In Souza M. A. (ed.) *Território brasileiro: usos e abusos*. Campinas: Territorial Ed., pp. 397 – 416.
- Cleps G. 1997. *Comércio atacadista de Uberlândia (MG): mudanças tecnológicas e estratégias territoriais*. Dissertação de Mestrado. Rio Claro: Inst. de Geociências e Ciências Exatas, Unesp. 181p. (dissert. mest.)
- Monié F. 2001. Logística de transporte, modernização portuária e inserção competitiva do Rio de Janeiro na economia global. *Revista Território*, Rio de Janeiro, ano VI(10):9-31.
- Moura R.A., Banzanato, E., Carrila Jr E., Gasnier G. D., Rezende C. A. 2003. *Atualidades na logística*. São Paulo: Instituto IMAM

- Nazário, P. 2000. Importância de sistemas de informação para a competitividade logística. In FLEURY, P. F. et al. (org.) *Logística empresarial: a perspectiva brasileira*. São Paulo: Atlas, p.285-296.
- Raffetin C. 1993. *Por uma geografia do poder*. São Paulo: Ática.
- Santos M. 1992. *Espaço e Método*. São Paulo: Nobel.
- Santos M. 1994. *Metamorfoses do espaço habitado*. São Paulo: Hucitec.
- Silva Jr. R.F. 2007a. Logística: em busca de uma conceituação para a Geografia. *Caderno Prudentino de Geografia*, **29**:33-53.
- Silva Jr. R.F. 2007b. A circulação como um dos fundamentos do espaço: elementos para a busca de um conceito. *Revista Geografia e Pesquisa*, Ourinhos, **1**(1):125-140.
- Silveira M.R. 2009. Logística, sistemas de movimento, fluxos econômicos e interações espaciais no território paulista: uma abordagem para a geografia dos transportes e circulação. *Scripta Nova*, **XIII**(283).
- Simondon G. 1980. *On the mode of existence of technical objects*. Ontario: University of Western Ontario.
- Xavier M. 2008. Os circuitos espaciais da produção e a inserção de São José do Rio Preto na atual divisão territorial do trabalho. *Geografia*, Rio Claro, **33**(1).