

CHAPTER NINE: DISTRIBUTION

Container Plastics Limited

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THE COMPANY

Container Plastics Limited (CPL) is a family owned and managed firm, located in Northern Ireland and employing close to 50 employees. CPL has been in the rotational moulding business for nearly twenty years¹. Mrs Kelly and her family run the business. She leaves much of the management to her daughter (who looks after the administration function) and her son-in-law, who is an engineer and takes particular interest in production issues but also manages many of the personnel and marketing issues.

CPL PRODUCTS AND MARKETS

By far the most significant product line for CPL is oil tanks, which account for more than 80% of total sales across GB, NI and ROI. CPL were among the pioneers of plastic oil storage tanks, which have replaced steel tanks for the storage of oil. Plastic oil tanks must adhere to rigorous quality standards. The consequences of a poorly constructed tank are potentially very dangerous, with fire and environmental damage uppermost. All CPL tanks are designed to exceed environmental, industry and Oil Fired Technical Association for the Petroleum (OFTEC) regulatory standards.

The oil tank line is made up of tanks of varying sizes (1000 litres - 5400 litres) and shapes (Beehive, Vertical, Horizontal, Slim line & Low profile). A range of 'bunded' oil tanks was launched in 1995. Bunded tanks are 'tanks within a tank' giving additional environmental protection - any accidental spillage from the primary tank will be contained in the 'bund' or outer tank. It is expected that environmental legislation will only increase the need for safe containment of oil and derivative products. Overall CPL's oil tank line is seen as comprehensive by 'the trade' and there are few requirements for oil tanks that CPL cannot meet.

The company is considering other uses for these types of product. One possibility is to adapt the bunded tank to make it suitable for storing waste oil, an increasing problem for garages and public amenity sites. Another possibility is to produce tanks for wastewater re-cycling. Or the basic product could be adapted to allow it to dispense fluid (such as diesel on a farm). Little change would be required to existing moulds in order to produce these adaptations.

CONSUMERS AND 'THE TRADE'

The ultimate customers of CPL oil tanks are householders who have oil fired central heating. Householders have little or no knowledge of oil tanks. In the case of new builds, the property developer tends to leave the final tank choice to the plumbing sub-

¹ For more information on the process, design and cost issues associated with rotational moulding visit www.rotomolding.org (US site).

contractor. In a few cases, the architect will specify a brand of tank for installation. Where a tank is being replaced, invariably, it is an oil distributor, specialist tank installer or plumber who makes the decision as to which brand to purchase.

An oil distributor's principal line of business is the supply and distribution of domestic heating oil. In the interests of customer service, many oil distributors will also stock, supply and install oil tanks. Oil distributors generally purchase oil tanks directly from the manufacturer. A tank installer is an individual or company that supplies and installs oil tanks. Smaller tank installers generally purchase from either oil distributors or builders', plumbers' and agricultural merchants. Larger installers deal directly with the manufacturer. Builders' plumbers' and agricultural merchants stock a wide range of products, of which oil tanks is only one. Merchants tend to vary significantly in terms of scale and can range from a sole trader with small premises through to national chains with hundreds of branches, *e.g.* Plumb Centre. There are approximately 12,000 outlets selling tanks in the UK. Industry sources reckon that installers account for approximately 10% of sales, oil distributors 40% and merchants 50%.

COMPETITION

A casual observation of the UK and Ireland oil tank markets would suggest that there are many brands and players jockeying for position. However, there is heavy concentration of supply. The Ireland-based Kingspan Group owns the brands and/or companies that control some 80% of the market. Despite being owned by the same company, each brand is sustained in the market place. Estimates for the rest of the players are: Container Plastics Limited (CPL) 9%; Balmoral 6%; Deso 3%; and, others 2%.

MARKETING ACTIVITY

Marketing efforts are concentrated on the channels of distribution. Promotional activities include direct mail, advertising in the trade press, merchandising materials, publicity, corporate hospitality and trade exhibitions. Personal selling is a key element in the marketing effort. Selling is quite traditional, with the norm being for a sales representative to personally call with merchants on a periodic basis. Pro-active telephone selling is not very popular, though can be used for repeat orders. Key accounts (with large distributors and national chains) tend to be serviced by dedicated sales representatives. Sales representatives target potential new business and this selling effort requires sound negotiation skills.

Price-based promotional offers are used, such as six tanks for the price of five. Other forms of promotions see fittings included in the tank price. In general, prices to the various channels of distribution are based on volumes, with discounts being given for quantities bought. Some suppliers are more price-competitive but the lessons of a price war in the mid-nineties were expensively learned. There is a reluctance to engage in aggressive price-cutting, though occasionally a 'rogue' competitor forces the market with price reductions. While the end-price to the householder is visible, trade price lists and discount structures are closely guarded.

CPL MARKETING AND DISTRIBUTION

Within this competitive environment CPL is a small company, with relatively low, but stable market share. Sales of oil tanks have been steady over the past three years. However, profits have begun to decline due to more demanding trading conditions and rising costs. The company's brand name has very low awareness levels in the GB market. Where it is known, it is seen as a good value brand, that is, relatively good quality compared to most competitors but at less than premium prices.

In the home (NI) market, the company organises information events for plumbers to help promote the Harlequin brand. For the wider market, publicity and public relations are employed to secure editorial space in trade magazines such as *Oil Heating News*. Company staff also is active in various trade associations. Promotional brochures are available and advertising is placed in relevant trade publications. A customer helpline is used to receive orders and deal with other customer complaints and queries.

Although the oil tank sector is very traditional in its marketing behaviour, CPL has established a website promoting its products. The site has been established as 'brochure-ware' in the first instance, that is, it displays the firm's products and gives details of the firm and product specifications. The site has the potential to upgrade to e-business status in the future. CPL's research suggests that there is little enthusiasm for a move towards e-business amongst CPL's customer base

As a small player with limited resources, in the mid-eighties, CPL formed an alliance with Faam Products, a Midlands-based distributor of water tanks, unvented cylinders (which replace the traditional copper hot water tank) and oil tanks. As a distributor, Faam sells mainly to merchants. In effect, this gave CPL access to the GB market. Faam Products provide sales representation, service and delivery of CPL oil tanks. CPL rely on Faam's distribution infrastructure. CPL deliver the tanks to Faam in the Midlands and from there the tanks are distributed alongside large volumes of complementary products. This partly defrays the transportation cost for CPL. Faam's network operates throughout GB, Channel Islands and the Isle of Man. Although responsible for all these regions, Faam's coverage is somewhat patchy with little presence in some regions of the UK. Faam add a margin to CPL prices to arrive at selling prices for its GB customers. This extra margin raises CPL prices to the higher, but not premium, end of the scale. Faam Products also exhibit at some of the industry's key trade events, in particular The Domestic Heating and Plumbing Show in Birmingham.

The immediate problem that CPL are grappling with is the news that Faam Products has just informed them that they have been bought over. Their new owner is the Kingspan Group, the major competitor on the oil tank market. CPL must urgently address the problem of how to distribute their core product in the GB market.

QUESTIONS

1. With their distribution now in the hands of their competitors, CPL must confront the issue of how to service the GB market. Bearing in mind their limited size and market presence, what are the distribution options open to CPL?

2. Make a recommendation as to which option CPL should adopt and justify your answer. Outline the issues associated with its implementation and the advantages and possible disadvantages.
3. If CPL decided to develop products such as a tank for waste oil (see earlier comments), how would its channels of distribution requirements differ from standard oil tanks?