MANAGING THE DISTRIBUTION PROCESS
WITH AN EXAMPLE OF THE FMCG MARKET

Judyta KABUS

Czestochowa University of Technology, judyta.kabus@wz.pcz, ORCID: 0000-0002-7119-3327

Purpose: The purpose of this article is to present the problems and challenges faced by organisation of distribution logistics with a selected example. Comparing the company to the competition and focusing on the problems and challenges faced by the studied enterprise on the market of fast-moving consumer goods.

Design/methodology/approach: The subject of the study is the evaluation of distribution channels of the selected enterprise through the analytical and point method.

Findings: The obtained results, thanks to the use of the analytical-point method and the efficiency index of distribution channels, indicate that for the surveyed enterprise, Eurocash distribution channels are not sufficiently effective. The indicator of distribution costs in sales compared to the competition is the highest. Several factors had an impact on such results.

Research limitations/implications: However, the issues presented in the paper regarding the problems and challenges of distribution organization cannot be considered as exhaustive, because the discussed topics constitute a multifaceted and interdisciplinary research area. The study would be more complete if the management of distribution logistics on the FMCG market were presented based on the changes caused by the Sars-Cov-19 pandemic.

Practical implications: The conducted research draws attention to the effectiveness of distribution channels on the FMCG market. The article may be useful for enterprises providing services in this business sector.

Social implications: The article shows the importance of making decisions in the area of distribution processes that significantly affect the entire supply chain, and thus customer service. The use of optimal distribution channels affects the efficiency of logistics services, contributing to an improvement in the quality of service provided to the final recipient and the competitiveness of the company on the FMCG market.

Originality/value: The work is addressed to entrepreneurs operating in the FMCG industry. As well as all those interested in the subject of logistics, management and distribution on the market of fast-moving consumer goods.

Keywords: distribution, FMCG market, logistics, distribution channels.

Category of the paper: Research paper.

1. Introduction

The basis for conducting and expanding an enterprise's operations is the sale of manufactured products or services. There is currently a lot of competition in many markets and companies are trying to gain an advantage by introducing organisational, technological or technical changes. The ability to adapt to changing market conditions allows enterprises to maintain their position on the market and achieve success. The precondition for the smooth functioning of the market is an economy based on a large number of small enterprises. The underdeveloped sector of small and medium-sized enterprises causes an economic slowdown (Dziadkiewicz, Kiss, 2011, p. 168). The Fast Moving Consumer Goods (FMCG) market is considered to be one of the most dynamic, flexible markets, while being resistant to crisis (Góra et al., 2018, pp. 1065-1066). This industry is dominated by online sales, where mainly small enterprises compete with each other as well as the development of large enterprises offering various product distribution channels (Drucker, 2018, p. 39). Although in recent years there has been a decline in small and medium-sized enterprises in this sector, this form of activity still prevails on the Polish market (Barska, 2019, pp. 7-8)

The primary function of an enterprise operating in the FMCG sector, which allows for the presence on the market and sales of goods and services and gaining a competitive advantage, is distribution (Pecolt, 2014, pp. 108-109). Determining the best distribution strategy for a given enterprise makes it possible to approach this objective. The choice of the appropriate distribution strategy by an enterprise depends on many factors. The most important of these are (Kolasińska-Morawska, 2014, pp. 10-11):

- characteristics of products, e.g. vulnerability to loss of value,
- customers' needs and expectations regarding the availability of products at points of sale, the conditions of their purchase or the possibility of using additional services,
- the competitive position, requirements and subjective structure of commercial agents,
- availability of the distribution network in a given market and the possibility of its use in the created distribution channel,
- the size and type of financial and material resources, e.g. logistics infrastructure designated to create a distribution system.

Distribution functions are also designed to balance the differences between the manufacturers' offer and the real demand reported by customers. This applies to such issues as the type of goods, time, place, quantity or product range. It is assumed that these differences are objective. This consists in the fact that the circumstances of making production decisions are different (what to produce? where to produce? when to produce? in what quantity?) and other circumstances affect the purchasing decisions made by the final recipient (Rutkowski, 2002, pp. 45-48).

The main distribution functions include (Arya, Mittendorf, 2013, pp. 99-100):

- transaction (coordination) function – the purpose of this function includes all operations related to the purchase and sales of goods, including balancing demand with supply;
- organisational (logistic) function – consists in the organisation of all processes to which the product is subjected. The most important activities are transport, storage of goods, commercial processing, transformation of the production range into a commercial range and creation of appropriate conditions of sales.

The FMCG market is dynamic and constantly evolving. The FMCG sector mainly includes everyday products, i.e. food products, including those for animals, cigarettes, beer, cosmetics, cleaning products and personal hygiene, household chemicals, or small household products. The FMCG market is not an easy field for business activities, as competition is very high here. Competitive entities fighting for the end customer adapt the entire production and logistics facilities to the needs of buyers, among others, through offers tailored to their expectations in terms of the type and quality of products, acceptable price levels, convenient location of shops, convenience of shopping or quality of service (Twardzik, 2016, p. 49). In the case of fast-moving products, the unique proposal should meet the consumer's expectations and be adapted to their social and financial profile. FMCG market players must learn about consumer habits or preferences that change. As a consequence, enterprises should immediately automatically adapt to the changing tastes of customers and respond to their needs, which is why distribution management is important in this sector (Brzozowska, Kabus, 2018, pp. 7-8).

The purpose of this article is to present the problems and challenges faced by organisation of distribution logistics with an example of a selected enterprise. Comparing the company to the competition and focusing on the problems and challenges faced by the analysed company on the market of fast-moving goods.

The thesis consists of an introduction, research methodologies, results and discussions as well as conclusions.

2. Materials, research methodology and research sample

2.1. Research background

A distribution channel is a set of organisational branches of an enterprise and external entities that participate in the process of selling the product on the market or a network of persons and companies cooperating in the process of introducing goods or services for use or consumption (Pisz et al., 2013, pp.146-147). Distribution creates two main decision-making problems. The first relates to the method of sales, selection of the best distribution channel in terms of transactions. The second is physical distribution, i.e. choosing the right way to transfer

the goods from the place of production to the final customer. Physical distribution process management is described as distribution logistics, which combines the processes of planning, organising and controlling the supply chain, and related information (Sławińska, 2008, pp. 27-28, Kabus, 2016, p. 145). Distribution channels with the right structure, type, capacity and competitiveness allow for the implementation of a specific sales volume, while the appropriate organisation of physical distribution should provide buyers with a satisfactory level of service, while minimising the total cost of distribution (Zahng et al., 2012, p. 250). In the FMCG market, there are several types of distribution channels when it comes to the distribution of consumer products (Figure 1).
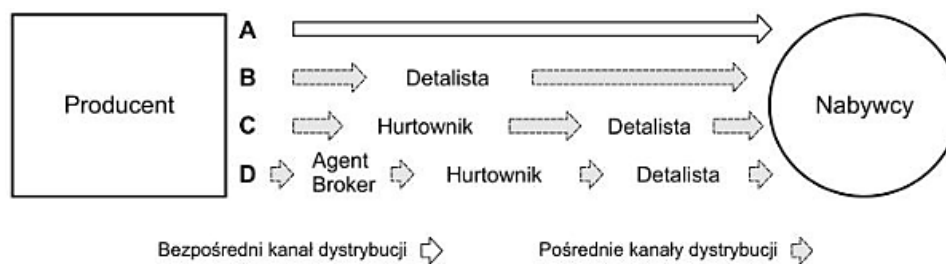

Figure 1. Typical distribution channels for consumer products. Source: Michalski E., Marketing - Academic Manual, PWN, Warsaw 2017, p. 261.

Figure 1 shows the different types of distribution channels for consumer products. The first channel marked with the letter A is the direct distribution channel between the manufacturer and the buyer. In this case, the manufacturer communicates directly with its customers and applies a mass promotion. Direct channels of distribution of consumer products can take many forms, such as (Michalski, 2017, p. 260; Shetty, Basri, 2017, p. 20):

- sale through the manufacturer's factory shops,
- sales based on catalogues or online purchases,
- sales of banks' financial services and insurance policies,
- sales of products through personal contact (marketing acquisition),
- sales by organising promotional parties in order to present the product to potential customers, the type of sales used in the cosmetics industry or household goods.

Direct distribution is more common in the case of sales of industrial products when compared to consumer products. This is because the individual batches of industrial products sold are much larger than in the case of consumer goods. The subsequent channels presented in Figure 1 relate to intermediate channels for the distribution of consumer products. In these channels between the manufacturer and the consumer, the ownership of the products passes through one or more intermediaries. In channel B, the product initially reaches the retailer. This distribution method is common when selling products with high storage costs (cars, computers, TV sets or mechanical household appliances). In channel C there are two intermediaries: a wholesaler and a retailer. This is how products of general use, whose storage costs are low, are moved, similarly to the unit prices for the product. The product first goes to

the wholesaler and then to the retailer, and then the product goes to the final customer. Channel C is used, for instance, for the sales of candies and chocolate products. In addition to the wholesaler and retailer, Channel D also includes agents or brokers. Their task is to investigate the market and lead to direct contact between the manufacturer and the wholesaler, sometimes also the retailer. On behalf of the manufacturer, agents or brokers may negotiate terms of sales or carry out marketing functions, but as the only ones in the distribution channel they do not acquire ownership of the product. In many cases, it is unprofitable for manufacturers to carry out their own distribution activities. When looking for savings, entrepreneurs choose an intermediate distribution channel for their goods. Intermediaries are a source of savings. Thanks to their specialisation they reduce the differences in time, place and possession between the production of goods and the final customer.

The distribution channels are also distinguished by the nature of the links between the channel members. There is a conventional channel and a vertically integrated channel.

In the conventional distribution channel, each participant individually strives to maximise its profits by using aggressive negotiations, and the next link is the last buyer for the previous one (Gołembska, 2010, p. 202). It is also characteristic for the conventional channel that contacts are rare, they take place due to the need to conduct a specific purchase-sale transaction (Góra et al., 2018, p. 1065). In turn, the vertically integrated channel includes manufacturers, wholesalers and retailers. They create a distribution channel in which one of the entities is the owner. This type of distribution channel prevails on the FMCG markets. In vertically integrated channels, corporate, contractual and administered channels are listed (Gołembska, 2010, p. 203):

- corporate – they consist in the coordination of the activities of all channel participants by one enterprise, having ownership of the other channel participants,
- contractual – channels where participants are independent at different levels of production and distribution but have to comply with the commitments contained in contracts,
- administered – a characteristic feature of this type of channel is the economic dominance of one of the channel participants over the others, which is coordinated by the remaining entities.

2.2. Selected example of an enterprise operating in the FMCG industry for analysis

Eurocash S.A is a joint-stock company consisting of many business units and brands of shops such as Delikatesy Centrum, abc, Mila, Groszek or Lewiatan. The company's goal for the last 25 years has consistently been to provide independent companies with effective tools for business development and to guarantee innovative cooperation offers. The possibility of cooperation with the Eurocash Group enables small shops to compete with the largest supermarkets or discount shops. Over the years, the company has achieved the leading position in the wholesale market in the FMCG industry (https://grupaeurocash.pl/).

According to a report published by the Eurocash Group, on 31 December 2020, the company owned 180 Cash & Carry wholesalers that organised wholesale trade for the abc partner shop chain, which included 9137 local grocery shops. In addition, the distribution of 5251 shops in franchise and partner chains cooperated with Eurocash. In the retail chain, there were 1573 small supermarkets, including 1545 shops operating under the name of Delikatesy Centrum and 432 Inmedio press shops (Consolidated Annual Report, p. 10).

Eurocash Group's financial results for 2020 for the sale of products, goods and materials generated revenues equal to PLN 25,411.04 million. Compared to 2019, this is an increase of 2.25%. Retail sales increased by 3.15% while wholesales by 0.97% compared to the previous year, generating revenues of PLN 6,091.10 million and wholesale of products amounted to PLN 18,892.65 million and constituted the largest part of the company's revenues. Sales of products carried out by the projects segment in 2020 amounted to PLN 300.38 million compared to PLN 104.56 million last year (Consolidated Annual Report, p. 10). Such a large increase over one year is mainly related to the inclusion in the consolidation of Frisco S.A., the full takeover of which was carried out in 2020 (Figure 2).
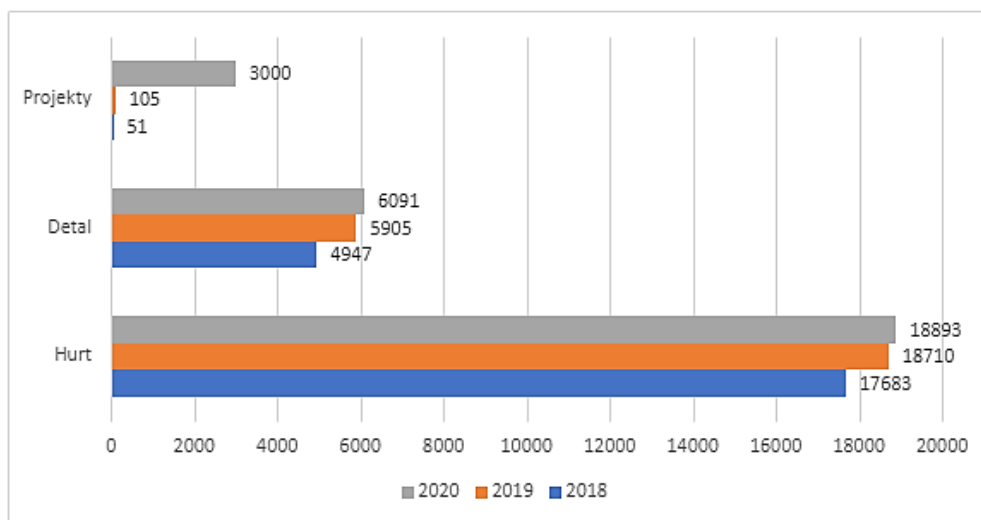

Figure 2. Revenues from the sales of goods in 2018-2020 broken down into individual segments (PLN million). Source: own study based on: Eurocash Group, Consolidated annual report for 2020, Komorniki 2021, p. 10.

2.3. Statistical method

The subject of the study for the purposes of this paper is to present the distribution logistics organisation based on the selected Eurocash enterprises operating in the FMCG industry, owning many brands of grocery shops. In this case, distribution logistics is seen as a study of the most profitable distribution channels and the organisation of strategy and cooperation with manufacturers, wholesalers and retailers in order to obtain the lowest possible costs that affect the price of the product.

The purpose of the paper is to present the organisation of distribution in Eurocash S.A. as well as comparison of the company to the competition and focusing on the problems and challenges faced by the analysed company. The author of the work adopted the following research hypothesis:

H01: The challenge of modern distribution organisation is to develop optimum distribution channels.

The objective of the work and the research hypothesis impacted the structure of the article. This work consists of a theoretical and empirical part. It was based on a review of Polish and foreign language publications relating to the discussed topic and the adopted research method (analytical and point method). The subject of the study is the evaluation of Eurocash distribution channels through the analytical and point method with the example of enterprise Y, which uses Eurocash distribution channels as well as competitive shop chains. Conducting this study will ultimately assess and compare the effectiveness of Eurocash distribution channels to competitive retail chains. The analytical-point method is a method mainly used by enterprises with a wide and diverse range of products. It is recognised as the most accurate method, due to the use of many criteria. Its use requires the following (Dohn et al., 2012, pp. 101-102):

- defining any number of criteria and prioritising them,
- determination of a point scale of assessment of the degree of implementation of individual criteria in the assessed channels,
- reviewing channels according to the points obtained,
- selecting the channel with the highest number of points.

When choosing the criteria for the analytical and point method, one can take into account the following (Pisz et al., 2013, pp. 168-169):

- economic criteria (channel capacity, commercial costs, investment related to the construction of the channel, profitability and others),
- organisational criteria (size of stock, speed of payment flows, product compatibility of participants, image of intermediaries),
- information criteria (scope of information provided, possibility of promotion),
- scope of control over the flow of products, prices, level of services,
- the ability to adapt to changes taking place in markets, etc.

The methods presented above allow the enterprise to choose the most effective distribution systems that will maintain a balance between channel capacity and costs that must be incurred for optimum distribution service.

In the analysis undertaken, the level of fulfilment of the selected criteria was assessed according to the scale, with points awarded from 1 to 6. The data contained in the evaluation sheet was based on an interview with the employees of the analysed enterprise Y, which allowed for the assessment of the criteria as well as the assignment of appropriate weights (Table 1).

Table 1.
Criterion sheet with characteristics and assigned weight

Number	Criterion	Weight
1.	The capacity of the distribution channel is determined on the basis of the annual sales value	10
2.	Distribution costs defined as the percentage share of distribution costs in the annual sales value. The highest point value was awarded to channels whose share did not exceed 5%. However, the lowest value was awarded in cases where the share exceeded 20%	8.
3.	The size if unit profit determined on the basis of the quotient of the annual sales value and the quantity of products sold (tonnes) per year	8.
4.	Scope of price control determined on the basis of the prices of the products of the examined company in individual chains of shops	5
5.	Promotion effectiveness. If it is effective, it will make it possible to extend the range sold to the recipient. The advantage of sales in this case is conditioned by an effective promotion	5

Source: Own study.

3. Results and discussion

Conducting the following study made it possible to indicate the optimum channel from among the examined shop chains. The first one, Auchan, has two central warehouses (in Wolbórz and Mszczonów) where products from manufacturers are sent and then they are transported to the entire country, to individual Auchan shops. The second one, Eurocash has 12 central warehouses where it receives goods from the manufacturers cooperating with them. Biedronka, on the other hand, has 16 central warehouses, from which it delivers products to its shops. The last chain of shops, namely Makro has 30 outlets in the country, where goods go directly from manufacturers (Figure 3).
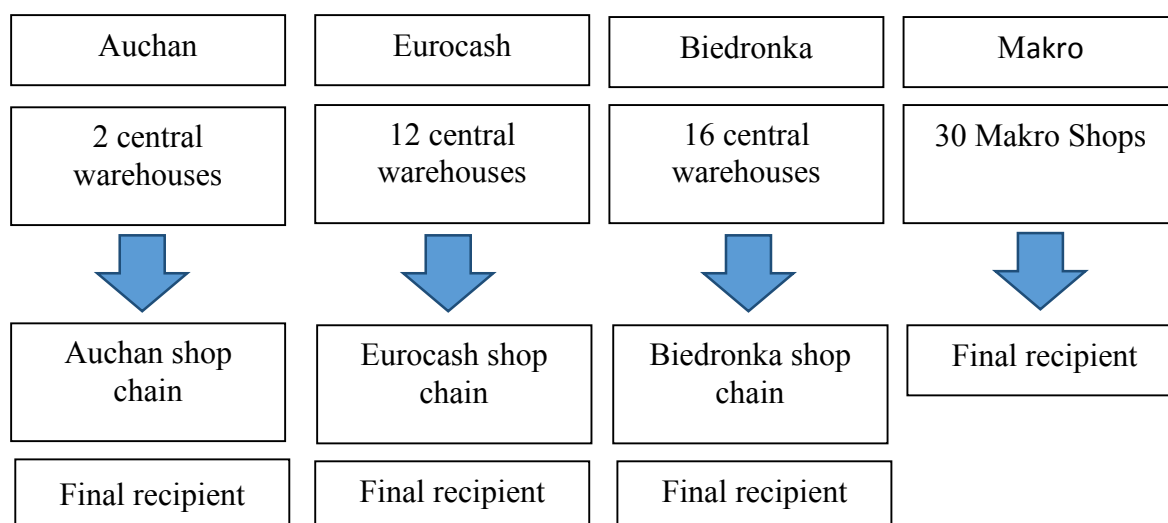
Auchan	Eurocash	Biedronka	Makro
2 central warehouses	12 central warehouses	16 central warehouses	30 Makro Shops

Auchan shop chain	Eurocash shop chain	Biedronka shop chain	Final recipient

| Final recipient | Final recipient | Final recipient | |

Figure 3. Diagram of distribution channels with selected examples. Source: Own elaboration based on the data regarding individual companies.

Each of the presented channels is a vertically integrated channel, including wholesalers and retailers. The presented channels are also contractual, in which the entities are independent, but comply with the obligations contained in respective contracts. Only the Makro chain channel is an intermediate, short channel and there is one intermediary. The enterprise is directly linked to the final recipient.

In other cases, we are dealing with a long indirect channel, where the number of intermediaries is higher. This information made it possible to conduct further diagnosis of the effectiveness of the channels of individual shop chains.

To conduct the study, the data of enterprise Y, which supplies its food products to the indicated chain of shops, were used. The analysed company did not agree to the publication of the company name and the figures regarding the goods sold as well as the achieved revenues or distribution costs. However, the company stressed that the cost of distribution includes the cost of transport, the cost of packaging, the costs related to warehouse stock, including the cost of maintaining warehouses (Table 2).

Table 2.
Evaluation of distribution channels using the analytical and point method

Criteria	Weights assigned to appropriate criteria	Channel Auchan		Channel Eurocash		Channel Biedronka		Channel Makro	
		Criterion fulfilment level (1-6)	Score in points	Criterion fulfilment level (1-6)	Score in points	Criterion fulfilment level (1-6)	Score in points	Criterion fulfilment level (1-6)	Score in points
1	10	5	50	5	50	4	40	6	60
2	8	4	32	4	32	3	24	5	40
3	5	5	25	4	20	4	20	5	25
4	8	5	40	4	32	5	40	5	40
5	5	5	25	5	25	4	20	5	25
Total			172		159		144		190

Source: Own study.

Information about the enterprise's activity regards 2020. The results of the analytical and point evaluation of distribution channels in descending order are presented below (Table 3).

Table 3.
Results of analytical and point evaluation of distribution channels – descending order

Distribution channel	Points
Makro	190
Auchan	172
Biedronka	159
Eurocash	144

Source: Own study.

Furthermore, the effectiveness of the distribution channels was assessed by determining the indicator of the distribution costs shares in sales for each of them, where this indicator is equal to the indicator of the value of the annual distribution costs of a given channel as well as the value of the annual sales of a given channel (Table 4).

Table 4.
Classification of the sales distribution cost indicator

Distribution channel	Points
Makro	0,056
Auchan	0,069
Biedronka	0,093
Eurocash	0,097

Source: Own study.

Based on the analytical and point method as well as the efficiency indicator of distribution channels, the obtained results indicate that for the surveyed enterprise Y, the chain of Makro stores is the best distributor. High sales with low distribution costs impacted such results. The distribution channel of Auchan was slightly worse. Eurocash discussed in more detail in this work has achieved noticeably fewer points. Several factors had an impact on such results. The first factor is the high costs of distribution itself, the highest of the analysed shop chains (distribution cost indicator in sales 0.097), which is impacted by the number of shops included in the Eurocash Group as well as their distribution in the country. Shops are located not only in large cities, but also in smaller towns and even villages, where transport organisation requires more organisation and involvement of more people and equipment. This affects higher prices of the enterprise's products and lower effectiveness of promotion in the Eurocash chain. The Biedronka distribution channel is similar to the Eurocash distribution channel and faces similar issues in the distribution of products belonging to enterprise Y.

It is considered that the assumed objective of this thesis has been achieved. The distribution organisation at Eurocash S.A. was presented and compared to the competition on the FMCG market. The problems and challenges faced by the analysed enterprise were also outlined. The research hypothesis: *The challenge of modern distribution organisation is to develop optimum distribution channels* has been proven. Proper management of distribution logistics determines the level of customer service and the proper functioning of the entire company. Therefore, companies use various measures and indicators that allow for efficient control and assessment of the efficiency of the distribution logistics system or individual distribution channels. However, the issues presented in the paper regarding the problems and challenges of distribution organisation cannot be considered as exhaustive, because the discussed topics constitute a multifaceted and interdisciplinary research area. The study would be more complete if the management of distribution logistics on the FMCG market were presented based on the changes caused by the Sars-Cov-19 pandemic.

4. Conclusions

The results obtained, thanks to the use of the analytical and point method as well as the efficiency indicator of distribution channels, evidence that for the surveyed enterprise, Eurocash distribution channels are not sufficiently effective. The indicator of distribution costs in sales compared to the competition is the highest. Several factors had an impact on such results. Shops are located throughout the country, not only in large cities, but also in smaller towns and even villages, where transport requires a higher level of organisation and involvement of more people and equipment. This results in higher product prices and less effective promotion in the Eurocash chain.

References

1. Arya, A., Mittendorf, B. (2013). The Changing Face of Distribution Channels: Partial Forward Integration and Strategic Investments. *Production and Operations Management*, *No. 22*, pp. 99-107.
2. Barska, A. (2019). *Consumers of the Millennial generation on the market of innovative food products in the border areas of Poland, Germany, the Czech Republic and Slovakia.* Zielona Góra: Publishing House of the University of Zielona Góra.
3. Brzozowska, A., Kabus, J. (2018). Determinants of Enterprises' Innovativeness in the Light of Empirical Studies – Case Studies of Austria and Poland. *Scientific Journals of the Silesian University of Technology. Organisation and Management, z. 116*, pp. 7-22.
4. Dohn, K., Matusek, M., Odlanicka-Poczobutt, M. (2014) Evaluation of the effectiveness of distribution channels in a selected manufacturing enterprise – part I. *Logistics 4/2012*.
5. Drucker, P. (2018). Customer in control of the supply chain. *Logistic Manager, No. 2(2)*.
6. Dziadkiewicz, M., Całus, T. (2011). Administrative barriers to development of small and medium enterprises in Poland. *Polish Journal of Management Studies, Vol. 3,* pp.167-177.
7. Gołembska, E. (ed.) (2010). *Compendium of knowledge about logistics.* Warsaw: PWN.
8. Góra, G., Matuszak, Z., Żabińska, I. (2018). Characteristic of selected issues of goods distribution. *Buses, 12*.
9. Kabus, D. (2016). Genetically Modified Food Safety in Supply Chain. *Academic Books of the Częstochowa University of Technology*, *vol. 21*, pp. 143-149.
10. Michalski, E. (2017), *Marketing – Academic Manual.* Warsaw: PWN.
11. Miłaszewicz, B., Wengel, M. (2015). Indicative assessment of the functioning of distribution logistics. *Logistics, 6*.

12. Pecold, E. (2014). *Distribution – Place in the marketing and logistics activities of an enterprise.* University of Economics, Faculty of Management, Department of Market Policy and Marketing Management.

13. Pisz, I., Sęk, T., Zielecki, W.(2013). *Logistics in an enterprise.* Warsaw: PWE.

14. Rutkowski, K. (ed.). (2002). *Distribution logistics.* Warsaw: Difin.

15. Shetty, A., Basri, S. (2017). Sales behavioural intentions of distribution channels in the insurance industry: A systematic review. *Indian Journal of Marketing*, *Vol. 47(12),* pp.19-35. https://doi.org/10.17010/ijom/2017/v47/i12/119899.

16. Sławińska, M. (ed.) (2008). *Compendium of knowledge about trade.* Warsaw: PWN.

17. Twardzik, W. (2016). Development of modern trade in small cities and rural areas in the outer zone of a metropolis. *Economic Studies Scientific Books of the Katowice University of Economy*, *No. 279.*

18. Zhang, Y., Wang, Y., Wu, L. (2012),.Research on Demand-driven Leagile Supply Chain Operation Model: A Simulation Based on Any Logic in System Engineering, The 2nd Research on Demand-Driven Leagile Supply Chain Operation International Conference on Complexity Science & Information Engineering. *Systems Engineering Procedia, No. 3*, pp. 249-258.