

Evaluation of Distribution Channels in a Selected Meat Processing Company

Maciej Kuboń

The University of Agriculture in Kraków, Poland

Patrycja Kabiesz

The Silesian University of Technology, Poland

The purpose of this article is to analyze distribution logistics on the example of a selected meat processing establishment, as well as to assess existing distribution channels according to criteria determining the usability, efficiency and nature of the channel. Based on the research and analysis (analytical and point method), five distribution channels existing in the company were characterized and evaluated. Based on the results, it was determined which of the existing channels is the best one, and also the directions for their further development were presented.

Keywords: logistics, channel, distribution, evaluation, analysis.

1. INTRODUCTION

Distribution (next to production) is one of the most important links in the logistics chain because it is designed to make a product available in a place and time corresponding to the needs and expectations of buyers (Gołemska 2010). The purpose of the distribution is to reach as many potential recipients and buyers as possible, as well as to realize the planned sales volume and maintain the assumed profitability of the company. The main distribution logistics tasks include sales forecasting, based on which the production and supply quantities are planned.

Depending on the type of an enterprise (industrial, service and commercial), and the goods they produce, the distribution network may be more or less developed, and hence more or less complicated, so the logistics distribution functions implemented by enterprises are really diverse (Gołemska 2010).

2. DISTRIBUTION SYSTEM

Enterprises increasingly pay attention to the total distribution costs, which in some cases range from 30% to 40% of the total cost of the product (Dohn et al. 2012). According to Kotler (2005), total distribution costs consist of: transport costs,

inventory financing, warehousing and customer service as well as distribution administration.

The most important strategic decisions of production companies include the selection of appropriate distribution channels that can significantly increase the company's profits. Currently, we distinguish two types of distribution channels: direct and indirect channels. Direct channels are distinguished by the lack of intermediaries, the manufacturer himself deals with the dissemination and sale of goods. The advantage of this type of distribution is control over prices, quality of services and fast flow of information between the customer and the producer (Cyplik et al. 2008). However, disadvantages include high costs of maintaining the distribution channel. Intermediate channels occur when there is one or more intermediaries between a producer and a customer. The advantage of this distribution is the increased sales range, while the disadvantages include the lack of control over prices and quality of services, as well as a long payment period for products (Skowronek, Sarjusz-Wolski 2003).

3. CHARACTERISTICS OF ENTERPRISE

The Polish meat processing market is highly competitive due to the presence of numerous domestic and foreign producers. The evaluation of distribution channels was carried out on the basis of a meat processing factory located in the Silesian voivodeship. The origins of the company date back to 1945, and a new hall was built in 2005 with an area of about 400 m² and a production capacity of around 30 tonnes per day. The company employs 100 people and produces about 150 kinds of cold cuts, hams and smoked meats. The plant also sells products that it does not only buy from other companies and sells as commercial goods (e.g. geese, duck, turkey, chicken offal).

The company deals with the processing of pork and beef, cutting half-carcases and quarters of pigs, as well as selling cold meats and meat products. Many products have been manufactured since the beginning of the company's existence, however, to meet the expectations of customers, the sales offer is constantly being expanded and changed to meet the needs of the consumer. In particular, the company is proud of the "Master Jan" palette. The recipes of these products are based on the traditional and original recipe, which has a big impact on the taste.

The main goal of the company is to meet consumer needs through high quality products. The company received the QAFP certificate for products from the "Master Jana" line - it is a system that ensures high quality and reliability of products. What's more, the company has implemented the HACAP system, which identifies potential threats from the point of view of food health requirements and establishes corrective activities.

Figure 1 shows the plan of the factory along with the occupied areas by individual departments and warehouses.

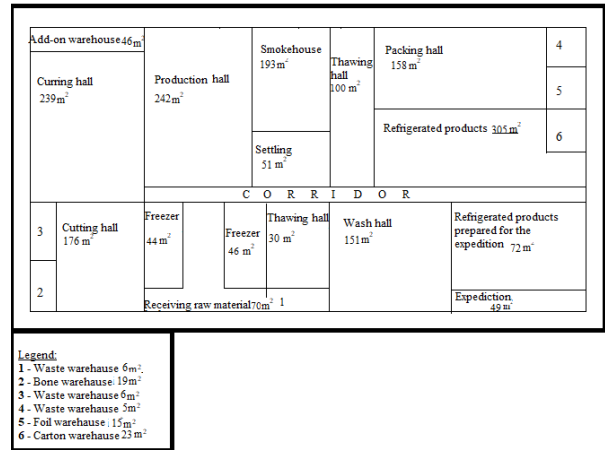


Figure 1. Plan of the meat processing factory along with the occupied areas by individual departments and warehouses.

(Source: own study).

4. MATERIAL AND METHODOLOGY OF TESTS

The evaluation of the effectiveness and efficiency of distribution channels was made on the basis of the analytical and point method, which enabled the analysis and evaluation of selected factors that can be easily identified. A critical point in this method is the selection of appropriate criteria along with weights. The choice of factors along with weights was made on the basis of literature (Twaróg 2003) and after consultation with the company's management. Depending on the importance of the factors, they were given the appropriate weight. For the analysis, 8 factors were selected, whose total sum of weights is 100, where the smallest weight value is 5 (non-essential factors), and the largest 20 (very important factors). Table 1 presents selected criteria with weights.

Table 1. Criteria for assessing the effectiveness of distribution channels.

No.	Criterion	Scales
1	Bandwidth of the distribution channel	20
2	The size and structure of orders	20
3	Promotional effectiveness	15
4	Transport costs	15
5	Financial Liquidity	15
6	Labour costs	5
7	The territorial range	5
8	Information flow	5
	Total	100

The next step in the analytical and point method is to give points for individual criteria. Rated on a scale of 1 to 5, where "1" means the weakest channel, "2" - medium, "3" - good, "4" - very good, "5" - the best channel.

There were 5 distribution channels in the company.

Channel I – a so-called modern channel. It supplies the Kaufland commercial network, the product is delivered to three logistic centres: Gliwice, Piotrków Trybunalski and Bydgoszcz. Sales in this channel is high, orders sometimes reach several tons.

Channel II – a so-called traditional channel. The product is delivered to Polish wholesalers. This is the channel with the highest sales.

Channel III – a so-called collective nutrition channel. Includes catering trade, i.e. canteens, nurseries, kindergartens, schools, hospitals, restaurants.

Channel IV – a so-called direct channel, applies to stores in Poland. These stores create a good image of the company, direct contact with the consumer allows you to quickly respond to the expectations of buyers.

Channel V – a so-called direct channel, applies to stores in the Czech Republic (foreign). Orders are small, but thanks to this the company is known abroad, which in the future may affect the development of the company on the foreign market.

Fundamental importance for the company is channel capacity, which significantly affects the amount of profits. The price and quality of the products have a decisive influence on the sales volume. Poles have more and more knowledge and awareness about healthy eating, but this is not reflected in their earnings. As a result, producers must produce high-quality goods, but at an acceptable price for the consumer. Figure 2 presents the trend line for the sale of goods in tonnes, in individual channels.

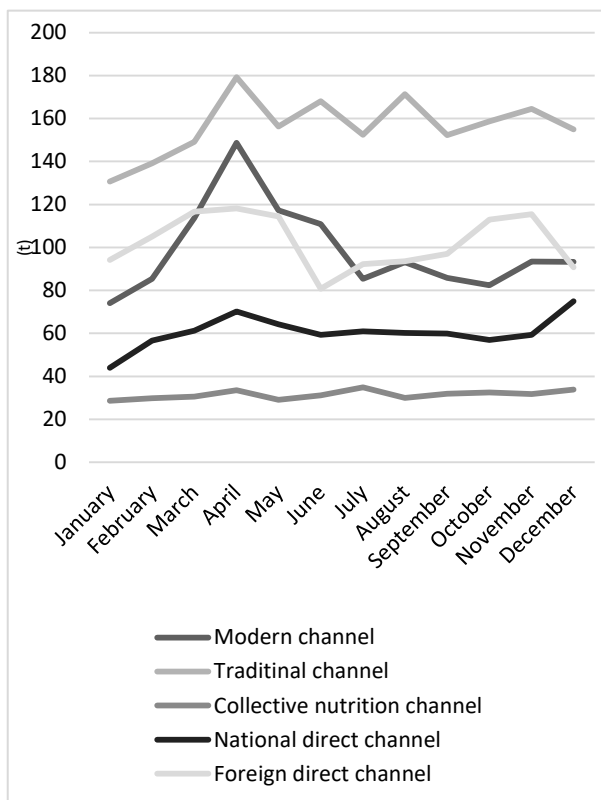


Figure 2. A graph showing the sales trend of goods in channels (t)

The size of the order is the largest single order that was placed in the company by the participant of the distribution channel. The largest orders are placed via the so-called modern channel, and the smallest – via the so-called collective nutrition channel.

The company's financial liquidity means timely payment of invoices issued by the company. It is not important whether the customer pays the payment immediately after receiving the document or on the last day of the payment deadline. The fulfilment of the contract is of key importance. The best criterion is the so-called direct and so-called collective nutrition. Profits are transferred to the company every day. There are also no major problems in the modern channel. The longest delays with payment occur in the traditional channel, which consists of numerous small wholesale.

The territorial range is of the key importance for the development and sales volume in the enterprise. The company is known throughout Poland, each channel covers a different region of the country. From the modern channel, the products go to three logistic centres, in which they are divided and packaged into smaller orders,

and subsequent ones are sent to all Kaufland chain stores in Poland. The participants of the traditional channel are wholesalers appearing in large cities throughout Poland. There are ten stores in the national direct channel, located in: Bielsko-Biała, Cieszyn, Czerwionka-Leszczyny, Chorzów, Rybnik, Katowice, Żory and Ustroń. The foreign direct channel covers the Czech, mainly Zaolzie. The company on the foreign market has several stores, among others, in Karviná and Český Těšín. The smallest range has a collective feeding channel and covers only the areas of Cieszyn Silesia.

The promotional effectiveness is influenced by many factors, including the attractiveness of the advertising message and the promotion of the product. Promotions are aimed at increasing the number of contractors, extending the territorial coverage and encouraging a positive image of the company among consumers. Each distribution channel is characterized by other promotional methods to reach as many participants as possible. In the modern channel, promotions are effective only during their lifetime, because the competition is large and offers a similar assortment with similar prices. In the traditional channel, promotional campaigns are carried out by adding an additional free quantity of products to the order. In the nutrition feed channel, customers receive various types of company gadgets, including aprons, chef's hats, and t-shirts. In direct channels, the main promotional campaigns include meat tasting, as well as a reduction in the prices of newly introduced products.

Transport costs are costs incurred by the company to deliver products to customers. These costs depend on the type of transport, the carrier and the length of the road. Choosing the right mode of transport has a big impact on the company's profitability. The company has its own transport which provides it with orders for direct and collective feeds. It is very well organized and the costs incurred by the company are low. The company also uses transport services, which it delivers to the modern and traditional canal. Due to the large number of warehouses and their dispersion, the transport costs in this channel are the largest.

The costs of labour inputs depend on the number of employees servicing a given distribution channel. Differences in costs occur at the stage of bulk packaging of goods. The biggest cost is generated by the modern channel, because it has high packaging requirements, which is very labour-intensive. Products packed in cartons with

dimensions of 391x251x213, the number of items in the carton and the weight is specified. A bit cheaper is the traditional channel, because the products are packed in large cartons with dimensions of 594x1589x1589, and the range can be combined in cartons. The lowest costs are generated by direct and collective feeds, as the goods are delivered in baskets.

The flow of information is the relationship between the consumer and the producer. An enterprise can build a competitive advantage only by satisfying the needs and expectations of customers. The weakest contact with the customer is in the traditional channel. Conversations are conducted by a sales specialist called trader. Information from customers goes to the production director with a long delay. Slightly better contact with the contractor is in the modern channel, which is carried out by e-mail. This method is cheap and fast. The company has the best contact with consumers in direct channels and mass nutrition. Thanks to the quick response of the company to customer expectations, services and products are constantly improved.

Table 2 and 3 present the assessment of distribution channels.

Table 2. Evaluation of distribution channels.

No.	Criterion	Scales	Modern channel		Traditional channel	
			Points	Rating	Points	Rating
1	Bandwidth of the distribution channel	20	4	80	5	100
2	The size and structure of orders	20	5	100	4	80
3	Promotional effectiveness	15	4	60	5	75
4	Transport costs	15	4	75	3	60
5	Financial Liquidity	15	4	60	3	45
6	Labour costs	5	3	15	4	20
7	The territorial range	5	5	25	4	20
8	Information flow	5	4	20	3	15
Total		100	435		415	

Table 3. Evaluation of distribution channels evaluation.

No.	Criterion	Scales	Collective nutrition channel		National direct channel		Foreign direct channel	
			Points	Rating	Points	Rating	Points	Rating
1	Bandwidth of the distribution channel	20	1	20	2	40	3	60
2	The size and structure of orders	20	1	20	2	40	3	60
3	Promotional effectiveness	15	2	30	3	45	3	45
4	Transport costs	15	5	30	5	45	5	45
5	Financial Liquidity	15	5	75	5	75	5	75
6	Labor costs	5	5	25	5	25	5	25
7	The territorial range	5	1	5	2	10	3	15
8	Information flow	5	5	25	5	25	5	25
Total		100	230		305		350	

5. SUMMARY

An important role in the company is played by distribution channels which are responsible for the distribution of the largest number of products to the largest number of consumers. In the analysed company, the best channel was the modern channel, which received 435 points, followed by the traditional channel (with the total of 415 points). The third place is on the direct foreign (with the total of points 350), the fourth place is the national direct channel (with the total of 305 points). The worst channel was the channel of collective nutrition with the number of points 230. Out of all the analysed channels, the modern channel proved to be the best. The long-term cooperation with the commercial network, the volume of orders, capacity, transport costs, financial liquidity and promotional effectiveness are of great importance for such a high rating. It should be noted that the stores of the Kaufland network are open every day, which has a positive impact on the sales volume. As well as the fact that the stores have a diverse assortment, which means that customers save time on shopping. The worst channel turned out to be collective nutrition, which is in its early stages of development. The potential of this channel is very high because the goods delivered to hotels and restaurants are consumed by people from all over the world, which increases their awareness of the company.

Based on the information gathered, it is recommended to create a new distribution channel with a commercial network, e.g. Biedronka, Lidl, Tesco or Auchan. Having a QAFP certificate by a

company may allow establishing contacts with new contractors. It is recommended to extend the foreign direct channel to the Slovak territory due to its close location with the factory.

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Maciej Kubon
The University of Agriculture in Krakow,
Poland
Maciej.Kubon@ur.krakow.pl

Patrycja Kabiesz
The Silesian University of Technology, Poland
Patrycja.Kabiesz@polsl.pl

