

CHANGES IN THE WORK OF DISTRIBUTION COMPANIES IN CONNECTION WITH THE NEW CHALLENGES OF THE FMCG MARKET

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To date, a situation has arisen where the profitability of distribution companies operating in the FMCG market is falling sharply. Many enterprises are forced to close their activities. This is directly related to the evolution of customers served by distribution companies [1, 2].

Due to increased competition, many customers who have small retail outlets are closing down. The main competition consists of networks such as «ATB», «Novus», «Varus», «ROST», «KLAS», etc. Also, recently there has been a development of branded trade from the producer of the example (branded stores of the Saltiv meat processing plant). Having the financial opportunity, such trading networks see development in the diversity of the offered assortment and promotional offers for the final buyer, as well as in the number of trading platforms. Moreover, this applies not only to large cities, but also to regional centers, SMT, district centers, etc. Such networks set a plan for opening trading platforms in a region of interest to them. Moreover, the format of such sites varies from 20 m² to 5000 m². Thus, they do not leave a chance for small chains or individual outlets to work.

Even 5 years ago, clients who had three trading platforms worked according to the principle that one platform covered the costs of the entire network, the other two brought a net profit to their organizer, but today, at best, two platforms work to cover expenses, the third works for profit, and most often three trading platforms do not bring profit to their organizer, of course it depends on the location of the trading platform, the assortment, as well as the price of the product for the final buyer. But to a greater extent it depends on the presence of competing networks standing nearby [1].

Returning to the work of the distribution company, I want to recall the principles of work and tasks of such companies. The principle of operation of the distribution company: sale of the manufacturer's goods at the expense of the work of sales representatives in the entrusted territory. Delivery to the place of sale, provision of deferred payment. The work of a sales representative includes visiting trading platforms for the purpose of advertising, presentation and conclusion of agreements for the sale of goods available in the distributor's catalog. Such an intermediate distribution company between the manufacturer and the trading platform was necessary and convenient for both the manufacturer and the trading platform as recently as yesterday. The task of the distribution company is to ensure the quantitative and qualitative distribution of the manufacturer's goods. As of yesterday, a margin of 20% was sufficient profitability for a distributor, and the cost part occupied from 10 to 12%, the remaining 8% was the company's profit. Today, 20% is far from enough. Today, the consumable part is from 18 to 20%, therefore, when concluding a contract with a manufacturer, distributors ask for the possibility of a markup at the level of 28%-30%. Also, in the contract, the question of stimulating the sales representative, delaying the payment of 21 k.d. and conducting joint promotions for retail customers. All this leads to an increase in the costs of working with retail chains that massively monopolize the market.

Understanding the great interest of the partnership on the part of the manufacturer and distributor, large trade networks increase the requirements for the contract (Table 1).

Table 1 – Contract Requirements in 2024

Payment for entering 1 product item into each outlet	2000 UAH for 1 item of goods, one-time (when opening each new TRT by this network, the input is also paid)
Budget for holding promotions	Not less than 15% of the cost of the goods
Budget for additional product placements	From 2000 to 4000 UAH per counter
Budget for product placement in the promotional newspaper of retail chains	Up to 1000 UAH monthly to be published in the newspaper
Budget for advertising posters (big boards)	From 4000 to 8000 UAH per month
%, discounts	From 4% to 12%
Payment deferment	From 31 to 40 calendar days
%, return of unsold products	From 10% to 25% of the quantity of imported goods
Penalties for non-delivered products	20% of the order value

Since distributors are not able to afford such expenses, manufacturers try to work directly with retail chains. But not all manufacturers are able to provide such conditions for working with chains. Today, only large manufacturers, which in turn have well-advertised brands, can meet such requirements.

Distributors work with constantly shrinking retail trade, mainly in markets, or with small retail chains. Or with chains that do not have their own DC and the goods must be delivered to each TRT.

Taking into account the new trends in the FMCG market, the following changes can be recommended to distribution companies:

1. Combine the position of driver and forwarder (driver – forwarder in one person) provided that they have their own fleet of vehicles.

2. Refuse to work with unprofitable retail clients and regional areas.

3. Switch to work on ordering via telephony by means of the operator (new combination of sales representative / operator)

4. Hire a sales representative in the regional, district center where the work and delivery from the distributor is carried out.

5. Maintain delivery of goods within a radius of 50-70 km from the location of the distributor's warehouse.

6. Maintaining your own fleet of vehicles is not cost-effective, so you can resort to hired transport for delivery.

7. Optimize warehouse space by reviewing and optimizing the assortment. Leaving in the offer for customers, the manufacturer, the assortment of goods that are in demand and recognizable. Also, on an ongoing basis, calculate the economic feasibility of the product assortment (ABC analysis) and remove from the assortment the goods of the manufacturer that fell into group C.

8. For the effective work of the sales representative and the telephone operator, form an optimal product assortment taking into account the specifics of the product (in practice, a sales representative can effectively work with an assortment not exceeding 50-80 items).

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