

## **ANALYSING AND EVALUATING THE DISTRIBUTION SYSTEM OF THE DELACO COMPANY**

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**ABSTRACT:** *This paper contains a theoretical analysis of the term „distribution”, indicating the area to which it belongs, the usability domain and the strategies of distribution used by the consumer goods manufacturers. It also provides specific information about the way in which is made the distribution of the products of the Delaco Company on the retail market of Brasov District. The practice part of the paper consists of a marketing research which studies the opinion and the behaviour of the Brasov population regarding the places where cheese products are commercialized and also the accessibility of the Delaco products.*

**KEY WORDS:** *distribution; concept; role; arguments.*

**JEL CLASSIFICATION:** *M1.*

### **1. THEORETICAL ISSUES REGARDING DISTRIBUTION IN THE CONSUMER GOODS INDUSTRY**

The space and time that separates the finished production from the actual consumption of goods and services is occupied by a set of operations and business processes, efficiently orientated, which sum up to form an important component of the marketing mix – the distribution policy.

The term Distribution comprises all the necessary means and operations that provide end users or consumers with goods and services resulting from producing companies. Or, in other words, the distribution is the process by which goods and services are made available to consumers - intermediate or final – giving them facilities in terms of place, time, size, quantity, quality and price, according to the requirements they manifest on the market. Distribution refers to the physical and economic flow of goods, the system of connections between the agents involved on the market, the activities of a large number of units that belong to an economic branch.

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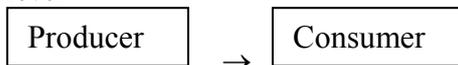
The field of action of the distribution activity is formed by a continuous flow of goods from producer to consumer. The movement of goods to final consumers is accompanied, preceded or followed by other important streams, linking the participants in the overall distribution. These are: the flow of negotiations - market transactions, the flow of property titles - information flow. These streams are accompanied, in both directions, by flows of finance and risk, and flows from consumers to producers of orders and payments.

The distribution has also the role of regulator of production to the extent that manufacturers take into account the sequence and size of customer orders and that they stock only the resources they need. The use of intermediaries is necessary due to the greater efficiency they provide in delivering the goods to target markets and lower delivery costs to consumers compared to the situation in which producers would sell themselves their own goods. The most important advantage that can benefit both producers and consumers, when between the two appear the intermediaries, is a strong reduction of the number of contacts between producers and buyers.

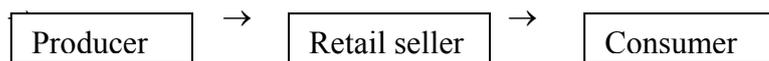
Once elected, intermediaries must continually be led and motivated to make the appropriate efforts. The company not only must sell through intermediaries, but it has to sell to and with them. Most companies consider intermediaries both customers and first line partners. They use a strong management of relations with partners to establish long term partnerships with channel members. This creates a marketing system that meets the needs of both company and partners.

The distribution issue, as a variable of the marketing mix, is large and heterogeneous, but is delimited in two key areas. The first area refers to the establishment and operation of distribution channels, with the following types:

- channel 1 – called a direct marketing channel, because doesn't have an intermediate level



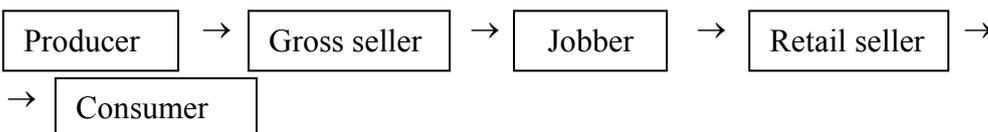
- channel 2 – part of the short channel group, with one intermediate



- channel 3 – comprises two intermediate levels: a gross seller and a retail seller;



- channel 4 – contains four intermediate levels, between the gross seller and the retail seller comes an intermediate of a smaller size, called a jobber. He buys from the gross seller and sells the products to the smaller retail sellers which are not usually supplied by the big gross sellers.



The second key area, which addresses this issue, comprises the physical distribution, and respectively, the operational processes through which goods pass

successively to reach consumers. The literature provides data which shows that physical distribution accounts, in most cases, for about one-fifth of the retail price and, in case of products from the food industry, this share reaches even one third. It is estimated, under these conditions, that the physical distribution becomes an effective tool for the company's marketing policy.

Most companies state that the main objective of physical distribution is to provide the right goods, in the right place, with minimum costs. A maximum level of customer services involves large stocks, high quality transport and numerous warehouses. All this means an increase in distribution costs. On the other hand, a minimum cost distribution involves cheap transport, low stocks and fewer deposits, but without a high level of quality. Having an important contribution to establishing market share and profitability of the company, logistics must evolve from a service function, as was traditionally considered, to a strategic resource, a mean of saving money, increase profits and market share, gain new markets and introduce new products.

In conclusion, decisions regarding the distribution policy are the most complex decisions a company must adopt in its business. Each distribution system generates income and also requires different costs. When a firm chooses its distribution channel, it is forced to operate it a long period of time. Decisions taken by employees who process orders, those who plan warehouses, managers responsible for stocks and transport, affect both costs and their ability to create demand. The physical distribution concept requires all such decisions to be treated in a unified framework in order to achieve the point of a minimum total cost for the level of service provided to the customer.

## **2. THE DELACO COMPANY - PROFILE**

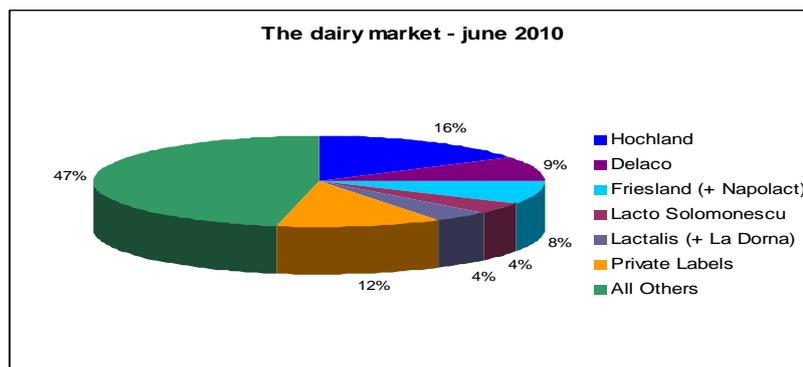
Delaco is a top player in the dairy market, being one of the leading supplier of dairy products for both supermarkets and traditional trade shops. The company is located in Codlea, a few km from Brasov, and it started as a family business in 1996 with three employees, with the production of fresh dairy products. Currently the company has 370 employees, with a portfolio that includes primarily cheese and specialities sold under the brands Delaco, Del and Apetito.

Since the year 2000 it has focused on the distribution of cheese and created a system that allowed it to grow without the limitations imposed by production. The company is certified ISO 22000 by a Swiss company. In 2007 Delaco became the exclusive distributor in Romania of Zott, one of the largest manufacturers in Germany. This partnership has helped to substantially enrich the range of dairy products distributed. On November 1, 2007 Delaco took over exclusive distribution for Bergader's special cheese products. Privatkaserei Bergader Society GmbH is one of the largest private producers in Germany, founded in 1902 and specializing in the production of cheese with noble mold. Also in the same period, it has signed up a partnership with Mona Delaco Naturprodukte GmbH, the Austrian manufacturer of soy products, becoming the sole distributor of Joya on the Romanian market.

Delaco Distribution signed an agreement in May 2008 with H & E Reinert SRL, a Romanian subsidiary of the homonymous sausage manufacturer in Germany, a company with over 75 years of experience in the preparation of sausages. This partnership has meant broadening the coverage of distribution services provided by Delaco, given that, until then, the company has collaborated only with producers of cheese and soy products on the international market. The partnership in 2010 with the French group Bongrain, a world leader in cheese specialties, a company which is listed on Euronext Paris stock exchange, represented the company's most important contract in the last two years. These two companies have combined resources and expertise to provide quality products to Romanian consumers.

The products distributed by Delaco come from leading manufacturers in Europe, which operate in countries such as Germany, Austria, France, the Netherlands - countries with tradition in producing cheese and fresh dairy. Some providers include also local producers meeting quality and food safety standards imposed by the European Union. The top suppliers of Delaco are represented by Zott, Bergader Bayerland but the most important percentage of their product portfolio is held by their own private brands, Del and Delaco.

The Delaco company has over 3.000 customers, to which offers products in different packaging: bulk, small packaging, but also in economic packages or multipacks type, with the offering of some of gratuities. The distribution network in all counties covers most of modern retail stores, shops from traditional trade, restaurants, fast-food units, hotels and airlines. The main competitors of Delaco on the cheese market are: Hochland, Friesland (+ Napolact) , Lacto Solomonescu, Lactalis (+ La Dorna). Among these names stands out Hochland, the company that holds the largest market share, being a leader both on the cheese market and in terms of brand image and advertising expenses.



Source: MEMRB, June 2010

**Figure 1. Delaco's competition**

Delaco delivers products throughout the country and has representatives in all counties. The company is focused on Cash & Carry stores (Selgros and Metro) and Key Accounts (hypermarkets and supermarkets), but is also present in traditional trade. The distribution channels used by the company are, in particular, those with a single

intermediate, products reaching consumers through stores like Carrefour, Selgros, Metro, Real, Kaufland, Billa, Plus, Spar, etc. The second distribution channel, with two intermediates, it is also used, mainly for small merchants which supply from the C&C type stores. Of particular interest is the fact that the range of products Apetito, brought on the Brasov market in July 2010, has a distribution focused only in the modern trade sector, traditional trade having currently only opportunities for expansion.

In addition to a strong retail market presence, the Delaco company has oriented itself towards the HoReCa distribution system. Maintaining a constant and correct quality/price ratio, continuity of stocks and a greater diversity of products are the main requirements of the HoReCa market for cheese products. Thanks to the partnership with the French group Bongrain, Delaco took a comprehensive range of cheese specialities, from the noble mold cheese from Brie, Camembert, Roquefort, under Reverend french brands, the Coeur de Lion, St. Albay, Caprice des Dieux, to the fine cream cheese made of goat and cow milk and cream cheese with noble mold.

The second essential component of the distribution system, the physical one, is represented, in the case of the Delaco company, by its own fleet of 60 vehicles for the sales team and 40 refrigerating vehicles with the capacity of 1.5 to 18 tons and a modern refrigerating warehouse, located in Codlea, with a storage capacity of 4000 pallets that meets the highest demands of the European Union and is certified ISO 22000 by a Swiss company. The company also has three logistics centres in the country, which run cross-docking operations: Bucharest, Bacău, Arad.

### **3. RESEARCH ON THE POPULATION OF BRASOV REGARDING IT'S ATTITUDE AND OPINION WHEN BUYING CHEESE**

#### **3.1 Research Methodology**

The marketing research being conducted had the main objective to identify the opinion and the behaviour of the population of Brasov regarding, primarily, the places where people shop, then the places from where people buy cheese, and not least their views on Delaco products and ease of purchasing these products.

To obtain valid results we have chosen the survey method and used a survey-based random sampling method. According to it, all the individuals that form an investigated population have the same probability to be included in the sample, a probability that can change as the selection of members is being made.

Since obtaining a list of all members of the population being studied, which can form the population providing the sample, is quite difficult, we chose to use step by step sampling. Of the total sample units we chose randomly two districts of Brasov, and built at this level a list of all existing buildings and households. The considered age segment is represented by adults over 18 years. Because its size was too large to be analyzed, we chose a representative sample, and then the data obtained was extrapolated to the entire population. In these conditions, the research was conducted on a sample of 101 people, assuming a maximum error of 9.80%.

The questionnaire contains 29 questions, of which 24 are questions relevant to the topic investigated, and the remaining 5 serve as identification. The questions are

structured according to the following scales: a binary scale, a nominal scale with multiple choices, a nominal scale with a unique choice, an ordinal scale and a semantic scale. In order to be representative, the sample used in the marketing research must comply with the requirements regarding the structure so that it reflects the multitude of behaviours and attitudes found in the studied population.

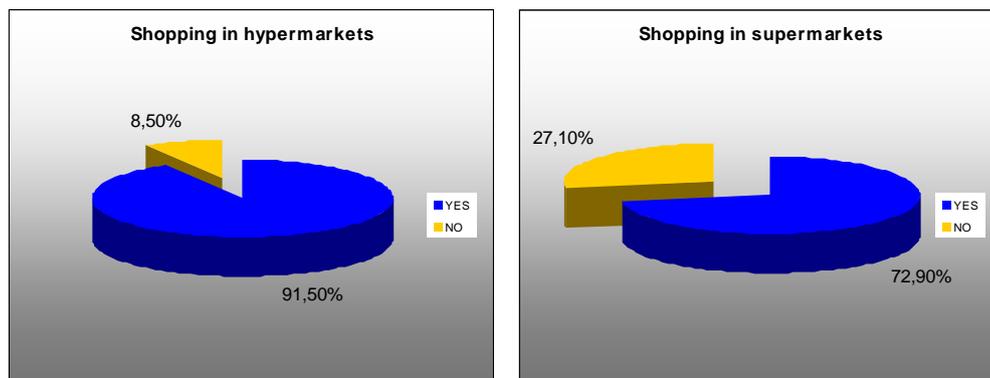
**Table 1. Validating the sample**

Gender	Count	% of the total population	Sample	% of the total sample
Female	145486	53 %	46,5%	46,5 %
Male	131428	47 %	53,5%	53,5 %
Total	276914	100%	100%	100%

The question is whether the difference between the percentage of women and men is statistically significant or not. The critical report ( $t_{obs} = 1.3$ ) is compared with the theoretical size ( $t_{\alpha,df} = 1.96$ ) and supports the hypothesis in accordance with the decision rule ( $t_{obs} = 1.3 < 1.96$ ). Therefore, we can guarantee with a probability of 95% that the difference between the two percentages is statistically insignificant, with no need for sample recovery.

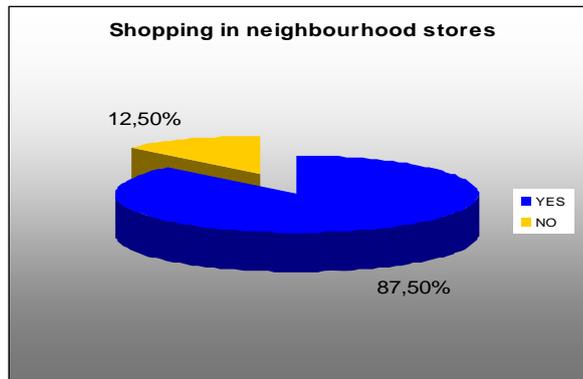
### 3.2. The results of the research

Following the research conducted on "Attitudes and opinions of the population of Brasov regarding the purchase of cheese" the expected answers were obtained to most questions. Of the 24 questions considered to be representative for the desired information 6 of them are detailed below. First it was considered determining the segment of consumers who shop in hypermarkets and supermarkets, respectively. It can be seen that the percentage of those who purchase products from these forms of trade is very high, 91.50% and 72.90%, results which favour Delaco because its products have a stronger presence in these types of stores.

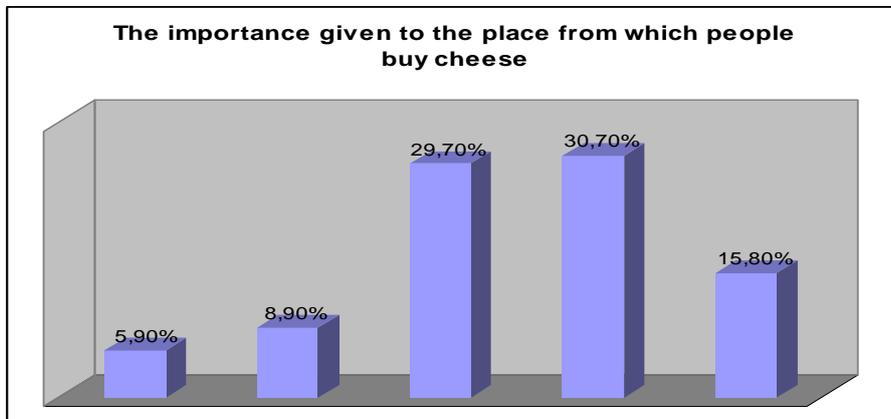


**Figure 2. Shopping in hypermarkets and supermarkets**

Of particular interest for the research was to know the percentage of those who shop in neighbourhood stores, as one of the weak points of Delaco is a poor presence in traditional trade stores. As said in the previous chapter, the small neighbourhood stores supply with Delaco products from Cash & Carry units. In addition, the *Apetito* product line, placed in the medium price segment, is missing from traditional trade. Thus, from the research conducted to determine those consumers who attend these stores, resulted that a very high percentage, 87.50%, purchase these products from neighbourhood stores.



**Figure 3. Shopping in neighbourhood stores**

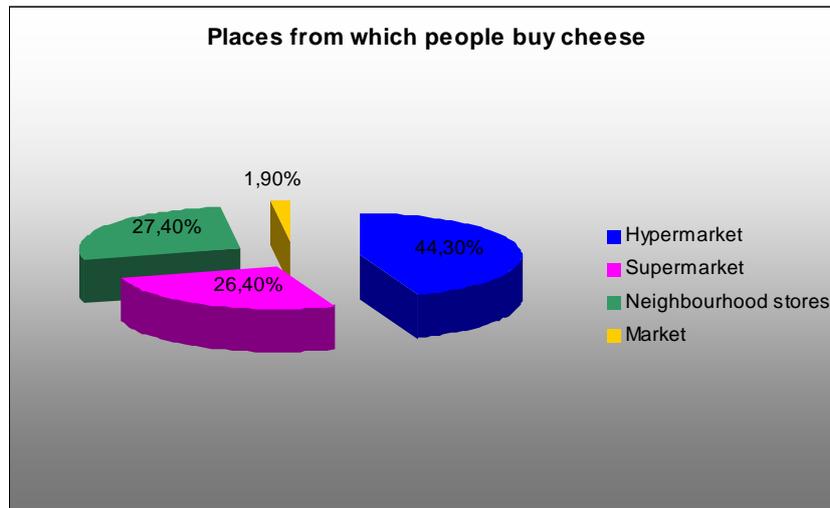


**Figure 4. The importance given to the place from which people buy cheese**

Analysing the results regarding the importance that the people of Brasov give to the place of purchase of cheese, it appears that 30.40% of the population interviewed assigned the value of 4, option 3 was chosen by 29.70% and only 15.80% assigned the value 5 - very high, so it can be said that the place of purchase of cheese is important.

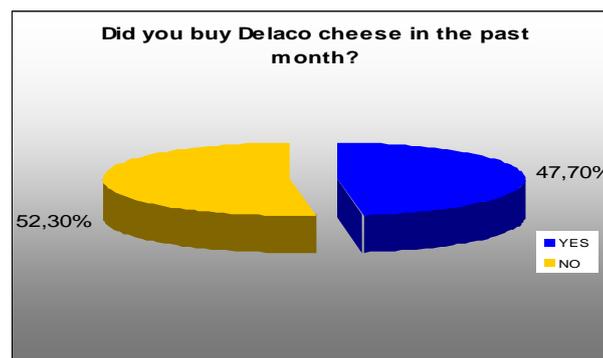
It was also considered determining the places from where people buy cheese in Brasov. After analyzing this question, the highest percent was held by hypermarkets and neighbourhood stores, with 44.30% and 27.40%. On third place, with only 1% less

than neighbourhood stores came supermarkets while only 1.90% of the respondents are buying such products from the market.



**Figure 5. Places from which people buy cheese**

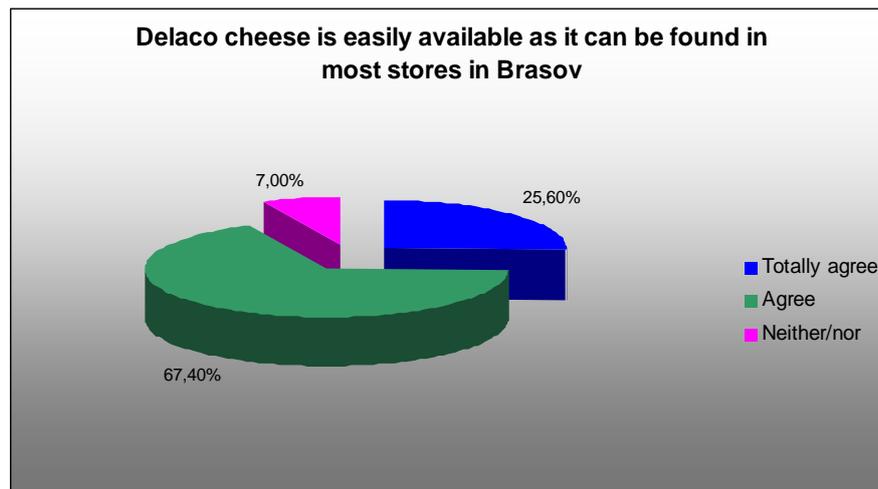
The second part which showed interest in order to achieve the goals of the research targeted Delaco's products, specifically how satisfied are their customers and how easily available are their products. The analysis of the responses obtained from the 101 respondents showed little difference between those who consume Delaco cheese (47.70%) and those who do not consume such products (52.30%). The percentage of those who do not consume the company's products is significant, which may be due to the reduced presence in traditional stores.



**Figure 6. Did you buy Delaco cheese in the past month?**

On the question regarding the ease of purchasing the Delaco brand products, of the 43 people who use these products and were asked this question, a significant percentage, of 67.40%, agrees with the statement that "Delaco cheese products are easily

purchased as found in most shops in Brasov". The small percentage of those who have entirely agreed with this statement, of 25.60%, reinforces the idea that the reduced presence of these products in neighbourhood stores is a great disadvantage for the company Delaco.



**Figure 7. The ease with which Delaco products can be bought**

The questions of characterization considered for the purpose of the research targeted the respondent's age, the socio-professional category they belong, income and not least, the number of family members. Thus: 1. The majority of the respondents from the sample are aged between 18-25 years (62.40%), followed by the 26-35 years range (27.70%), with a small share held by those aged over 36 years; 2. the highest percentage is held by students and those employees with higher education, 39.60% respectively; 3. the question about the monthly income was asked to all members of the sample, 101 people, 35 of which responded that they have an income below 700 RON, with an insignificant difference between those with an income between 701-1400, and respectively over 1400, of only 1%; 4. the highest percentage is represented by families composed of 3 persons or 37.60%, followed by families with 2 members with a rate of 22.80%, the lowest percentage (5%) was held by families with more than 5 members.

#### **4. CONCLUSIONS AND PROPOSALS**

Given the results, the fact that in addition to a distribution concentrated in Key Accounts type stores (Metro and Selgros), as well as supermarkets and hypermarkets, from which the population of Brasov can buy Delaco cheese products, consumers purchase their products from convenience stores also (27.40%), a sector where the company being studied does not have a striking presence.

In addition, the *Apetito* line of products, launched on the Romanian market for months, is not present in this sector. These products placed in the medium price segment, with a price tag 10% lower than cheese and cheese cream from the Hochland brand,

which is the market leader, is an opportunity for the development of the distribution of Delaco products in this segment.

As mentioned above, the small number of products present in this sector is due to small merchants who supply from C & C type stores, which means a higher price on the shelves. In this respect, I think that is economically justified a marketing plan to facilitate the penetration of these products in neighbourhood stores also. Using a distribution channel with a single intermediary in the case of traditional stores also, by concluding a cooperation agreement between the company and stores that prove to be profitable, could be an advantage for both parties. Thus the company Delaco would become known to the people who prefer to buy more frequently from these types of shops and small retailers can sell these products at a lower price by buying them directly from the supplier.

The intended operational marketing program is partially defined, because it considers only the distribution policy as a part of the marketing mix, and will be prepared on a short term basis to achieve the proposed goals, increase market share, sales growth and the entrance of the *Apetito* brand products into this area, products that have been distributed by the Delaco company on the Romanian market from the summer of 2010.

I believe that this plan requires a budget of around 50.000 Euros, which will be distributed according to the activities necessary to implement the marketing program. These activities will be planned in the most effective sequence in order to minimise the necessary time and financial resources and require identifying those areas that are cost-effective for distributing the products, signing contracts with small traders, establishing the products to be distributed, purchasing new vehicles for distribution purposes and conduct promotional campaigns to bring these products into the attention of those who buy from such stores.

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