

## MODERN RETAIL DISTRIBUTION – THE CASE OF BONDUELLE POLAND

**Jolanta Urbanska**

*Czestochowa University of Technology, Management Faculty*

**Abstract:** The article covers issues associated with the distribution in the FMCG market following the case of Bonduelle Poland activities. Modern retail distribution is represented by large area shops which determine a new logistics organization. A way of physical flow of goods and types of distribution channels are indicated.

**Key words:** distribution, distribution channels, FMCG market

Poland, with 38 million inhabitants and 13 million households is the sixth biggest European market – these advantages do influence a great market potential with regards to national and international distribution. Since 2000, traditional trade has become less significant, FMCG industry has stabilized and existence of hypermarkets, supermarkets and discount shops has increased a competition in modern distribution channels. In 2002, the greatest growth dynamic – 25% - was typical for hypermarkets, and 14% for discount shops [1]. The presence of giant chains of shops has influenced education of local tradesmen and created a new quality in Polish trade [2].

For the last several years, the establishment of large area shops in Poland has led to change in rules of distribution activities, especially the last cell – retail distribution. First hypermarkets began to operate in Poland in 1994. In those years there were no legal regulations concerning development of large area shops on the neither national nor local level [3]. Apart from retail trade, also wholesale trade became a part of foreign chains activities. The fast development of cash&carry chain was possible with help of Makro company (the first hall was built in Warsaw in 1994), Eurocash and Selgros. The essence of the Western chains activities is creating their own logistics centres, which enables them to obtain lower prices from manufacturers. In the initial stage of development of modern distribution, the association of traders and retailers Lewiatan S.A. is considered to be one of the biggest Polish initiatives.

Nowadays, Poland is experiencing a dynamic development of new trade phenomenon – shopping centres. First shopping centres were established in Warsaw in 1998 (Bielany Centre with the area of 70 000 m<sup>2</sup>, Janki with shopping centre Ikea and Janki centre which belongs to French Apsysa). Shopping centres, which are growing in Poland, have been accepted by customers and are creating new lifestyle. The possibility of shopping in one place, comparing prices, discounts, comfortable opening hours, parking places, possibilities to eat meal or drink coffee – these are main advantages of shopping centres from the customers' point of view. A typical service of mega centres became fashionable. Some additional entertainment forms are offered (cinema, sport facilities) and additional services are provided (pharmacies,

banks, laundries). Mega centres are built near or inside big cities, whereas shopping centres are built in medium-size cities [4].

Foreign retail distribution investors have know-how which is model of service standards, exhibitions, negotiations and price policies. In 1996, the share of hypermarkets supermarkets and discount shops in food retail sales was estimated on 19%, in 2002 has reached 32%, and in 2006 is oscillating between 45 – 50%, where 22% is attributed to hypermarkets, 13% to supermarkets and 15% to discount shops [5].

The activity of Bonduelle Poland which has exploited modern retail distribution for several years can be an illustration of changes in distribution of fast moving consumer goods (FMCG).

### **The history of Bonduelle Company**

The company was founded in France in 1926; in 1947, most of shares was taken up and the brand Bonduelle was established. Between 1963 and 1975, the company experienced a dynamic growth, mainly because of purchase of canned food factory in France, exporting canned food and establishing a production of frozen food. The following years (1976 – 1984) can be described by acquisitions of new factories, new markets expansion and creation of strong brand (Bonduelle and Marie Thumas). Between 1984 and 1992, the company concentrated its activity on Western Europe markets – Primeurop brand was created and Cassegrain was purchased – the company became a market leader. Between 1992 and 1994 Bonduelle started the expansion policy trying to win Central Europe: Poland, Hungary, Czech Republic, Slovakia and Russia, simultaneously trying to concentrate on profitability. Between 1994 and 2001, the concern implemented distribution of fresh products, and entered South America markets. It also became to be listed on French Exchange in Paris [6].

Range of Bonduelle activity

Bonduelle concern is present in more than 50 world's countries, including apart from Europe, Asia, Africa, North and South America. In France there are 4 500 people employed and a similar number of people working abroad. The Agronomic Department cooperates with about 10 000 farmers, who grow more than 60 000 ha of land. As a result of this, there are 600 tons of vegetables processed in cans and 140 tons of frozen food; all together it accounts for 40 different vegetables annually in 500 assortments. 75% of production is produced in all countries under the brand Bonduelle, and additionally in France under Cassegrain brand, in Belgium – Marie Thumas, and remaining 25% is sold under distributors' brands.

### **Business description**

World family concern Bonduelle produces and distributes vegetables products in the individual consumer market and gastronomic sector. In 2006, it provided more than 30% of European production of vegetables products and above 15% of frozen food which confirms Bonduelle to be a market leader in food processing industry in Europe.

With regard to packaging, Bonduelle products can be divided into:

- ◆ Apertized (canned) vegetables – 61% of products
- ◆ Frozen – 30%
- ◆ Fresh – 9%

With regard to recipe, company's products are:

- ◆ In natural pickle,
- ◆ In sauces,
- ◆ With spices

- ◆ Meals prepared to eat

With regard to target group:

- ◆ Products for individual customers,
- ◆ Products for gastronomic customers,

Appertized, frozen, and fresh vegetables under Bonduelle brand, are sold in the whole world; Marie Thumas is a brand for canned vegetables sold in Belgium, whereas Cassegrain for appertized vegetables distributed in France, Belgium and Germany.

### **Bonduelle in Poland**

The concern started to operate in Poland in 1992, when Bonduelle Poland Ltd (Bonduelle Polska Sp. z o.o.) was established in Warsaw – 100% of shares belonged to Bonduelle Group. Firstly (until March 1994) there were 10 people working for the company, responsible for commercial and representative duties, and simultaneously conducting market research for Bonduelle venture. In March, a professional trade centre for distribution purposes was created, and production activity was established on the basis of processing plant acquired in Gniewkowo near Toruń. Since January 1998, Bonduelle Poland has begun to explore Baltic States, including Lithuania, Latvia and Estonia. In 2004, concern Bonduelle decided to delegate Bonduelle Poland to manage North-East structure – conducting industrial activity in Gniewkowo and sales activity embracing all product groups on Polish, Lithuanian, Latvian, Estonian, Danish, Swedish and Finnish markets[7].

### **Organization of distribution**

In Bonduelle Poland, Sales Director who cooperates with three Key Account Managers (KAM) is responsible for coordination of activities associated with sales. Every KAM is responsible for particular product lines. Canned products (M2) are distributed through modern distribution, frozen products (M4) with the use of modern and traditional distribution, and products for gastronomy (M3) are distributed with the help of all distribution channels.

The appearance of Western retail chains in Poland has provoked Bonduelle to implement separate discount system designed for those chains:

- ◆ 5-8% discount for chains,
- ◆ 1-2% discount for trade volume or annual bonus,
- ◆ 3% promotion discount.

This discount represents 60% of maximal discount for wholesalers, which enables to maintain price competitiveness between Western chains and Polish scattered retail. Additional protection clause is enclosed to agreements between Bonduelle Poland and retail chains, which prohibits retail sales of products with prices lower than gross tariff prices. Foreign chains, with regard for changes in trade structure, are important clients classified as key customers.

Quality changes in distribution channels are caused by chains performance:

- ◆ arrangement of assortment offer (chains prefer products with the greatest rotation),
- ◆ rationalization of products supply (arranging dates, hours, establishing distribution centres),
- ◆ increasing significance of merchandising,
- ◆ increasing importance of strategic planning and sales department,

- ◆ improvement in logistics of products supply.

### **The strategy of fulfilling gaps in distribution channels**

Bonduelle Poland applies a strategy of fulfilling gaps between production and consumption within distribution channels. Among gaps, the following can be distinguished:

- ◆ Time gap – Bonduelle products experience a seasonal sales, the biggest sales growth is notice between March and April and also between August and November, whereas a rapid drop can be observed in July, December and February.
- ◆ Spatial gap, which is overcome with the help of appropriately designed distribution network. Key customers are located in main cities and operate on relatively large areas in order to assure supplies on the area of whole country. Products from magazines are transported to distributors with Bonduelle or with distributor's transport.
- ◆ Quantity gap – Bonduelle products come from several sources:
  - cans and frozen food come from production plant in Gniewkowo,
  - cans from Hungarian company,
  - cans and frozen food from France.

With an appropriate coordination of inventory level in warehouses and by applying planning policy, an optimal quantity of finished products in warehouses is maintained. Besides, a large amount of products is kept in warehouses, which belong to distributor [8].

- ◆ Assortment gap – the company strives for satisfying customers' requirements; for instance, a frozen champignon soup or frozen vegetables were implemented, and unprofitable French salsafy or salads in jars were removed.
- ◆ Information gap – Bonduelle takes efforts to fully inform customers and intermediaries about available product offer. Distributors, who are provided with up-to-date catalogues, are included in communication process. What is more, a process of communication with the market is supported by advertisements, promotions in sales centres and participation in fairs and exhibitions.

### **Physical goods flow**

The process of physical flow of goods in Bonduelle Poland consists of the following phases:

- ◆ The enterprise in Gniewkowo represents the starting point of physical flow of goods.
- ◆ Transport of products by means of distributor or means rented by concern; this phase represents the real flow of goods.
- ◆ Warehouses, which belong to distributor or Bonduelle – a phase of relative rest of goods.
- ◆ A retail sales point which represents the last cell in physical flow of goods chain.

A kind of distribution, which is applied in Bonduelle, is called selective distribution. A selective distribution is distinguished with regard to the level of intensity of goods distribution and is based on reaching consumer through a limited, and specially chosen group of intermediaries that are active in the particular market [9]. When products are sold in the whole country, producer's activities on the retail level are impossible. A producer can act as a wholesaler, however it is associated with solving problems such as warehousing, transport, etc. Hence, a transfer of wholesale functions to intermediaries is the most beneficial for

producers. An appropriate choice of intermediaries is a guarantee that products will be delivered on time and to a proper place.

A company reaches consumers through specially chosen intermediaries who act in the local markets. Wholesale functions are delegated to intermediary enterprises. In order to assure a reliable service connected with punctuality and accuracy, a thorough analysis of potential partners must be conducted. A choice of distribution channels is determined by many factors, among others a kind of product, which seems to be the most important factor.

### **Canned vegetables**

- ◆ Indirect, one-stage channels used in distribution of goods to hypermarkets through a modern distribution network. Products are sold indirectly from Bonduelle Poland warehouses to receiver's warehouses (to some given depots) or indirectly to every single market. Thanks to implementation of logistics management methods, the biggest chains decide to invest in organisation of distribution. FM Logistics is responsible for distribution for Auchan chain; Geant, Tesco and Carrefour run their own logistics centres. Goods are delivered directly to hypermarkets in the case of Makro, Cash&Carry, Real, and Leclerc. Chains generate 47% of cans volume trade and represent 14% of Bonduelle's customers.
- ◆ Indirect channels, usually two-stage, are used in order to avoid excessive division of distribution. Bonduelle has approximately 70 distribution companies which generate 63% of volume trade of cans. Distribution through this channel is conducted on the basis of agreements concerning business cooperation which provide producer with exclusiveness of goods distribution. Distribution by indirect channels enables to reduce costs and cover an area of the whole country with distribution network.
- ◆ Vertically integrated channels are used in order to eliminate negative features of conventional channels (which are found in chains and in distributors). These channels are created on the basis of entity independence rule. In vertically integrated channels, companies are active on the different stages of a channel; therefore it is controlled by one of those firms. This coordination may embrace all participants of a channel or create relations and cooperation between channel stages [10]. Within this kind of channels two relation can be distinguished:
  - Contractual relations with the help of agreements enabling companies to standardize business conditions, and assign more financial help for promotions and discounts. In contractual type of distribution channel, participants sign contracts, which thoroughly determine behaviours in the process of common product market offer creation. Arrangements of those contracts are much broader than typical buy and sale contracts[11],
  - Corporation networks economically and legally subordinated to one management.

A growing international consolidation can be observed. This consolidation enables to make claims associated with Eurobonuses independent of volume trade – fixed amounts on promotional events or fees for implementing additional quantity of products.

In Bonduelle Poland, majority of canned products is distributed with the use of conventional distribution methods in indirect channels. A tendency of increase of distribution in the both contractual and corporation integrated channels should be underlined.

### Frozen vegetables

Frozen vegetables intended for retail receivers require suitable conditions of storing and transport; therefore they can not be distributed by the same group of distributors as canned vegetables. An exploitation of indirect one-stage channels is also impossible due to a lack of refrigeration means of transport in chains.

- ◆ Indirect channels which consist of producer, intermediaries and final purchasers (individual or institutional). Intermediary in this distribution channel can be defined as natural or legal person which acquires right of ownership of product during its way from a producer to a final purchaser or help to transfer this right of ownership [12]. Bonduelle has signed approximately 20 agreements with companies of retail distribution of frozen vegetables. Distribution through this channel is conducted on the basis of signed contracts, which provide producer with appropriate coverage of country area with distribution network. Bonduelle frozen vegetables are distributed with the help of two-stage distribution channel.
- ◆ Modern distribution networks are treated as retail receivers. Particular distributors cover this type of distribution. Similarly, as in the case of cans, these are conventional channels and this segment also experiences integration.

### Vegetables in gastronomic packages

Vegetables in gastronomic packages are allocated for restaurants, hotels, and catering outlets. Preserved vegetables are offered in 2 500 ml and 1 000 ml packages, whereas frozen vegetables in 2,5 kg packages.

- ◆ Indirect channel consists of approximately 30 distributors of cans and 20 distributors of frozen vegetables, which deliver them to restaurants and hotels. The activity of distributors often overlaps with activity of retail distributors.

Bonduelle concern, by entering to the Polish market in the second half of 1992 found an interesting market but mainly state-owned processing plants on the brink of bankruptcy. All sold products in the industry were undervalued, and the industry was dispersed. There were only few brands which were recognizable in the society: Hortex, Pudliszki, Kwidzyń, Kotlin, Animex, Krakus, where only Hortex and Krakus were well known in the whole country. Since 1994 Bonduelle has launched intensive activities aiming at creation of brand awareness among customer. In the beginning of 1995, sales representatives were equipped by the company with slats which enabled them to distinguish Bonduelle products exhibition on the shop shelf from competitor's products. In the beginning of 1996, box-pallets were introduced. They enabled to exhibit Bonduelle products on the top of rack with rules of aesthetics preserved. In the second half of 1996, when numerical distribution reached the level of 30%, the company decided to launch a TV advertisement campaign. After first three months of advertisement campaign (September 1996), sales of Bonduelle products rose by 60% and increased a spontaneous brand familiarity from 3% to 21%, and supported brand familiarity from 7% up to 28% [13, 14].

Consolidated marketing activities, with a particular role and significance of distribution, and important role of modern distribution in Bonduelle logistics strategy, enabled concern to maintain a leader position. In 2006, concern noticed a 40% market share, became a leader of cans and vegetables and maintains a market leader position in the Horeca market for processed vegetables.

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