

# System of Distribution of Cosmetic Products on Polish Market on Example of Selected Company in Safety and Quality of Products Aspect

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**Abstract.** The distribution system of a selected company was analysed against the background of the cosmetics market in Poland, indicating changes in distribution channels. The profile of the company was presented, describing the company's statutory objectives, organizational structure, distribution channels, product catalogue and control and quality system. An analysis of the distribution of competing companies was carried out, indicating their market position. An assessment of the selected company was made, indicating its strengths and weaknesses and formulating opportunities and threats. Directions for the development of the distribution system of the enterprise under analysis were proposed including in terms of product safety and quality.

## 1 Introduction

Achieving the goals of manufacturing, production or commercial enterprises requires that the product for sale be delivered to the retail outlet and offered to the final buyer at the right place, time, quantity, quality and at an acceptable cost [3]. There are many definitions of the term "distribution" in the specialized literature. According to Kotler, distribution is a profit-oriented activity involving planning, organizing, making and controlling the physical flow of finished products from the places. They are manufactured to the places within sold to final buyers [6]. The distinction is made between direct distribution, central sales within own subsidiaries or representative offices and sales with intermediaries.

According to the publication [8], the quality management and safety and environmental management can be interpreted by the introduction and the application in organizations of practical principles and behaviour patterns that allow the expected by quality and safety level to be effectively achieved. A sign of these activities is the development, dissemination and implementation of standards, including ISO 9000 series standards, ISO 14000 series standards and PN-N-18001 standard. Legal regulations for cosmetics are contained in the Law on Cosmetics of March 30, 2001, which regulates the composition, labelling and marketing conditions of these products [2].

Legal acts of particular importance include:

1) The Directive of the Council of Europe of July 27, 1976 on the approximation of the laws of the EU Member States relating to cosmetic products (76/768/EEC).

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2) An eight annexes to Directive 76/768/EEC, setting out lists of substances whose use is prohibited in cosmetics, and lists of substances permitted for use in cosmetics only in limited quantity and scope of use, dyes, preservatives and radio protectants.

3) European Commission Directive 95/17/EC, laying down detailed rules for the application of Directive 76/768/EEC.

4) European Commission Directives 80/1335/EEC, 82/434/EEC, 83/514/EEC, 85/490/EEC, 93/73/EEC, 95/32/EC, 96/45/EC containing descriptions of the applicable methods in the control of cosmetic composition [7].

Reference [7] discusses the scope and purpose of the legal solutions contained in the Law on Cosmetics and the implementing acts. Individual provisions are commented on from the perspective of the assumptions of business and the specifics of medicinal activity, including the general safety of products, differences in the norms of cosmetics, medicinal products and medical devices.

An important part of this monograph is an extensive discussion of the principles of marketing cosmetics and examples of letters and documents related to this, as well as a discussion of the principles of sanitary-epidemiological supervision, control and commercial inspection of cosmetics, medicinal products and medical devices.

Based on Ref. [8], it is believed that among the basic rights of consumers is the protection of the safety of their health. They have the right to expect that the purchased product will be safe for them and for the environment.

The purpose of this paper is to evaluate a selected manufacturing and trading company in the Polish market, which is pointing out its strengths and weaknesses with formulating opportunities and threats.

What the more, there is proposing of directions for the development of the distribution system in this company, in order to strengthen the company's competitive advantage in the future [1].

## **2 Characteristics of the selected enterprise**

The selected company has been operating on the Polish market since 1994. It has associated its activities with the production of "new generation" cosmetics, developed on the basis of knowledge in the field of biotechnology and medicine. All new products are created on the basis of modern knowledge and technology. The experience of employees and the process of continuous monitoring of consumer trends at each stage of product implementation. Each product undergoes detailed dermatological testing before launch.

The strong position of the brand in the cosmetics industry is due to the high quality of cosmetics, their effectiveness and the trust that customers have placed in the company for many years. Thanks to its determination and commitment at all levels of the production and distribution process. The company successfully competes with domestic and foreign companies and continues to record an increase in market share.

The company is open to cooperation with many recognized authorities in the fields of biochemistry, dermatology, pharmaceuticals and scientific institutions such as the Warsaw University of Technology, the Polish Academy of Medicine and many others. As a proof of the brand's recognition and popularity, there are more than 50 prestigious awards and prizes, as well as 30 legally protected trademarks, granted by both professionals and consumers.

The company operates not only in the domestic market, but also abroad. It cooperates with such countries as the United States, Canada, Germany, Sweden and Norway.

The high quality of the products is mainly evidenced by the standards met by the company, as defined by the European Union, the World Health Organization - WHO. The company has also been awarded the European Medal by the Business Centre Club three times.

Currently, there are about 450 cosmetic companies on the Polish market. Customers can choose from a wide range of brands from various manufacturers, in all segments of cosmetic products. The main competitors of the selected company are companies whose roots of success go back to the 1980s. During this period, companies were established that produced cosmetics similar in quality and range to those offered by Western manufacturers, but with more affordable prices.

The company's mission is to produce selective cosmetics for face and body care for customers who are demanding and expect products above average. Special emphasis is placed on the safety and quality of the products, which will never be the result of any compromise. The quality policy is in line with the company's mission and strategic goals. All the company's activities are aimed at providing customers with products that meet their needs and demands.

The manufacturer's product philosophy includes exceptional innovation and creativity, constantly following global trends in cosmetology and the development of new technologies. The company's products are safe for customers' health and environmentally friendly. They are in line with existing trends against skin aging. Each cosmetic has its own individual character, but all are united by high quality, professionalism and effectiveness.

It's not only high-end cosmetics, but also Spa salons and Spa-medical dealing with the general health condition of the client. This activity is also the contact of customers with experts employed by the company through the website and social media. By filling out a questionnaire posted these customers can find out what type of skin. They have and familiarize themselves with the most suitable cosmetics and proposed treatments for them.

The company's vision is continuous development and activities aimed at improving competitiveness and profitability on the Polish and foreign markets.

The company intends to developed and achieved higher-than-average incomes by means of constantly its increasing and sharing in the cosmetics market. Furthermore, this flexible response gives the changing requirements and potential needs of its customers and filling emerging consumer niches with new products and brands.

The company, as part of its commercial activities, offers products under the same brand to customers in 16 series tailored to individual customers' needs by skin type, age and gender. The assortment offer for each distribution channel is prepared as part of the marketing plan and is valid for the next calendar year of the company's operations. The total number of cosmetics offered to customers is more than 100 products.

Another type of the company's products are cosmetics intended for spa salons, branded with the company's name. Among the most important are dermatological and skin care treatments using the company's own cosmetics.

The company bases its distribution system on four basic channels. These are distributors, industry networks, the export channel and professional offerings. Contact with national distributors and industry networks is made through nine regional representatives reporting to regional managers [1].

The task of regional representatives is to maintain contact with distributors, make frequent visits, carry out inspections, check assortment, motivate, evaluate work, and organize promotional actions in their territory. Proposals for promotional actions sales representatives can determine themselves with store managers. The company conducts domestic and foreign sales. The company uses the services of 24 distributors throughout the country.

Retail partners reach the best stores with their offerings, are properly trained and transact on favourable terms. The company, also on its behalf, trains retail representatives. Distributors primarily have exclusivity in the region. A situation where two distributors supply the same store should be avoided. Most often, it establishes cooperation with one or two distributors in the region, while adhering to the rules written in the business agreement.

A specific example of an area with two distributors from Warsaw, where a different model operates. The distributors in question are companies working in the pharmaceutical and cosmetics channel. In addition, the company has two representatives serving about 160 stores in Warsaw, thus having a greater influence on what is traded. Unfortunately, Warsaw does not boast good wholesalers, so although this way is expensive, it is the most effective.

The recipients of the products are mainly the United States, Sweden, Norway and Ukraine. The company targets customers of at least the middle class of affluence and wants to be seen as an exclusive commodity with above-average qualities. However, this is a forward-looking channel that requires proper identification and development of an appropriate strategy.

Another criterion for the division of buyers is the segment of individual and professional customers e.g. beauty salons, who buy products for cosmetic treatments performed in offices and at home for daily use. Distribution of these cosmetics is carried out through traditional contact with offices and during trade fairs. Professionals, can buy the products directly at the trade fair. They need for their offices and receives of bonuses or discounts for their clients. As a rule, the entire range of products is not presented at the fair, only the most attractive products for a particular group. The company, taking care of the quality of the brand, also conducts training courses for beauticians, ending with a certificate.

In addition to sales in basic channels, the company sells through the company's online store. This form of sales is intended to bring tangible benefits, both to manufacturers and consumers. The main advantages of this channel for the final customer are access to the brand's entire range of products, time savings, easier access to information, individualization of the offer, comparability of the price for individual products with market prices. This ensures reaching different customers and increasing market share and the ability to update one's offer without delay, the ability to individualize one's offer, minimizing logistics costs and reducing warehousing costs. Significant obstacles in this channel are mainly: security problems in the network, problems of distribution logistics, returns of material products, customer retention.

The policy implemented by the company in question follows the definition of Total Quality Management (TQM) [5]. TQM aims to continuously meet customer expectations and achieve quality at lower costs and the achievement of comprehensive quality is ensured through the participation of all employees.

Products meet the requirements of the European Union and the World Health Organization - WHO.

The production standards are complemented by a system of internal procedures quality safeguarding of service to the company's customers - intermediaries and final retail buyers. All products of the company in question at each stage of the production and distribution cycle are inspected by designated persons for safety of use and final expected quality. The company follows internal procedures for the storage, transportation and display of cosmetic products with quality safety.

The most important measures of logistical customer service and implemented in a company by following aspects [7]:

- time it takes to receive an order at the supplier's warehouse to ship the order from the warehouse,
- percentage of customer orders completed within specified time intervals from order acceptance,
- percentage of orders that can be completely fulfilled from stock in the warehouse,
- the percentage of goods that have arrived without damage at the destination specified by the customer,
- time from when the customer places the order to the delivery of the ordered goods,
- ease of ordering - ease and flexibility of ordering.

The results of the SWOT analysis for the company are given in Table 1.

**Table 1.** SWOT analysis of the analysed manufacturing and trading enterprise

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>- strong stable brand recognizable by customers</li> <li>- flat and flexible organizational structure</li> <li>- stable financial situation</li> <li>- having its own headquarters and production part together with a modern laboratory</li> <li>- a system of procedures as a standard applicable to the company's activities</li> <li>- permanent customers of the company bound by commercial contracts</li> <li>- sale of products in four distribution channels</li> <li>- permanent domestic and foreign suppliers of semi-finished products and packaging</li> <li>- stable relatively young and qualified staff</li> <li>- making it possible for employees to get individual training</li> <li>- periodic training of all employees</li> </ul>	<ul style="list-style-type: none"> <li>- having too narrow a product range</li> <li>- having declining products on offer</li> <li>- insufficient distribution</li> <li>- the need to import selected products and packaging from abroad</li> <li>- failure to implement new products on time</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>- constant expansion of assortment offer</li> <li>- progressive development of drugstore chains</li> <li>- fashion for widespread performance of beauty treatments in professional beauty salons</li> <li>- opening and development of Eastern markets and Western Europe</li> <li>- joint distribution of producers of major cosmetic brands</li> <li>- development of the market of domestic packaging manufacturers</li> <li>- development of scientific research on new cosmetics, especially for face and body care</li> <li>- abolition of excise taxes on cosmetics</li> </ul>	<ul style="list-style-type: none"> <li>- strong competition from companies offering face and body care brands</li> <li>- unstable economic situation in the country</li> <li>- unstable global situation</li> <li>- further impoverishment of society</li> <li>- possibility of competitors buying up skilled workers</li> </ul>

To summarize the company's assessment, it should be show that:

- has a stabilized by position of domestic cosmetics market,
- demonstrates a high level of product innovation,
- has aspirations to conquer more areas of the cosmetics market,
- conducts forward-looking activities to achieve the goal,
- the company's assets, especially fixed assets, provide stability for continued operations,
- making changes in marketing strategy will ensure further stable development of the company.

### **3 Proposed directions for development of distribution channels in selected enterprise**

The most important factors directly affecting future activities are as follows: geographical factors e.g. the degree of opening of the economy to foreign markets,

- economic factors (tax rates, tariff rates, investment allowances, inflation, interest rate),
- competitive factors (market structure, demonopolization, privatization),
- legal factors (legal regulation of contracts, financial settlements),
- technical factors (subject standards, uniform documentation templates, computerization),
- social factors (income and living standards of the population).

It is proposed that the company develops its distribution on five channels, i.e.: distributors, industry networks, exports, professional channel, Internet sales.

The company is proposed to improve the situation in two channels in the next calendar year. The main rationale for this decision is limited financial resources, hence the focus on improving a certain part of the distribution system, with effective sales in other channels.

The distribution system improvement project includes the development of the distributor channel and the professional offer channel.

It is proposed to revisit the 24 distributors with whom the company works, in the following respect:

- distributor's position in the local market (area of operation, number of regular retail customers, attractiveness to retail customers),
- value of products purchased by each distributor in the last twelve months,
- distributor's assistance in promoting and creating the brand and during the launch of new products,
- financial security of the distributor (information will be obtained by "interview"),
- terms of business agreements with distributors,
- competing companies served by the same distributor,
- predictability of the distributor's activities in terms of orders from the manufacturer.

After the above verification, it is necessary to select distributors with whom it will be possible to negotiate to discuss and guarantee increased purchases in the following year. It will be necessary to establish new, attractive terms of cooperation for both parties.

At the same time, there will be the resignation of distributors who have ceased development and are therefore not interested in increasing sales of the company's products, and the establishment of cooperation with new distributors, on terms that give them exclusivity in the region. The schedule for carrying out the verification of distributors is shown in Table 2.

One of the basic measures that will be taken by the company for the development of its distribution system is the establishment of a network of company stores throughout the country. This project would involve the selection, by headquarters and regional staff in cooperation with distributors, of stores in each local market that can be converted into company stores.

These stores would have to meet certain requirements according to standards developed by the company's Marketing Department. The requirements to be met by an outlet qualified as a potential company store are summarized in Table 3.

Table 4 presents the general principles of the company's stores. The company's Marketing Department, with the active participation of the Sales Department, will be responsible for carrying out this project.

The schedule of activities for the launch of the stores is as follows:

- notification of store locations intended for company stores,
- analysis of applications and approval of final locations,
- signing of relevant lease, store purchase agreements,
- recruitment, hiring and training of personnel,
- store modernization,
- equipping and placing goods in the store,
- development of a promotional schedule for company stores.

**Table 2.** SWOT analysis of the analysed manufacturing and trading enterprise

<b>Scope of operation</b>	<b>Completion date</b>	<b>Responsible/Contractors</b>	<b>Final Document</b>
Assessment of distributor opportunities in the local market	31.01.2023	Sales director/regional employees	report
Assessment of financial security of cooperation with distributors	31.01.2023	Finance director	report
Review of commercial terms of cooperation with distributors	31.01.2023	Sales director	report
Assessing the competitiveness of other companies in the immediate vicinity	15.02.2023	Works marketing	report
Conducting new negotiations with already cooperating distributors	15.03.2023	Director of sales	addenda to the commercial cooperation agreement
Termination of cooperation agreements with distributors	31.03.2023	Director of sales	termination documents
Establishing cooperation with new distributors	31.03.2023	Sales director	new trade cooperation agreements
Conditions for storage of cosmetics	31.03.2023	Director of quality control	report

**Table 3.** Criteria for qualifying stores as company stores (based on information from the company's Marketing Department)

<b>Criteria</b>	<b>Requirements</b>
Location	town of more than 50,000 residents
Location	store in a free-standing building or in a shopping centre, preferred entrance: on the main street
Area	80 - 100 m <sup>2</sup>
Ownership	company, franchise
Staff	company employees, self-employed persons

The second channel where opportunities for development and achieving sales growth have been spotted is the professional offerings, created primarily for beauty salons, but partly also directly for individual customers. Private beauty salons, or those under the company's umbrella, have so far sourced exclusively from the manufacturer and then further distributed professional cosmetics to their customers. Since the establishment of the company's Spa & Salon in Warsaw, surgeries also have the opportunity to purchase professional cosmetics at the salon. Ordinary customers can purchase professional products to use on their own in



beauty salons or at the Spa salon. Despite the company having only one salon so far, the percentage share of this channel in sales is 10%.

**Table 4.** Principles of company stores

<b>Operating principles</b>	<b>Listing</b>
Assortment offer	broad, all current product range
The decoration and visualization of the showroom, in accordance with the standards of ensuring the safety of product quality	standard, in accordance with the Marketing Department's approved procedures and projects
Promotional actions	at least one promotion for customers every week, long-term loyalty programs for individual and professional customers
Cosmetic advice	consultations for female customers twice a month
Staff	training once a quarter, mandatory training each time new product series are introduced
Evaluation of salon activities	carried out after the end of each quarter
Collection of marketing data	gaining valuable information on current and future cosmetics offerings

Thanks to these investments, product sales in this channel will increase threefold, bringing the share of the professional channel in total sales to 22%. The selection of a suitable location for the launch of spa salons must be preceded by detailed marketing research conducted by the Marketing Department, and then a business plan for this venture must be developed. This is followed by the approval of the company's Board of Directors. The launch of any Spa salon involves very large expenses, especially in the initial phase. Therefore, the launch of the establishment should be entrusted to companies that specialize in such projects. The schedule of activities for launching Spa & Salon salons is presented in Table 5.

In order to increase the degree of awareness of the brand and products by its potential counterparts, the company should develop various ways of communicating with its audience. Promotion is aimed at increasing distribution and, consequently, product sales. Both the launch of company stores and spa salons require appropriate, well-thought-out and, above all, proven and effective promotional campaigns. The generation of an appropriate climate conducive to the desire to purchase products will be achieved through advertising, sales promotion and public relations. All actions will be taken based on market research conducted by the Marketing Department.

Advertising in the media - due to its reach - is the most effective form of communication with customers, so pictures of cosmetics should periodically appear on the intranet and in the press (weekly and monthly women's magazines) with the largest sales in Poland, in the form of: news, contests, crosswords, etc., and in trade magazines.

Due to the very high cost of broadcasting nationwide television advertising, information about the launch of new company stores should be conveyed by radio. For this purpose, the radio stations with the greatest local coverage and taking into account the optimal financial conditions will be selected. Nevertheless, over the next few years, each launch of a new spa salon should be preceded by a series of advertisements on social media.

The website, successively supplemented with information on newly opened company stores and launched Spa salons, will continue to be an integral part of the online store.

The site will include key information such as addresses, contact phones and comprehensive information on the treatment program and additional services offered by specialists.



**Table 5.** Spa & Salon launch schedule.

Scope of activity	Completion date	Contractor
Marketing research	31.01.2023	Marketing Department
Approval of locations	10.02.2023	Company management
Refining the standards of equipment and organization of spa salons, in accordance with ensuring the safety of product quality	28.02.2023	Marketing Department/Sales Department
Selection and signing of a project contract with an external company	28.02.2023	Marketing Department/Company Management
Conclusion of lease agreements with owners of facilities for use as Spa salons	28.02.2023	Administration Department
Hiring and training professional staff	Successively 30 days before the launch of the Spa salon	Human Resources Department

In order to inform and encourage buyers to purchase the company's products, a catalogue has been developed containing basic information about each of the cosmetic series sold. The dimensions of the catalogue are 15cm × 15cm in 150,000 pieces. The catalogues should be available to every customer in the company's stores and spa salons. In addition to the catalogue, advertising leaflets for specific series and calendars will be printed. Information folders will be inserted into blue printed company folders with a gold advertising slogan, A4 size, with a circulation of 1 thousand pieces.

Cosmetics of all series sold in company stores and Spa salons will be appropriately packaged in advertising bags with advertising of the latest products, company stores, or Spa salons. Two types of bags are proposed: plastic bags of uniform size: 35 cm × 35 cm in an amount of 250,000, mainly for company stores, and eco-friendly paper bags in two sizes: 35 cm × 40 cm in 100 thousand pieces and 40 cm × 50 cm in 50 thousand pieces.

In order to disseminate a positive image of the company in the minds of partners and customers and to inform opinion formers about the company's activities and development directions, promotional meetings are necessary. Meetings should be held with wholesalers, journalists, owners of cosmetic stores, beauticians and be periodic.

In addition to the necessary meetings with industry representatives, press meetings with journalists from the most popular women's magazines will continue to be organized. Press meetings will be held at least twice a year, excluding special holiday meetings. During the meetings, the latest cosmetic series will be presented, and guests of honour will be well-known public figures who are friends of the brand. In addition, the brand's stature will continue to be highlighted by events celebrating the company's birthday and numerous special events.

The company's total budget for marketing activities was estimated at 15% of total sales.

## 4 Conclusion

The brand run by the company is well-known and respected not only domestically, but also internationally. Its philosophy is guided by the highest quality standards using the latest technologies, paying special attention to the safety of the final products. The storage of products, whether during transport, in the manufacturer's warehouse, at distributors, or

exposure in retail chains, depends on external factors, taking into account proper lighting, ventilation, or maintenance of proper temperature. In the era of the pandemic, disposable spatulas for testers for customers have become additional mandatory equipment.

The company, faced with such strong competition, should take steps to fully utilize the capabilities of current distribution channels, thereby increasing its market share.

The SWOT analysis carried out showed that the diversity of the company's strengths allows it to effectively take advantage of opportunities in the external environment.

The strength of the brand lies primarily in the following elements: strong and stable brand recognized by customers, stable financial position, good internal organization, appropriate system of procedures, own scientific and research facilities, constant cooperation with suppliers.

Taking into account the but no less important, the risks and weaknesses of the company, it has been decided to modernize two distribution channels, i.e. the distributor channel and the professional offer channel.

Company stores will have a significant impact on raising the brand's profile, which will bring long-term profits. The development of the distribution of professional offerings through Spa & Salon centres was designed with both individual customers and professional beauty salons in mind. However, one should be aware that bringing any project to fruition is fraught with risk, including the one presented in this work. Being aware of the potential risks, the company, in order to achieve the planned goal, must use the appropriate tools. Hence the importance attached to advertising, public relation and sales promotion activities.

In conclusion, the following hypotheses can be formulated:

- the change project will contribute to increasing the company's income,
- the change project will strengthen the company's position in the domestic market,
- the change project will expand the company's area of operation,
- the change project will increase the attractiveness of the product range,
- the change project will increase the attractiveness of the overall business.

Achieving the expected profits and gaining new customers will accelerate the company's decisions to develop other distribution channels, especially the export market. This will require new capital expenditures and separate analyses. However, it offers the prospect of a multi-year increase in the company's profitability and growth.

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