



Department  
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Managerial Decision Making

Ratio of direct and indirect distribution in the global FMCG  
sector by the example of beauty care products of Henkel,  
L'Oréal and Unilever in Russia and Brazil

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## INTRODUCTION

Nowadays the Global FMCG market is steadily growing and provides large profits for the companies operating in the sector. That is why it can be characterized as very saturated with a high level of competition between market players. In order to succeed under conditions of such a tough competition, these companies try to think through all their business processes and special attention is paid to the distribution strategies, that can be divided into direct and indirect. The type of strategy and in what proportion it is used by the global FMCG companies depends on many factors: the host country infrastructure, type of provided products, market peculiarities and conjuncture.

One of the main categories of the Global FMCG market is Beauty Care. The main countries for this category are Russia and Brazil, as customers there are very conscious about their appearance. The specific feature of these markets is the fact, that these countries have very large territories and, in this regard,, it is very important for the global FMCG beauty care companies to have very well deliberate and effective distributions strategy. It is very important to determine the right ratio of direct and indirect distribution, as in the case of failure it may result in higher shipping, storage, and delivery costs, uncovered areas and unsatisfied customer demand, that eventually lead to decreasing sales turnover.

The study analyzes of what proportion direct and indirect distribution strategies are used by the global FMCG beauty care companies in Russia and Brazil.

The object of the research - direct and indirect distribution of international companies

The subject of the research - direct and indirect distribution in the global FMCG sector.

The goal of the research – to identify the effective ratio of direct and indirect distribution in the global FMCG sector, on the example of the Global FMCG

beauty care companies of Henkel, L'Oréal and Unilever in Russia and Brazil and to give recommendations concerning the creation of effective distribution strategy.

On the way to achieving this goal the following tasks are put forward:

- Study theoretical aspects of direct and indirect distribution in the Global FMCG sector;
- Carry out thorough research of the Global FMCG Beauty care sector;
- Carry out detailed analysis of distribution strategies of Henkel, L'Oréal and Unilever companies in Russia and Brazil, and outline the main differences and similarities in these strategies;
- Define differences and similarities in approaches to developing distribution strategies of Global FMCG Beauty care companies, find the best proportion of direct and indirect distribution, provide recommendations for the companies.

The following hypotheses are put forward:

1. In global FMCG companies indirect distribution accounts for 10%, while direct distribution accounts for 90%;
2. It makes sense for Global FMCG Beauty care companies to develop indirect distribution, especially through distributors.

The work structure is the following: three chapters, each of which includes three subchapters, conclusion and references.

The main methods used are qualitative and quantitative analysis. In addition, the deep analysis of academic literature, outlooks of different inform agencies, case studies and articles are conducted.

# **THEORETICAL ASPECTS OF DIRECT AND INDIRECT DISTRIBUTION IN THE GLOBAL FMCG SECTOR**

## **1.1 Theoretical approaches to distribution of global companies**

Distribution plays a crucial role for business, especially for global companies which aim is to expand their businesses in new countries. It is crucial to outline a definition of global producers in order not to be confused due to the reason that global and international companies have almost similar meaning. Global companies unlike international ones perform all over the world, they are also represented in many countries and invest an enormous amount of money to distribute their products worldwide. That is why it is vital to choose distribution channels very carefully. (Durdan, 2018)

For gaining a better understanding of this process, it is important to consider the definition of distribution. It is a combination of establishing the entire sales process and geographical allocation of manufactures' products in the markets. Distribution is an integral part of the marketing mix concept, better known as 4P: Product, Price, Place and Promotion. This fact emphasizes the critical importance of this process for any global company which wants to benefit in building a successful marketing strategy. (Bucklin, 1966)

Distribution channel is very important for global manufactures, sometimes it is called a marketing channel. It is a chain of companies through which goods and services transfer in order to get a final consumer. First of all, a distribution channel helps to perform the following functions:

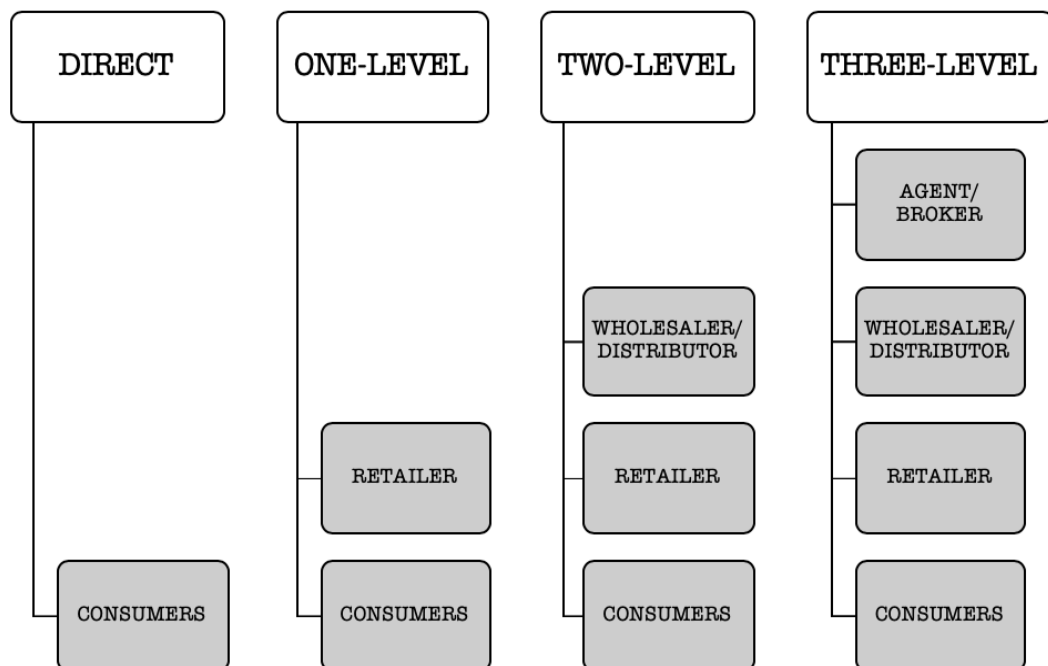
- Logistics and Physical Distribution: the main aim of a distribution channel can be regarded as a bridge that connects a manufacturer and a final customer.
- Facilitation: distribution of some companies involves a pre-sale and post-purchase support services.

- **Creating Efficiencies:** it implies that now manufactures can provide great amount of the goods to intermediaries which in their turn spread the products among points of sales. Customers benefit from it as now they have a wider assortment in one outlet.
- **Sharing Risks:** due to the fact that an indirect distribution channel implies that goods should be bought in advance, now manufactures and intermediaries share risks.
- **Marketing:** as it was told above a distribution channel is a bridge that helps manufactures reach a final customer. It also passes a brand's message and creates loyalty among consumers. (Pahwa, 2018)

There are several types of distribution channels, but the most commonly-used are direct, indirect and dual distribution. These distribution channels can differ depending on the number of stages between production of goods and reaching an end-consumer.

*Figure 1 Types of distribution channels*

## **DISTRIBUTION CHANNELS**



*Source: Compiled by the author based on Kenton, 2019*

As seen in Figure 1, direct distribution channel is the oldest form organized and controlled by manufacturing company. Producers sell their goods directly to customers through their own retail stores, post offices and companies' websites. It is more expensive than indirect channel of distribution, because a company has to invest a lot of money to warehouses, logistic system and opening own stores. While an indirect distribution channel can help to avoid these expenses, because they rely on intermediaries, such as wholesalers, retailers, brokers and distributors. However, a big disadvantage in indirect distribution is that a manufacturing company loses control over the business. This type of distribution is more appropriate for small countries and markets. Considering indirect distribution, it is divided into three types: (Kenton, 2019)

- The first is a one-level distribution channel when producers sell their goods to retailers and then they sell the products to final consumers.
- The second is when manufactures sell their goods through wholesalers and retailers to customers and it is called a two-level distribution channel.
- The last one is a three-level channel which includes an agent who helps to ease the process of selling products to customers for commission and fee. Agents provide warehouses and delivery services from manufactures to wholesalers. This type of an indirect distribution is appropriate for high-demand products and for huge territory.

There is no doubt that a direct distribution is the best option for global companies because it can help them to improve sales, increase revenue, cut distribution costs and finally, supervise the business, but the least risky way for entering into a new market for international companies is to use local distributors because domestic companies know perfectly their own markets and have a relevant experience. Besides, considering marketing many intermediaries use their own marketing strategies which can help to promote brands of manufacturing companies what is a huge advantage for producers. It is assumed that global companies with a direct distribution use less promotional tools like advertising, endorsement and others in comparison with producers who implement an indirect

distribution channel because manufacturing companies pay a lot of attention to a personal selling. Moreover, due to the fact that countries have different legislation requirements many companies have to use intermediaries. It is why nowadays there is a trend that global companies implement a dual distribution when producers combine direct and indirect distribution channels, because it can reduce their risks concerning entering new markets but at the same time keep as much control as possible over the business. (Arnold, 2000)

Researchers have identified a number of factors which global companies have to consider before choosing a distribution channel. The factors can be divided into 4 groups: market, product, competition and company characteristics.

- Considering market characteristics, a location place plays a crucial role when a manufacturing company decides which distribution channel to use. If consumers are settled in one area the company should distribute goods directly to customers in other case (if consumers are located in different regions) it is better to use an indirect distribution channel. No less important thing is a size of average order, because if the number of orders increases it is more profitable for a company to use a direct distribution channel. Additionally, if a global company prefers to sell their products to businesses in other words B2B approach it is more suitable to implement a direct distribution.
- Regarding product characteristics the crucial factor is the shelf life of goods. If a company produces perishable goods like fruits, dairy products and others there is no doubt that the company has to use direct or one-level distribution channel. Secondly, a stage of product lifecycle, if a manufacturer has a product which is on an introduction stage, the most appropriate distribution is a direct channel. Thirdly, product features, the more complex the product technically the more likely is that a company chooses a direct distribution. Fourthly, it is a purchase frequency, the products which are sold regularly demand require less selling effort it is why companies prefer use an indirect distribution channel.



- Analyzing competition characteristics many global companies prefer to follow the performance of competitors it is more appropriate for producers to conduct a market research in order to understand which distribution channels are more beneficial.
- Considering company characteristics, the main factor is a size of the producer, the larger the company the easier it will be to create a direct distribution. However, it does not mean that all global companies have to use a direct distribution channel. The last one is a range of products; it is suitable for global companies with a broad product line to implement a direct distribution channel while companies with a bounded range of products have to sell their products through intermediaries. (Lilien, Kotler & Moorthy, 1992)

When a global company decides to implement indirect distribution channel the producer should choose an approach to distribution. There are three types of distribution strategy:

- Intensive distribution when a manufacturing company produces goods for mass market. The company distributes products to a huge number of points of sales.
- Selective distribution when a producer deals with a limited number of intermediaries due to several reasons, for example, because the company positions its brands as luxury.
- Exclusive distribution when a manufacturer decides to cooperate with one or small number of distributors where the intermediaries have exclusive right with the producer and support to raise the brand value of goods and the manufacturer, in its turn, gets more control over the distribution system. Also, the exclusive rights with the intermediaries can be on certain territory. (Frazier & Lassar, 1996)

Considering industries, the intensive distribution strategy is the most suitable for the FMCG sector, while the selective distribution is more appropriate for the pharmaceutical and professional beauty industries. As for the exclusive

distribution, it is obviously the most appropriate strategy for global companies that produce luxury jewelry, clothing & apparel, automobiles and others.

Nowadays information technology is developing more and more, consumers want to spend less time on shopping due to these facts there is a possibility to buy products online. It is still a unique opportunity for global manufacturing companies to use e-Commerce as a distribution channel. It cannot be considered as a direct or indirect distribution, it can be both. Global companies can create their own online platforms or they can deal with intermediaries' online distribution channels and sell the products through marketplaces. Due to fast-growing e-Commerce there is a conflict between distribution channels, the consequence of which may generate negative results, such as a reduction in profit, a loss of market share, a decrease in customer satisfaction and others. However, if manufacturers develop an appropriate strategy regarding distribution channels in order to avoid conflicts the online channel can bring positive results. (Dua, Cuib & Suc, 2018)

Global companies have opportunity to choose between three categories of distribution channel. The first one is an offline channel when manufacturers sell their products only through traditional outlets. The second one is an online distribution channel when producers trade their goods through e-Commerce. The last one is a mix of offline and online distribution channels when manufacturing companies can implement both. Offline distribution channel is more suitable for companies with a high level of shipping costs. It is obvious since, as a rule, a consumer buys a small number of units through the online channel and if the delivery is expensive for the company it will not be profitable to use e-Commerce. Considering producers with a medium level of shipping costs it is better to use both offline and online distribution channels while implementing only the online distribution channel it is more appropriate for manufacturers with cheap delivery. Global companies from such industries as technology, office supply, FMCG and fashion prefer to implement both offline and online distribution channels. (Cao, Wang, Dou & Zhang, 2018)

How it was mentioned above it is very important for global companies to implement an appropriate distribution strategy. Many factors should be considered before the producer makes a decision about what distribution channel to choose, direct or indirect, and whether the manufacturing company wants to sell its products through online or only offline distribution channel. E-Commerce is a very developing direction that does not require a huge amount of investment. However, it does not mean that it is suitable for all global producers, and even if it is appropriate for a particular company, it needs to consider the listed above factors before implementing e-Commerce to avoid a conflict between online and offline distribution channels.

Having considered different distribution strategies, it can be concluded that several types of distribution channel are suitable for each industry, and FMCG is no exception. However, this sector is characterized by a specific distribution organization, which will be discussed in the next part.

## **1.2 Specifics of direct and indirect distribution in the global FMCG sector**

Fast-Moving Consumer Goods, best known as FMCG, are the products of high demand, as they include such categories of goods as food, tobacco, alcohol, personal care products, household chemicals and others. Moreover, FMCG companies can sell their products quickly at quite low price. The volume of turnover is so high in this sector it is why global FMCG companies have some specifics in their distribution system. In order to get a better understanding it is necessary to compare a distribution in this industry with others.

The business environment in the global FMCG industry is constantly changing, as consumers are faced with a large number of brands and products, so many global companies have to change their strategies. This also applies to distribution, which forces companies to change their distribution channels and create new ones. There are some features of FMCG which influence on the distribution system of global companies. First of all, the product life cycle is too small and it forces a customer to buy products daily what characterizes the FMCG distribution as having high turnover of goods. A great volume of sales and high speed of goods' turnover provide the FMCG companies with growth in profitability. Also, purchases sometimes are made spontaneously and many consumers do not even think about the purchased products, they just put them in the basket. Since consumer behavior is often unpredictable, a suitable distribution of products and its promotion are very important things. Many FMCG companies are struggling for the best space on shelves and also the producers' employees, such as merchandisers and sales representatives, tend to have their products in areas that draw special attention of customers, for example, an area in front of the cash registers, places in the end of shelves and others. (Thain & Bradley, 2014)

Global FMCG companies' distribution channels are divided into direct, indirect and dual types as well. However, a specific feature of direct and indirect distribution channels in the global FMCG sector is that the manufacturers sell goods to retailers that deliver the products to points of sales and this type of

distribution channel in the FMCG industry is considered to be direct, while in other industries it is considered as indirect. This way of distribution is very popular for FMCG companies, because producers share risks with their intermediaries, but at the same time have control over the business.

Furthermore, a distribution channel system in the global FMCG sector is divided into three groups, such as vertical, horizontal and multi-channel. The first group implies that intermediaries create a joint system where the companies share duties in order to avoid disputes. The second one includes such companies that cooperate with each other in order to increase resources to perform effectively. The third division when companies sell their products through different distribution channels because their goods are targeted at various market sectors.

*Figure 2 Intermediary Profiles*

Retailers	Wholesalers	Distributors	Agents
<ul style="list-style-type: none"> <li>• A broad territorial coverage</li> <li>• Sell in a small quantities</li> <li>• Provide a wide product range</li> </ul>	<ul style="list-style-type: none"> <li>• Storage of goods</li> <li>• Buying products from manufacturers or distributors in a bulk</li> </ul>	<ul style="list-style-type: none"> <li>• Mainly dealing with final customers</li> <li>• Providing pre- and post-support</li> </ul>	<ul style="list-style-type: none"> <li>• Help to sell products</li> <li>• Conduct customer relationship management</li> </ul>

*Source: Compiled by the author based on Barin, 2009*

There are different types of intermediaries that are presented in the Figure 2 which help global producers to provide their goods to final consumer.

- The most commonly-used type is retailers they exactly sell products to consumers. A huge advantage of this type of intermediary is that products can be sold broadly, a lot of customers from different categories and geographical areas can be achieved, but a huge disadvantage is that producers have to share profit with such intermediaries, sometimes this reaches 50% of final price. Retailers are divided into several groups in according with a category of product which they sell, size of retailers and location.
- The second type of intermediaries is wholesalers who get products from manufactures and then sell them to retailers. They do not deal with a wide range of products preferring to work only with a small assortment.
- The third type is distributors and dealers they are pretty same as wholesalers but sometimes they prefer to avoid retailers and sell the goods to final consumers, in addition, they provide pre- and after-sales support service.
- The fourth type of intermediaries is agents who help to sell the goods of global FMCG companies, an important point is that they do not buy products from manufactures, they support with selling goods for commission. (Barin, 2009)

At the same time many industries, such as fast food, fitness, personal electronic, automotive and others prefer to deal with fifth type of intermediaries which is called franchisees that buy the license from manufactures in order to sell their products to final consumers and perform under the producers' trademark. It is a great advantage for franchisees because they do not need to invest money on building image of the company, increasing brand awareness and promoting products. Also, franchisers provide opportunity to train franchisees' employees. However, it is very expensive to buy a franchising license and franchisees have to pay a percentage of revenues to producers that equals approximately 6%. There is no doubt that this type of intermediary is the most suitable for service distribution, in addition for more efficient distribution global service companies organize a cooperative in order to promote their services more successfully, for instance, there

is an alliance between hotels, restaurants, airlines and car rental services where they help to promote each other's services. (Carty-Mole, 2018)

Several barriers influence on choosing of distribution channel of global FMCG companies. The most common-known are high level of investments for obtaining a place for storage the goods, hiring employees with appropriate expertise and establishing shipping facilities. Also, sometimes FMCG producers can encounter difficulties with government regulations regarding import of alcohol, tobacco products, drugs and others, as it is a highly controlled area by national governments due to the fact that these goods may have negative consequences for health of their citizens and very often FMCG companies have to take a deep understanding of each countries' specific rules and laws. While global companies from such industries as automotive, clothing, furniture and others do not need care a lot about government regulations regarding features of their products. Moreover, many markets are saturated with domestic producers what is also an important barrier for global FMCG companies, while in such industries as mining and agriculture, the market saturation cannot be regarded as a big problem because very often global companies have a better technological equipment than local market players. (Singer, 1950)

Furthermore, global FMCG companies understand which points of sales are the most suitable for their products. It is why there are 3 categories which are based on retailers' specifications, such as a category of outlet, an assortment of products, a price policy and goals and strategies.

- Firstly, it is a grocery categorization, where customers come to buy a list of products for their families and for a long period of time. Such places provide diversified products and many brands. This division includes different points of sales, like hypermarkets, general stores, supermarkets and discounters.
- The second one is a convenience categorization, where points of sales are conveniently located and their working hours are longer than other outlets. However, a range of product is not so diverse. This division consists of following points of sales: kiosks, c-stores, street vendors and gas stations. –

- The last categorization is HoReCa, which stands for Hotel, Restaurants and Catering or Cafe. It based on consumers behavior and includes places where customers buy drinks and food spontaneously and are characterized by impulsive decision-makers. This category contains of bars, entertainment places, disco clubs and restaurants in this category. Considering type of products global companies which produce beer are more oriented on HoReCa category while companies manufacture products for personal hygiene and home care prefer to use grocery category (Barin, 2009)

A traditional type of distribution for global FMCG companies is a two-level distribution channel which includes a producer, a wholesaler and a retailer, because the producers do not need to invest money on buying warehouses, opening stores, hiring employees when they expand their business and enter new markets. Moreover, companies can sell different types of products to retailers because they provide customers with a wide range of goods in their points of sales. However, nowadays many global FMCG companies are switching from two-level distribution into one-level in order to avoid wholesalers going in new directions, such as B2B and cash-and-carry (a huge store where consumers have opportunity to buy a great number of products immediately and at lower price). Many researchers think that traditional type of distribution channel through wholesalers will be replaced by direct distribution in the FMCG sector soon due to the facts that retailers are growing with each passing day more and more, it is a reason why the volume of sales rise accordingly, therefore, producers will not need wholesalers and will have opportunity to control better their business, of course, the costs will increase due to refusal of wholesalers , but in a long-term prospect the companies will establish a new distribution system and will receive from this only the benefits. At the same it is very problematic to refuse wholesalers for companies which operate in several global industries, like automotive, pharmaceutical, furniture and others. However, nowadays global companies from these industries are also trying to increase a percentage of B2B sales instead of selling through wholesalers. (Chatterjee, 2018)



Also, researchers consider that if producers are fitted several characteristics it is better for the manufactures to switch from indirect to direct distribution. The characteristics are as following: a range of products is broad and intended for many categories, sales of new products provide manufactures with more than 20% of total turnover, a distribution strategy was created more than two years ago and producers who deal with a great number of small intermediaries. (Roy, Gupta & Saharia, 2013)

One cannot but mention, due to the fact that nowadays the business environment is changing many global FMCG companies prefer to use a new model of distribution channel, which is called e-tailing (a performance of selling goods to final consumers through internet). There are some benefits of implementing this channel, such as decreasing costs on intermediaries, getting orders round the clock and possibility of increasing an amount of stock. It is only developing but producers should pay a lot of attention to this distribution channel because, as statistics show, more and more people around the world are turning to online shopping. Moreover, considering key plyers on the FMCG market, such as Nestle, Johnson & Johnson, Procter & Gamble, Pepsi, Unilever, AB InBev, Coca Cola, JBS, Phillip Morris, L'Oréal and others, they all use this distribution channel, it confirms the above-stated opinion. (Chandra & Sunitha, 2016)

Experts believe that great marketing and distribution strategic changes are coming. A range of products will constantly grow and a number of brands will also increase. Practice shows that FMCG distribution slows down the growth of the industry gradually. As a result, the level of competition is constantly increasing. Such measures as using the right and strategically suitable marketing tools for sales of fast-moving consumer goods, enhancing the company with innovative technologies for the control and automation of distribution, will help to maintain and improve a market position of producers in the global FMCG sector. In addition, there is a tendency that almost every FMCG company uses a mix of distribution channels in order to get advantages from each type. Having analyzed features of distribution in the global FMCG industry, it is crucial to identify how

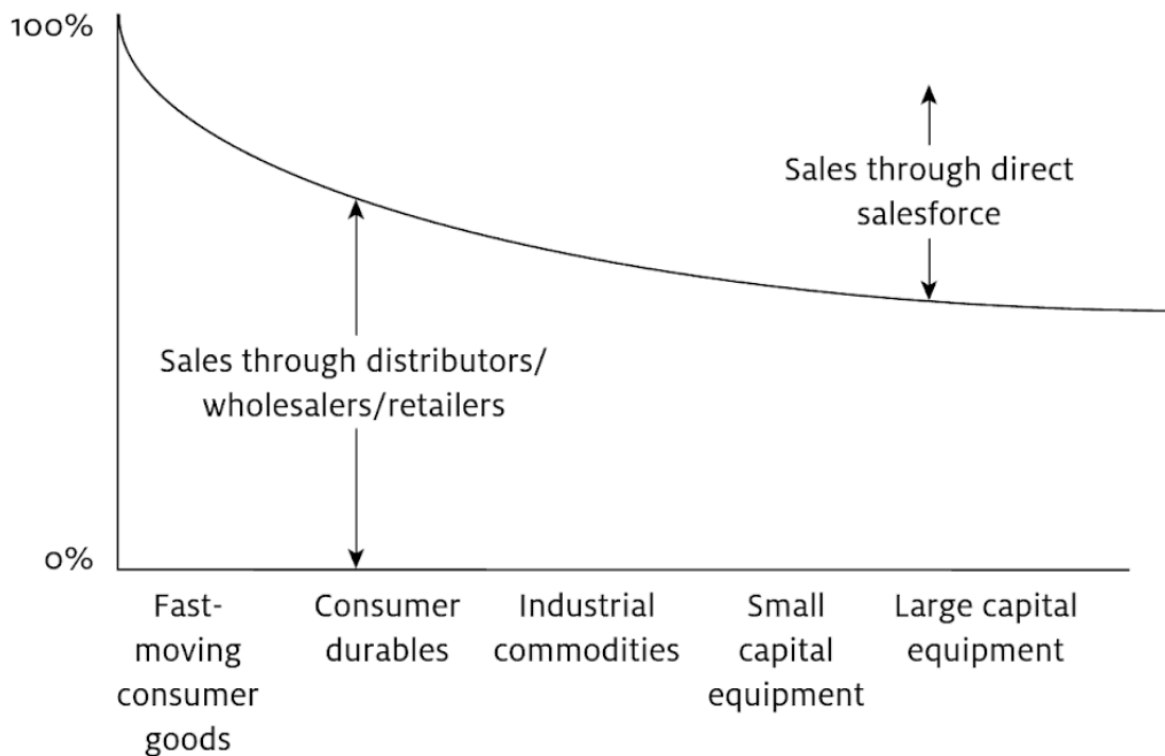
these specifics effect the ratio of direct and indirect distribution channels in the global FMCG sector.

### **1.3 Direct and indirect distribution proportion in the global FMCG sector**

Ratio, also known as a proportion, is an indicator which shows a dependence between one variable and another. Considering distribution, there are two types of distribution channels, direct and indirect, it is important to consider a relationship between them, that is why it is crucial to understand which companies prefer to use different proportion of direct and indirect distribution on various markets. Moreover, how it was mentioned above, the global FMCG sector has some specifics regarding distribution, this also applies to the ratio.

Firstly, it is essential to consider the impact of globalization on distribution of FMCG companies. Due to expansion of market penetration producers try to find new approaches to distribution. On the one hand, it is a great opportunity for manufacturing companies because they can increase their market share, boost their sales, improve the image of companies, attract new consumers and others. However, on the other hand, it is necessary for global FMCG companies to have an automatic communication system, ability to deal with different demands of consumers without rising of costs, simple and understandable distribution strategy and competitive advantage where it seems that the distribution system is pretty easy but in general it provides a great number of opportunities for consumers in comparison with competitors. Moreover, FMCG companies which sell their products globally understand that all markets are different and if they perform on one market with a successful distribution strategy it does not mean that it is suitable for all markets. For example, in Europe it is more appropriate for global FMCG companies to deal with a smaller number of intermediaries than in East Asia. It is why an appropriate ratio of direct and indirect distribution is very crucial for global companies, especially for the FMCG sector. So, it is necessary to consider a lot of factors in order to create the most suitable proportion of direct and indirect distribution and to get a maximum number of benefits from each distribution channel. (Haddad, 2017)

*Figure 3 The influence of product characteristics on distribution channels*



*Source: Westwood, 2011*

A number of researches were devoted to the investigation of ratio of direct and indirect distribution channel in different industries, including the global FMCG sector. There are a lot of attitudes toward this issue, but most researchers agree with the results that are presented in the Figure 3. The vertical line demonstrates a percentage of direct and indirect distribution used by different manufactures, while the horizontal line represents the types of companies. The variables show that companies which produce fast-moving consumer goods mainly implement indirect distribution channels, referring to distributors, wholesalers or retailers for delivering their products to a final customer. In numerical terms, it equals to approximately 80 – 100% through indirect distribution, comparing with about 0 – 20% through direct distribution channel. This stands out significantly among other companies producing the following goods: consumer durables, industrial commodities, small capital equipment and large capital equipment. As it can be observed, these manufactures use almost in equal proportions both types, except

consumer durables producers where the ratio of direct to indirect channels is approximately 30% to 70%. This mainly connected with the fact that these companies have to provide a lot of after-sale services and as a result they have developed a direct distribution channel. So, it can be concluded that product features have a significant impact on the ratio of distribution channels. As for the global FMCG market, this sector includes a great variety of products that also have effect on the choice of direct and indirect distribution channels proportion depending on the category of goods produced. (Westwood, 2011)

There is no doubt that not all global FMCG companies use above-mentioned proportion of direct and indirect distribution because many different factors can influence on the choice of distribution strategy. Manufacturers face a lot of issues regarding fast-changing business environment which also impact on their distribution system and the right way for producers is to react immediately and adapt and modernize their distribution strategy. There are several factors particularly relevant nowadays which have a great effect on companies' choice of distribution channels, as following: (Haddad, 2017)

- Growing demand. Demand on fast-moving consumer goods is increasing due to the fact that the middle class is growing day by day especially from developing countries.
- Technology related issues. Due to the fact that information technology devices are developing every day, consumers change their behavior regarding way of purchase. So, it is also a problem for intermediaries which leads to the lack of data regarding distribution. Many global FMCG companies implement innovative approach to their performance and sales department is no exception. However, their intermediaries can be less developed and it leads to several problems. For instance, data is incorrect, predictions are wrong, information regarding consumer demand is coming with delay and, consequently, sales department faces with difficulties in making a report, planning, forecasting and, finally, it influences on marketing department because marketing director implements an unsuitable

strategy due to the lack of right information. So, the company incurs great losses.

- Channel conflict. There is no doubt that many global FMCG companies prefer to use direct distribution channel but due to several factors which were mentioned in the first part of this paper it is very problematic and sometimes unprofitable to use only this channel. Moreover, it is easier for global companies to enter a market through intermediaries. However, when producers want to expand their distribution, they start to use direct distribution channel that can lead to channel conflicts. Intermediaries are afraid of losing their market share and try to prevent this situation. Sometimes they stop dealing with the producers and start to cooperate with their competitors that is a great negative impact on the manufactures because it is very difficult and time-consuming to build a new relationship.
- Balance between product proliferation and costs. Many founders of global companies say that final consumers pay almost a half percentage of product price for distribution of this good. (Dent, 2008) If global FMCG companies expand their business and distribution system geographically, it leads to growing of their costs and hence the product price. It is vitally important to maintain the balance between companies' expansion and costs through choosing the right distribution strategy.
- Infrastructure issues. Many FCMG categories, for instance, food or several beauty care products are supposed to be stored in specific conditions. It is why global FMCG companies have to pay a lot of attention to infrastructure of some areas in order to be sure that their goods will be provided to customers in proper state.
- Forecasting. All global FMCG companies make a forecast in order to calculate how many items they need to produce. If manufactures implement indirect distribution channels it is more complicated to predict an appropriate number of items to be produced. It is why many global companies have their own planning and forecasting department. Moreover,

there is a tendency that the farther are distribution centers from manufactures the worse are forecasts of the company.

Despite of difficulties regarding distribution system there are many examples where different global companies like Avon, Dell, Volvo GM Heavy Truck Corporation and others pay a lot of attention to their distribution strategy and gain a great market share, decrease their costs and boost their profitability. (Haddad, 2017)

In the global FMCG sector a channel conflict is a crucial factor in distribution strategy, it is why companies pay a lot of attention to avoid this conflict. It is very important for manufacturers to determine problems in their distribution strategy and analyze their performance and market position before trying to solve the issue. Usually, the channel conflict can be resolved by structural control and economic incentive. Structural control is rules which were settled by producers in order to avoid conflicts between direct and indirect distribution channels. Economic incentive is a method when producers try to motivate channel members with several benefits to prevent a channel conflict which are as following:

- Task base compensation. This way is more suitable for channels with different opportunities and cost structure. It consists of providing channel members with different discounts regarding the complexity and importance of their tasks what is, consequently, gain a profit for producers. It helps to build a hierarchy consisted of low-cost and high-cost channel participants.
- Double compensation. It is assumed that when there are conflicts between direct and indirect distribution channels producers can use a method called double compensation, which implies to ensure double compensation. So, it helps to switch indirect channel participants from consultant to a partner of sales team that is a member of direct distribution channel.
- Market share compensation. The larger the market coverage by direct channel participants the larger market compensation they can get. That is a reason why direct channel participants try to cooperate with indirect channel

participants as it helps them to increase their market coverage and consequently increase a revenue.

Considering a structural control, it very important for global FMCG companies cooperate with all channel members in order to be able to resolve a problem quickly and efficiently if it appears. Usually a structural control regulates such factors as territory and commodity category, because these things are vital important for distribution channels proportion of global FMCG companies. Considering a territory, despite of the above-stated factors which influence on choosing of distribution channels, an economic prosperity of geographical area is also important factor that impacts on determination of distribution channel ratio. For example, global FMCG companies in developed regions deal with a small number of big and well-organized intermediaries while producers in developing regions prefer to use more intermediaries but small and less organized. That is why it is important for global companies to explore different geographical areas and outline precise territory where channel participants will be performed and producers will support them. Furthermore, FMCG companies structure their commodity categories in order to select the most suitable ratio of direct and indirect distribution channels. (Haddad, 2017)

Finally, global FMCG companies use several ratios in order to create an appropriate direct and indirect distribution proportion to satisfy consumer needs using minimum expenses. So, the indicators are as following: multiple and contribution margins, return on working capital and others.

Nowadays everything changes and researchers think that traditional mix of channels is not suitable today. It is why global FMCG companies are trying to update their distribution strategy in order to meet market changes and not to lose their market place and revenue. How it was mentioned above it is vital important for global companies to analyze a market which they are going to penetrate, their products, performance and competitors in order to create the most suitable distribution for their business. There 3 types of distribution channels: direct, indirect and mix. The most common in the global FMCG sector is a mix of



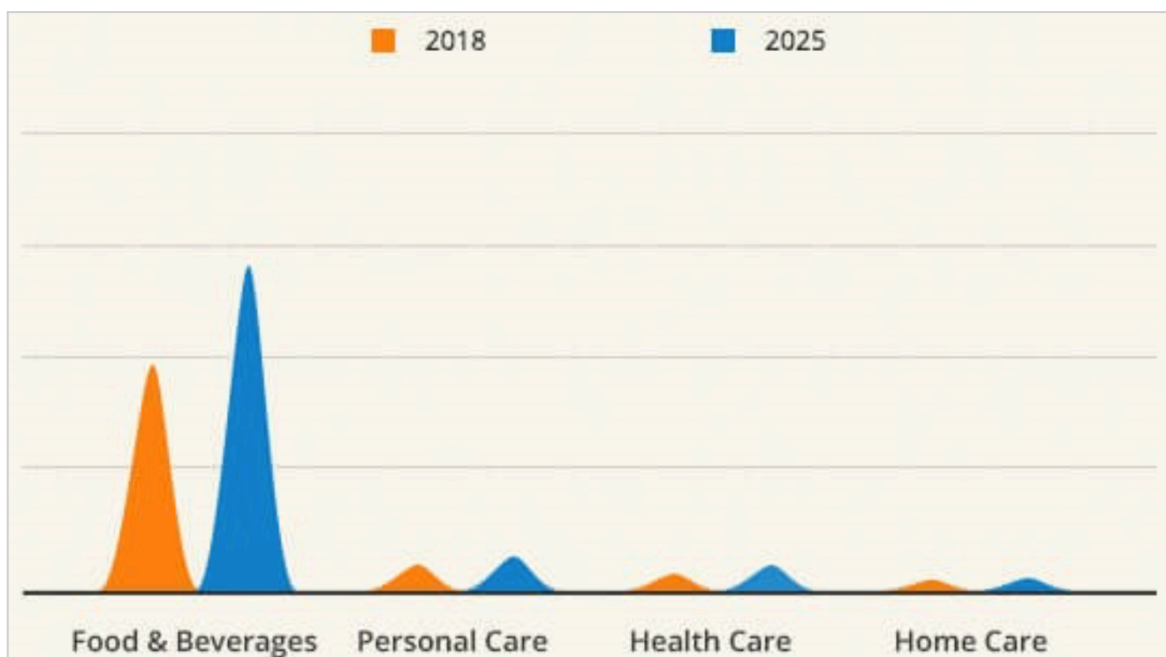
channels, that is why it is essential for global producers to consider all above-mentioned factors which influence on distribution system in order to select an appropriate proportion of direct and indirect distribution channels. Moreover, due to the fact that a business environment is changing, e-commerce is developing every day and it is a good opportunity for global FMCG companies to implement it as a distribution channel. However, if a distribution strategy is unsuitable for producers it causes a channel conflict which leads to negative consequences as decrease in sales, growth of costs, worsen on communication between manufacturers and intermediaries and others. It is why researchers think that the ideal ratio of direct and indirect distribution channels for global FMCG companies equals to approximately 80 – 100% through indirect distribution, comparing with about 0 – 20% through direct distribution channel. Nevertheless, it is not suitable for all companies, because there are many categories in the FMCG sector and it is better to implement different distribution approaches. Moreover, instead of product categories, a territorial feature is also an important point to which global FMCG companies should pay a lot of attention.

# CASE STUDIES OF DIRECT AND INDIRECT DISTRIBUTION RATIO ON THE FMCG BEAUTY CARE MARKET

## 2.1 Global FMCG beauty care market

Nowadays global FMCG sector is actively growing and it is expected to reach 15,362 billion dollars by 2025. Researchers attribute this to two factors that are: increase in global domestic product (GDP) in different countries; in general, in the world there is an increase in the level of consumption associated with the provision of a wide range of goods (mainly in Europe and Asia). However, this positive picture cannot be observed on every market, first of all, due to the reason that there is a trend of decreasing in the level of consumer confidence that is mainly connected with costumers' fears of negative effects of increasing inflation rate in such countries, as Kazakhstan, Turkey, the Ukraine, Brazil, Argentina and others. (Nielsen, 2018)

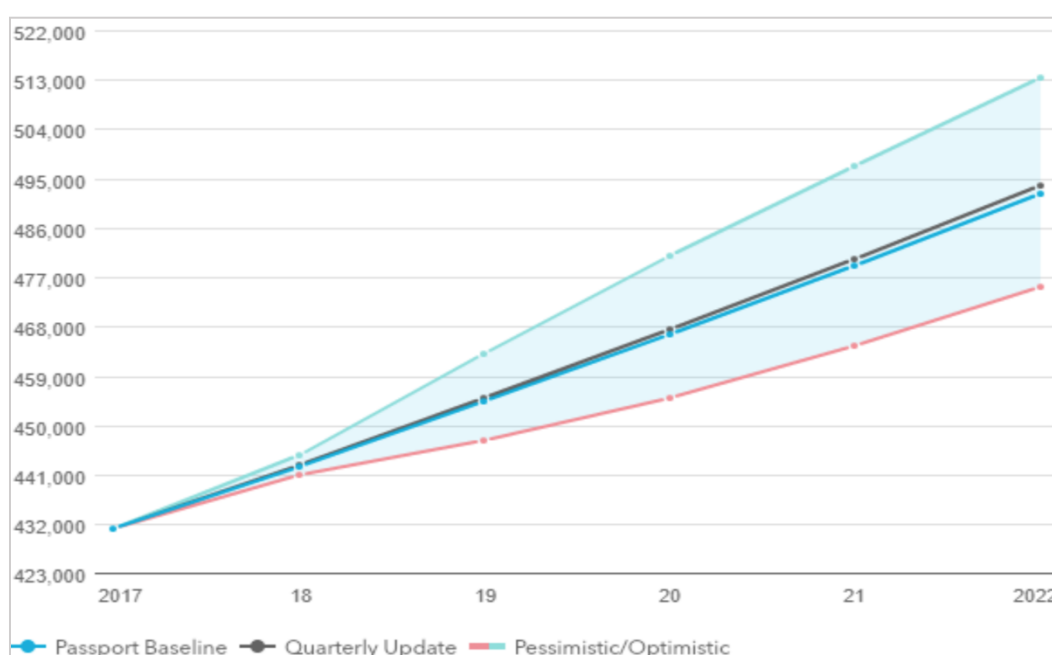
*Figure 4 Global FMCG Market (By Category)*



*Source: Sable, 2019*

Global FMCG sector include different divisions based on product category, geographical area and distribution channel. The first one consists of such categories, as Food and Beverages, Personal Care, Health Care and Home Care. How it is presented in the Figure 4, Food and Beverages category occupies a leading position in term of market size while Personal Care is on the second place. Also, it is important to mention that it is expected a growth of market size in each category.

*Figure 5 Global Beauty Care Market, Retail Value Sales, US mln.*

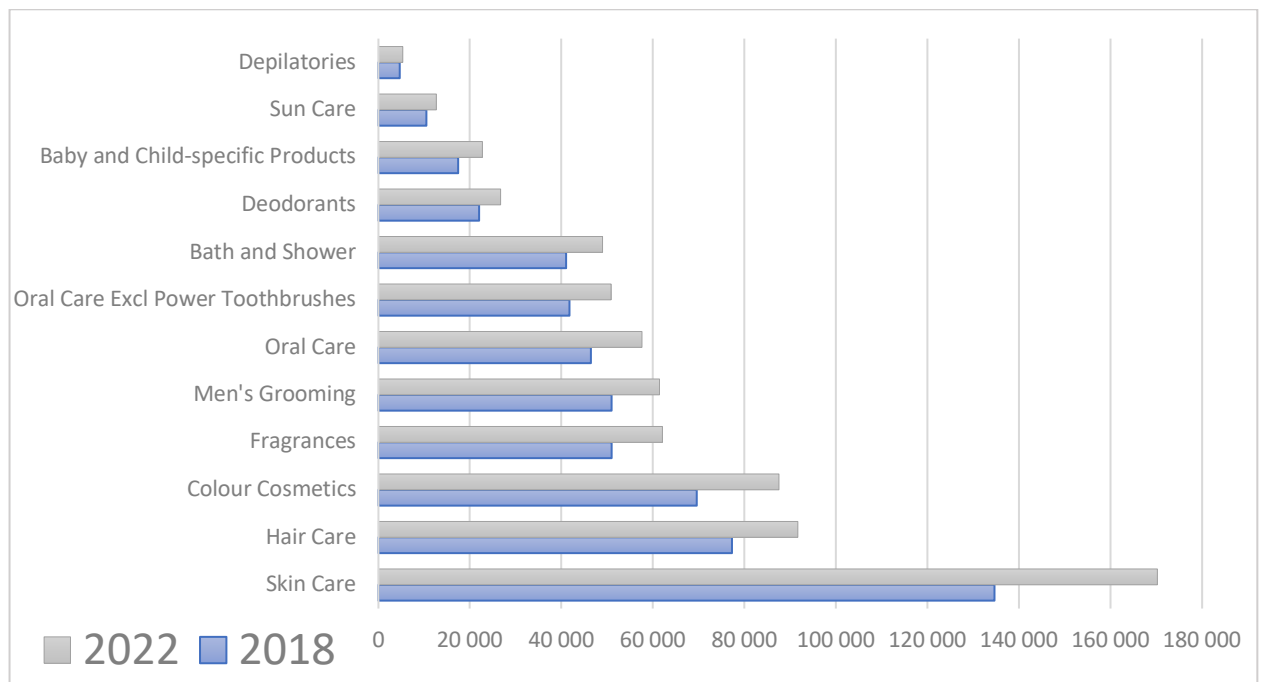


*Source: Euromonitor International, 2019*

Considering global Beauty Care market, it is shown in the Figure 5 that this sector is increasing every year and will reach 492 billion dollars in 2022 comparing with 443 billion dollars in 2018 according to Euromonitor International forecasting. Moreover, based on pessimistic and optimistic predictions, a global Beauty Care market will also grow and will reach 475 billion dollars and 513 billion dollars respectively. As it can be observed, there is a striking gap between pessimistic and optimistic expectations comparing 2022 and 2018 years. This fact is connected with unstable situation in the world and as a result on the global Beauty Care market: Global Crisis, strained relations between the USA and China,

problems associated with the Great Britain exit from the European Union and others. The global Beauty Care market is divided into two groups: premium and mass. It is expected that the first one is going to decrease while the global Mass Beauty Care market will increase by 2.5% in 2022 in comparison with 2014. Also, it is important to mention that there are different categories of personal care products some of which are more demanded than others.

*Figure 6 Global Beauty Care Categories, Retail Value Sales, US mln.*

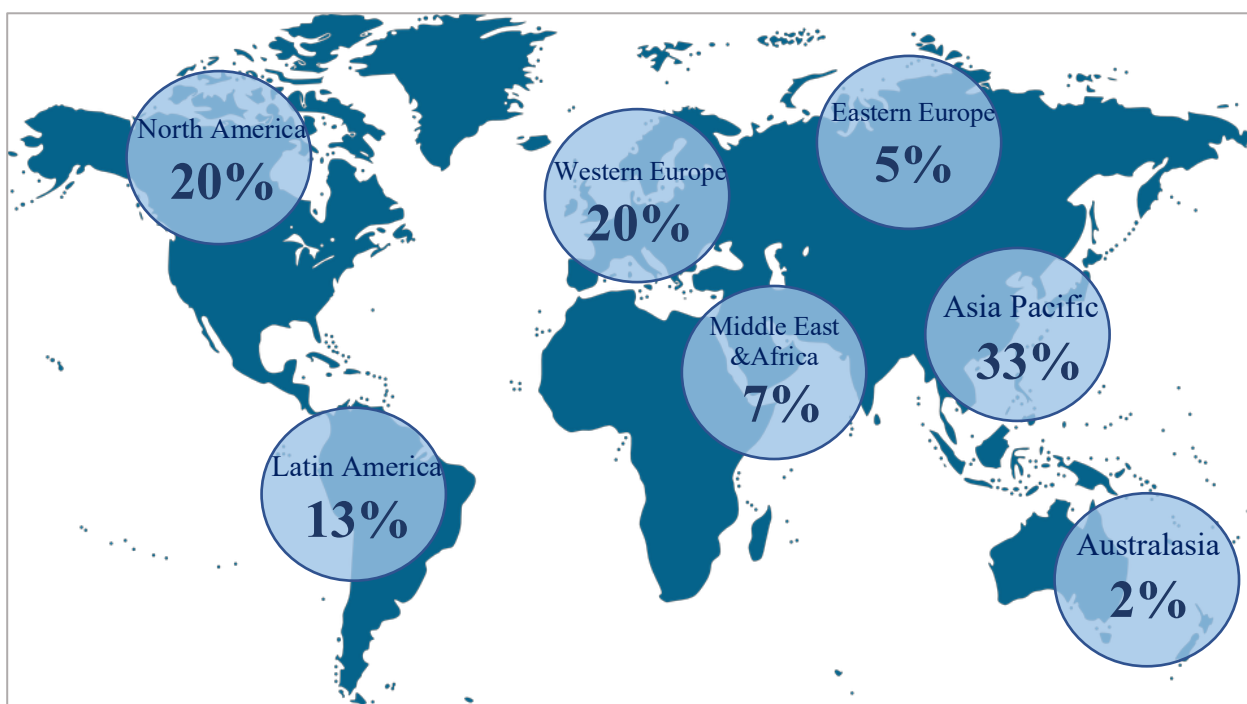


*Source: Compiled by the author based on Euromonitor International, 2019*

As it can be seen on the Figure 6, sales volume of skin care products leads with a large margin overtaking sales of colour cosmetics and hair care products almost twice. It is expected that skin care category will continue to grow and account for higher sales volume. These striking results are mainly connected with a fact, that more and more people are becoming conscious about their appearance that lead to the purchase of more skin cosmetics. Such categories, as hair care and colour cosmetics have almost the same level of sales, 77 billion dollars and 70 billion dollars in 2018 respectively. Considering the less sellable categories, there are baby and child-specific (17 billion dollars), sun care (10,5 billion dollars) and

depilatories (4,7 billion dollars) goods in 2018. As for the last type of product, it is not expected any significant growth in the sales volume that may be connected with very low demand on this product. In general, these positive results of sales volume are a consequence of development of a wider distribution system, that makes it easier for final consumer to have an access to the products of the FMCG beauty care sector.

*Figure 7 Global Beauty Care Market by regions, 2018*

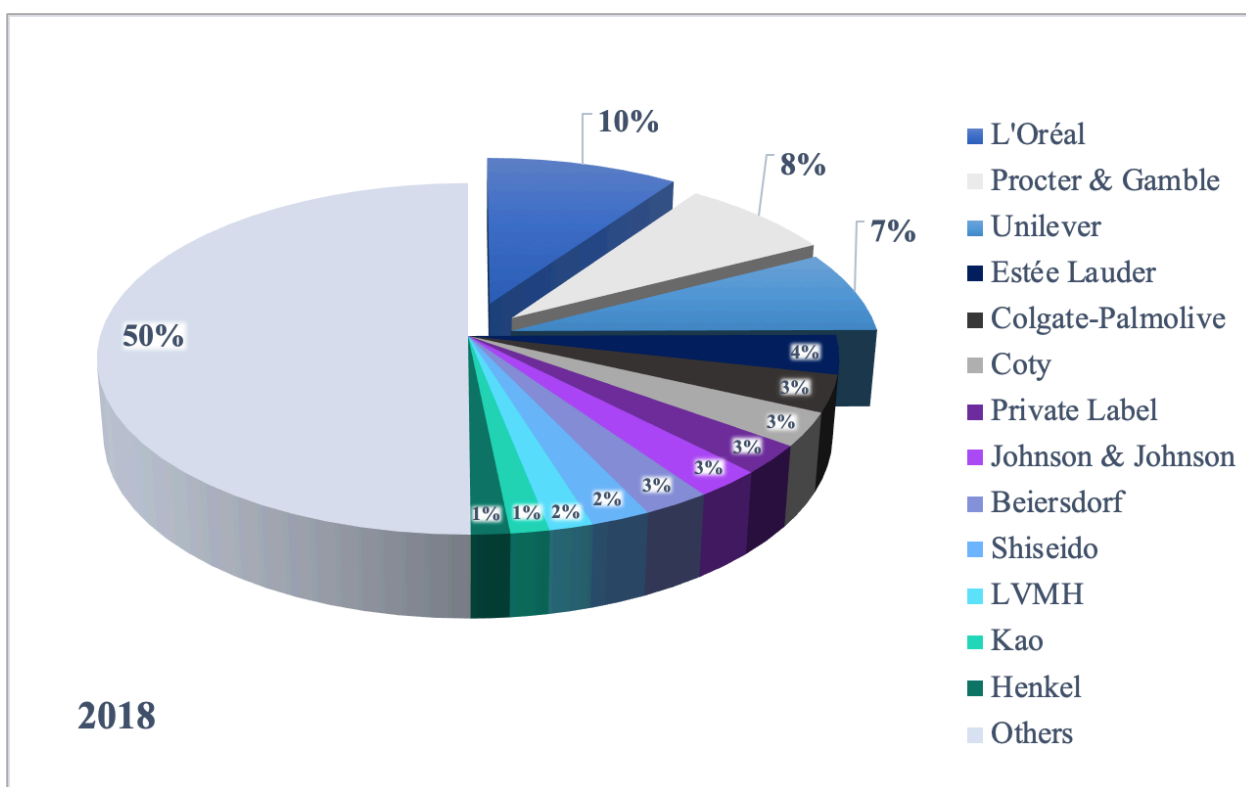


*Source: Compiled by the author based on Euromonitor International, 2019*

As it is presented in the Figure 7, the largest sales volume of beauty care products belongs to Asia Pacific (where the main consumption come from such countries, as China, Japan, and Asia), while the second place is shared by such regions, as North America (where the USA accounts for 92% of retail sales) and Western Europe (where the main retail sales sources are Germany, the United Kingdom and France). As for Latin America, in this region Brazil accounts for 48% of retail sales, about 30 billion dollars in 2018. Concerning such region as Eastern Europe, there Russia brings about 40% of retail sales volume, that is equal to 10 billion dollars in 2018. Brazil and Russia are two largest countries in the

world and are very attractive for the FMCG Beauty Care companies, due to the fact that women in these countries pay much attention to their appearance. Comparing them, it can be seen that the first country grows with a greater speed than the last one.

*Figure 8 Global Beauty Care Market by companies*



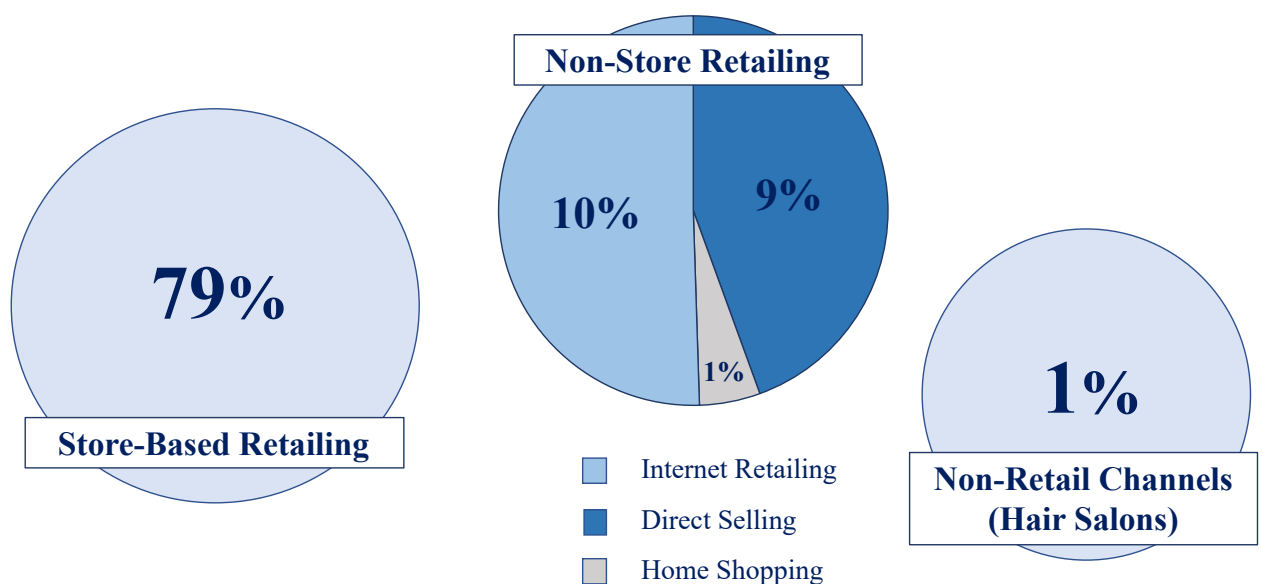
*Source: Compiled by the author based on Euromonitor International, 2019*

Concerning share of each company in the FMCG Beauty Care Sector, it can be seen that three companies are unconditional market leaders: L'Oréal (accounting for 10%), Procter & Gamble (with 8%) and Unilever (with 7%), which of them takes the first plays varies from country to country. These companies have leading positions because they pay a lot of attention to new market trends, marketing and realize the importance of effective distribution channels. Other leaders that have smaller, but still significant market are Estee Lauder, Colgate-Palmolive, Johnson & Johnson and Henkel. The Figure 8 demonstrates, that the FMCG Beauty Care market is very saturated, as large market players in general

account for only 50% of the market, that means that the market is not monopolized and large companies have always been on guard and keep an eye on the market, maintaining their competitiveness and launching new innovations.

Due to the fact, that FMCG Beauty Care products are demanded all over the world, effective distribution plays a crucial role for companies, because about 50% of product price is directly related to distribution costs. This fact emphasizes the importance of deliberate distribution strategy, that will help to minimize warehouse, shipping, delivery, customer service and other costs and will lead to sales optimization. Another significant role of distribution is that it is a direct way for communication between a manufacturer and a consumer, that will affect sales volume.

*Figure 9 Distribution in the Global Beauty Care Sector, 2018*



*Source: Compiled by the author based on Euromonitor International, 2019*

According to the Figure 9, the Global FMCG Beauty Care Sector Distribution channel is divided in the following groups:

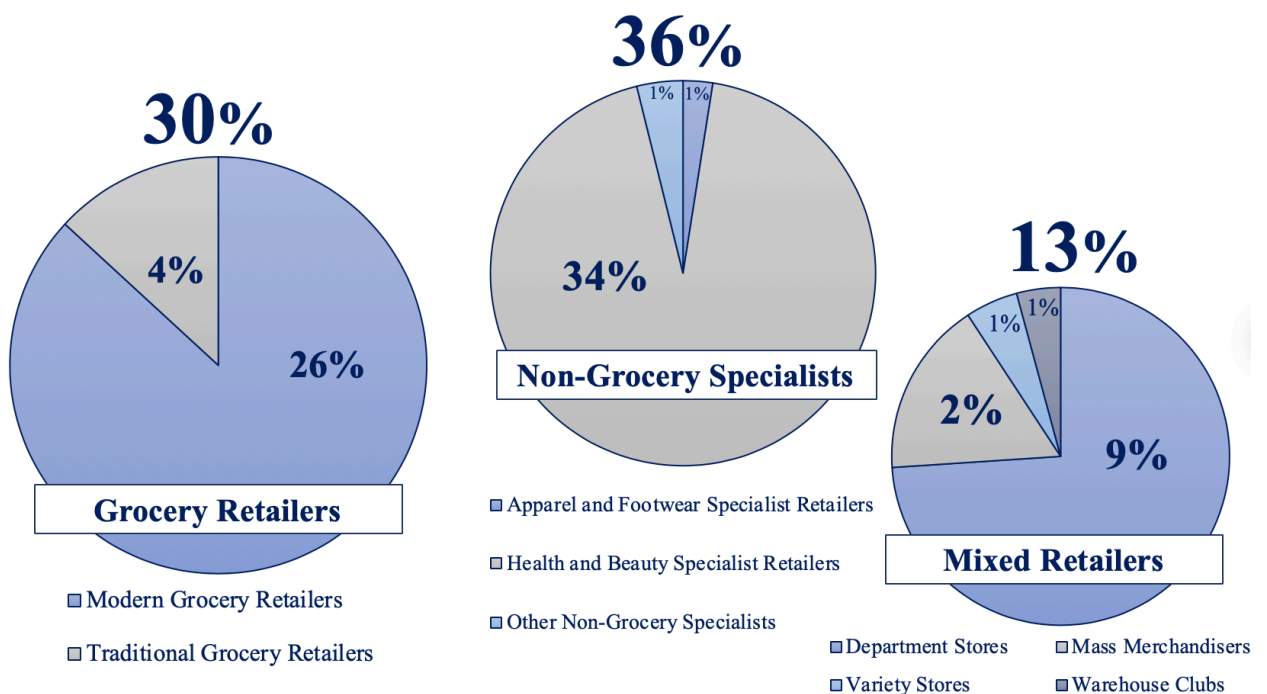
- Store-Based Retailing, that is the most popular type of distribution and accounts of 79%;
- Non-Store Retailing, accounting for 20%;

- Non-Retail Channels, accounting for 1%.

Concerning Non-Store Retailing in more detail, it should be pointed out that this group of distribution includes the following categories: Internet Retailing (10%), Direct Selling (9%) and Home Shopping (1%).

In turn, Store-Based Retailing, it also divided into three main distribution channels: Grocery Retailers, Non-Grocery Specialists and Mixed Retailers, as it is demonstrated in the Figure 10.

*Figure 10 Store-Based Retailing Distribution in the Global Beauty Care Sector, 2018*



*Source: Compiled by the author based on Euromonitor International, 2019*

The first channel is Grocery Retailers, that accounts for 30% of Store-Based Retailing Distribution in the global beauty care sector. It encompasses two types of distribution channels: (Modern Trade Vs Traditional Trade: A Logistics Management Overview!, 2018)

- Modern Grocery Retailers (26%) are mainly oriented on prediction of demand, that is why the orders are made in bulk. As a result, these retailers have well-managed distribution and logistics facilities.



- Traditional Grocery Retailers (4%) are mainly oriented on serving the demand of local customers and as a result these retailers make orders in small quantities only to meet the needs of its consumers.

The second channel is Non-Grocery Specialists, accounting for 36% of Store-Based Retailing Distribution, also included the following distribution channels:

- Health and Beauty Specialist Retailers (34%)
- Apparel and Footwear Specialist Retailers (1%)
- Other Non-Grocery Specialists (1%)

As for the third channel, it is Mixed Retailers that accounts for 13% of Store-Based Retailing Distribution and, in its turns, is divided into:

- Department Stores (9%) are stores that offer a wide range of goods that cover different groups of products in the same product category and are located on several floors.
- Mass Merchandisers (2%) are huge stores that include a wide range of goods that cover different groups of products in different categories.
- Variety Stores (1%) are stores that provide different cheap home care goods.
- Warehouse Clubs (1%) are stores that provide different goods, both in small and large quantities.

So, it is a picture of global distribution in the FMCG beauty care sector in general. However, it is important to admit that the situation changes depending on the market, especially in developing countries. Concerning emerging markets, the most significant market in this category of countries are Russia and Brazil.

Comparing these two countries, it can be seen that there are a lot of similarities between them, especially regarding the economies. Due to this fact many FMCG beauty care implies almost the same strategies in these two countries, including the distribution one. The similarities include: (Anufrieva Zlata, 2014)

1. Both countries have huge territories: Russia is the biggest country in the World and Brazil is the fifth largest.

2. The role of Russian and Brazilian economies is growing and plays a vital role for neighboring countries: Russia is a distribution center for the CIS countries, while Brazil is a distribution center for the countries of Latin America.
3. Both countries have imposed restrictions on import of goods from the European Union: Brazil imposed 147 sanctions and Russia – 99. This fact has a great influence on distribution strategies of global companies operating in these countries, as there are number of restrictions on certain goods. In Russia, restrictions were mainly related to such industries as agriculture, car sector, aircraft and ships, radio-electronic products, furniture, wines & spirits sector and others. This list does not include the beauty care industry. However, Brazil set the restrictions on certain beauty care products, that influenced the FMCG beauty care companies' distribution. (Report from the Commission to the Parliament and the Council on Trade and Investment Barriers, 2017)
4. Russia's GDP is equal to \$1 652,5 billion and Brazil's GDP is equal to \$1 868,18 billion. Russia's Gross national income is equal to 25 120 per person and Brazil's Gross national income is equal to \$15 270 per person.

Russia is very attractive market for FMCG beauty care companies. This is mainly connected with the fact, that Russian women spend a lot of time and effort to care for their appearance and tend to spend a lot of money on personal care products.

In Brazil women also pay much attention to their appearance, especially to their haircare.

Concerning the global beauty care market in general, there are the following trends: (Goodsitt, 2018)

1. Nowadays more and more global beauty care companies concern about natural ingredients in their products and it affects production technologies.
2. Global beauty care companies tend to cooperate with local manufacturers and try to maximally reduce ecological impact.

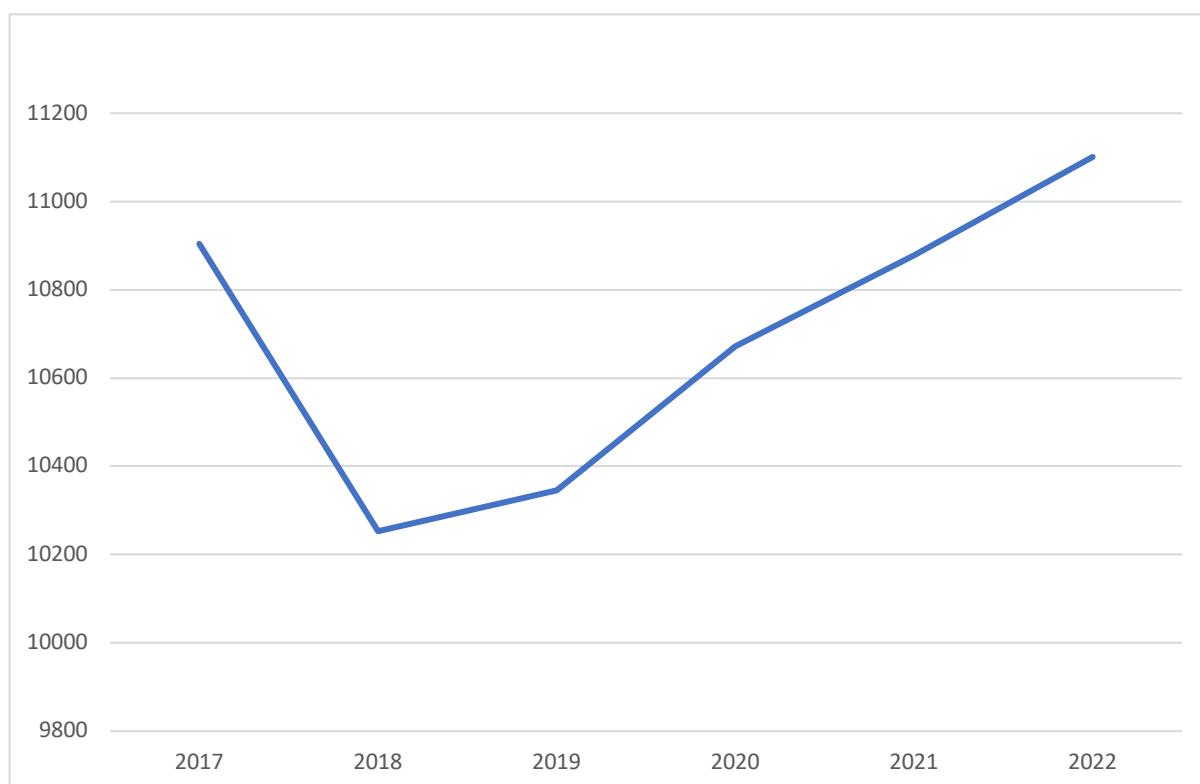
3. Global beauty care companies try to stand out and to emphasize their brand identity, in order to attract more customers.
4. Global beauty care companies try to highlight the uniqueness of each customer and to find a personal attitude to each one.
5. The number of consumers who buy beauty products through online stores constantly increases. That is why many global beauty care companies pay a lot of attention to the digitalization strategy, develop their own applications and try to provide omni-channel shopping.

To sum up, the Global beauty care market is steadily growing. The most popular category is skin care products. The highest sales turnover is in Asia, because it is populated by the people who are very conscious about their appearance. Due to the fact that the market is global, a lot of attention is paid to distribution strategies of beauty cares. In this concern, Russia and Brazil due to their similarities provide interesting cases for the analysis of Global FMCG Beauty Care companies distribution strategies.

## 2.2 Distribution of beauty care products by FMCG companies in Russia (the cases of Henkel, L'Oréal and Unilever)

Distribution plays a crucial role towards the achievement of global FMCG beauty care companies' goals. That is why nowadays an affective distribution is considered to be vital, but of course it varies depending on the specific features of each country, such as infrastructure, consumer preferences, culture, consumer behavior, economic conditions and etc. As it was mentioned above, global FMCG beauty care sector is growing and Russia is not exception.

*Figure 11 Russian Beauty Care Market, Retail Value Sales, US mln.*



*Source: Compiled by the author based on Euromonitor International, 2019*

How it is presented in the Figure 11, after a sharp decrease in 2018 the Russian Beauty Care Sector experiences a slight growth, and in the future, it is expected that the market will face an extreme increase by about 10% by 2022. The market failure in 2018 was mainly with two facts: (RMAA Group, 2019)

- First of all, people changed their attitudes towards maintenance of beautiful appearance and shifted their attention from cosmetics towards healthy lifestyle. Nowadays people in Russia realize the importance of healthy food and sport and started to pay more attention to this factor and stopped to perceive cosmetic products as only way to be beautiful;
- Secondly, it has become popular among people in Russia to buy more pre-conized products and receive qualified salons' procedures. This fact has a negative consequence for FMCG beauty care companies in Russia, as products of mass market became less popular. However, as it can be seen in the Figure 11, there will be a significant increase, explained by the fact, that most global FMCG beauty care companies started to actively developed their product lines launching new goods that pay attention to all kinds of needs and meet different demands. Moreover, they also started to produce a lot of organic product in order to meet the needs of health and environmental conscious customers.

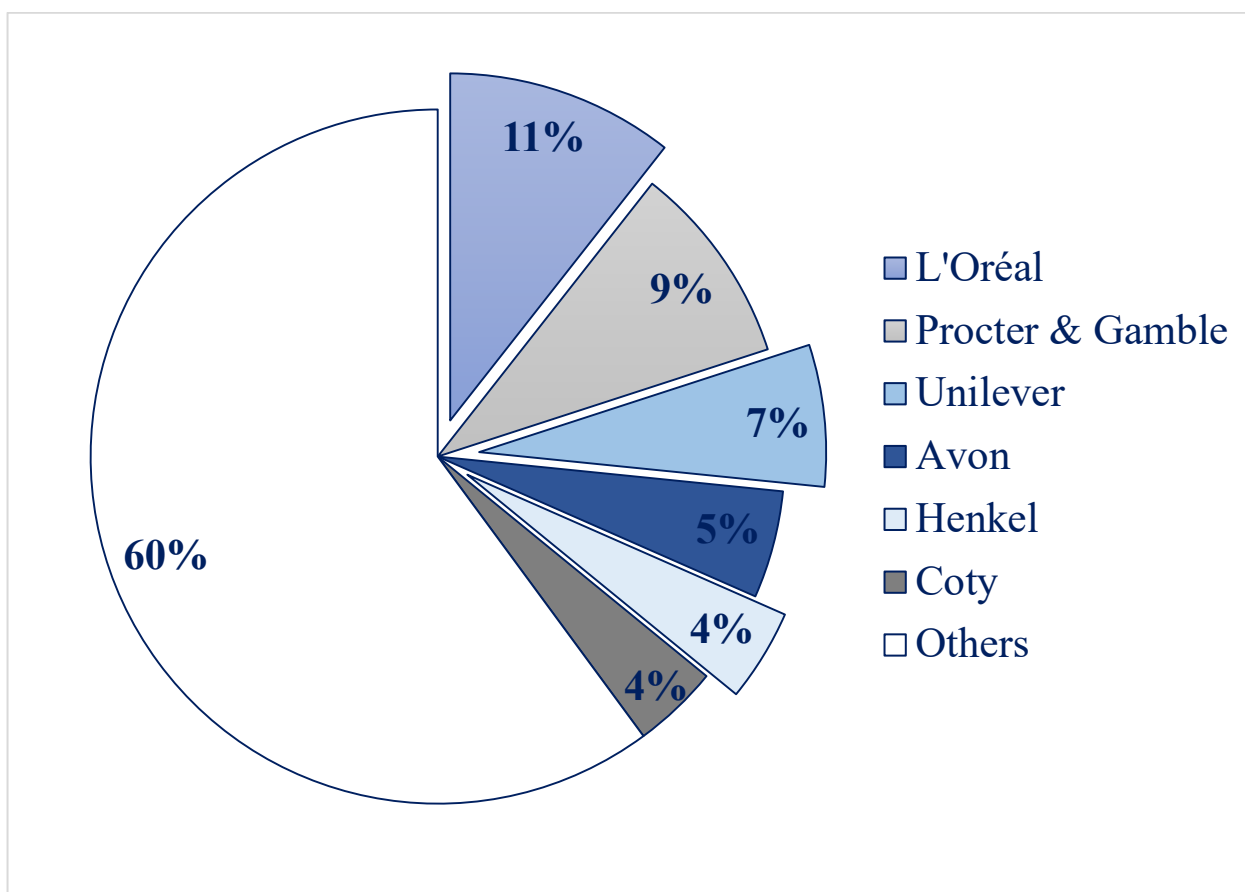
It is a good opportunity for FMCG beauty care companies because they can increase their revenue if they build a strong business strategy, pay due attention to customers features, actively develop innovations and be flexible to quickly-changing market trends.

Considering the Russian FMCG beauty care market by categories, the most demanded is skin care products, the second one is perfume, the third one is hair care products while the least popular is sun care goods (that is connected with the fact that in comparison with Asian countries, Russian consumers do not pay a lot of attention to the sun protection). (*Euromonitor International*, 2019)

Concerning the distribution in the Russian FMCG beauty care sector, the highest volume of sales is provided through Store-Based Retailing and it equals to 79%. Such distribution channels as supermarkets, hypermarkets and health and beauty specialist retailers bring the biggest sales turnover to FMCG beauty care producers. While, considering a Non-Store Retailing, the most popular distribution channels are direct selling (that equals to 13%) and internet retailing (that equals to

5,5%). The distribution in the Russian FMCG beauty care sector is very similar to the global one despite the fact that the Russian market has many specific features. (Euromonitor International, 2019)

Figure 12 Russian Beauty Care Market by companies, 2018



Source: Compiled by the author based on Euromonitor International, 2019

As it is presented in the Figure 12, the leader of the Russian FMCG beauty care market is L'Oréal, with market share equaling to 11%, the market followers are Procter & Gamble (the market share equals to 9%), Unilever (the market share equals to 7%), Avon (the market share equals to 5%), Henkel and Coty (each accounts for 4% of the market). It is important to mention that the Russian FMCG beauty care market is very saturated, but the leaders of the market are global FMCG companies. This is justified by the fact that these companies use innovative approaches to their strategies. Moreover, they also try to implement their

innovative approaches to the distribution strategy realizing the fact that Russia is the biggest country in the world, that makes distribution there more difficult comparing with other countries.

In order to understand the peculiarities of distribution in the Russian FMCG beauty care sector it is necessary to analyze the approaches to this issue by leading global FMCG beauty care companies on the example of Henkel, L'Oréal and Unilever.

Henkel is one of the leading chemical and FMCG companies founded in Germany in 1876 by Fritz Henkel and two his partners with a revenue equals to 20 billion euros. The first product manufactured by the company was unique sodium silicate washing powder which well-known as Henkel's Bleich-Soda. In 1878 the company started to export its products in Switzerland. Henkel rented a factory in Flingern and then the company decided to relocate its headquarters in Dusseldorf and also build its own factory. In order to expand its business, the company started to build new factories beyond the borders of Germany and over the years, due to significant efforts and talents of German businessmen and thousands of workers Henkel entered global market. In 1995 Henkel acquired beauty care company Schwarzkopf specialized in hair care products. It helped to establish a new department in Henkel which called Beauty Care. Considering Russian market, Henkel was established the first joint venture in 1990 and still operates opening new factories and branches. (Henkel, 2019)

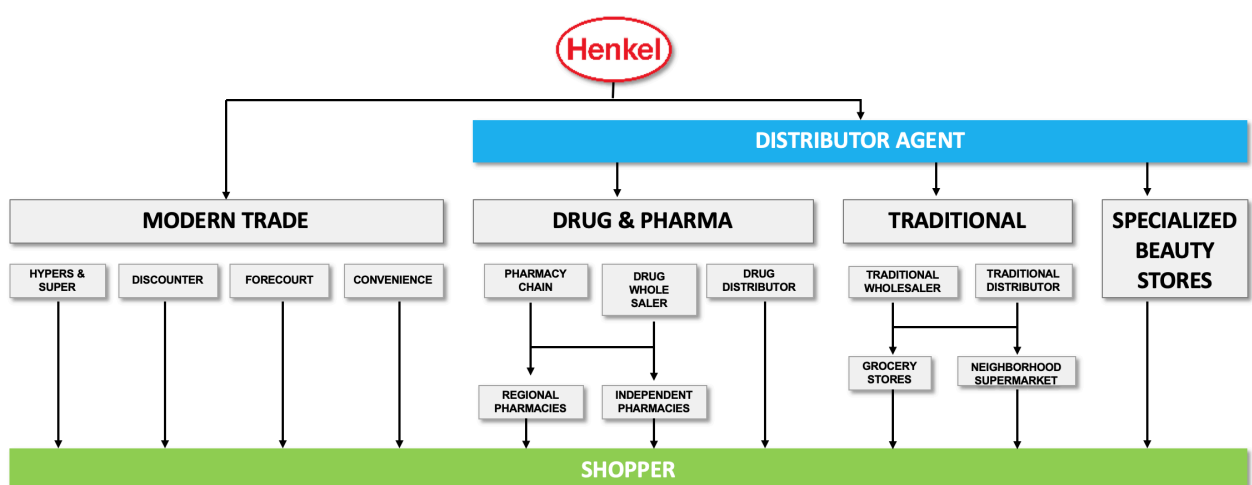
Henkel is divided into three departments: Adhesive Technologies (accounts for 47% of total sales), Beauty Care (accounts for 20% of total sales) and Laundry & Home Care (accounts for 32% of total sales). The company is developing a Beauty Care Department constantly implementing an innovative strategy, opening and acquiring manufactures and diversifying a product portfolio all over the world. Moreover, Schwarzkopf Professional is one of the top three leading suppliers of products for beauty salons on the global and also in the Russian FMCG beauty care market. Henkel's goods are presented in many beauty care categories, such as hair

care, coloring, styling, personal and skin care. The most popular brands in this division are Schwarzkopf, Fa, Syoss and others. (Henkel, 2019)

As it was mentioned above, in order to take a leading position global FMCG beauty care companies try to think over their distribution strategy very carefully, realizing that it is a key factor on the way to success. That is why it global FMCG beauty care companies have a complex and interesting distribution system.

Concerning distribution in Henkel, the company implements a strong distribution strategy in order to get final consumers and satisfy their needs. Henkel sells its products through direct and indirect distribution channels, but it is important to mention that direct distribution brings the highest sales turnover to Henkel and it equals to 70%, that is why the company pays due attention to this distribution channel. However, the indirect distribution (accounts for 30% of total sales) brings also a big volume of sales that is why it is vital for Henkel because how it was mentioned in the first chapter the manufacturer has less control over the business when it sells products through intermediaries, that is why Henkel is developing its distribution strategy in order to provide a strong and essential support on markets where Henkel cannot operate directly.

*Figure 13 Distribution of Henkel*



*Source: Henkel, 2019*



As it is presented in the Figure 13, Henkel has a mixed distribution system. Firstly, the company sells its products directly to modern retailers, such as hypermarkets, supermarkets, discounters, price clubs and convenience outlets. When Henkel entered on the Russian FMCG beauty care market it mostly used indirect distribution because the company did not have an opportunity to produce beauty care goods in Russia and it was easier and less costly to use intermediaries in order to ship the products from Henkel's factories to Russia, storage them and delivery to points of sale. However, over the years, in 2013 Henkel decided to open its own factory in Russia for producing beauty care goods in order to decrease a percentage of indirect distribution because it helped the company to regain a control over the beauty care business and in the long-term perspective reduce the costs.

Nowadays Henkel has the only factory in Russia located in Noginsk which manufacture different beauty care goods, such as hair dyes, gels, shampoos and other products of such famous brands as Syoss, Fa, Schauma, Palette, Taft, Gliss Kur and etc. The geography of deliveries is all regions of Russia, and also five CIS countries: Ukraine, Belarus, Kazakhstan, Uzbekistan, Kyrgyzstan. Moreover, the company also expanded storage facilities and it provided an opportunity to Henkel selling beauty care goods directly to chain retailers. It is important to mention that Henkel is not responsible for delivering goods to final points of sales, it ships beauty care products to the main warehouse of retailer who in its turn distributes the products to the final points of sales. Henkel spent about 30 million euros on reconstruction of the factory, but it does not produce all beauty care goods because the company has professional beauty care products which cannot be manufactured in the existing factory in Russia. That is why all professional beauty care products are distributed by intermediaries in order to decrease shipping and storage costs. However, Henkel is planning to invest 20 million euros in opening a new factory for beauty care products which can also produce professional beauty care goods. It is a great opportunity for the company to increase their direct distribution since logistics operations with many distribution channels have already been established,

thanks to beauty care retail. Moreover, the new investment project will allow the company to reduce the volume of imported goods and reduce prices for some products that have been overpriced due to complex logistics. (Henkel, 2019)

According to the Figure 13, it is shown that Henkel also uses indirect distribution and sell its products through distributor agent, it is strongly connected with several issues:

- First of all, considering Drug & Pharma channel, Henkel does not produce a lot of pharmacy cosmetics, but the company still has some beauty care products for skin and hair treatment of such famous brands, as Barnängen, Diademine and Essensity. Also, the production of these goods is located abroad. That is why Henkel sells products to regional and independent pharmacies through intermediaries. It is less costly and also Henkel has not established a communication with pharmacy retailers yet, as brand Barnängen is new and in this case the most suitable way for the company is to work through intermediaries. However, Henkel decided to invest in support of beauty care products for different skin types, for this reason, Drug & Pharma is an important channel, that is why Henkel is planning to build a business relationship with them in order to avoid intermediaries in the future.
- Secondly, according to Traditional distribution channel, Henkel cannot work with grocery stores and neighborhood supermarkets directly because Russia has a big territory and considering shipping, storage and delivering costs it is not financially attractive to deliver beauty care products to each small store located in different regions and areas. Moreover, the sales volume of such stores is small and this fact proves again that it is not profitable to sell in this kind of store without distributor agent.
- Thirdly, as for specialized beauty stores, it is strongly connected with professional beauty care products. Henkel sells its professional goods like hair dye, shampoo, styling and hair care products of such famous brands, as Schwarzkopf, Igora, Indola, Blond Me and others through specialized beauty

stores or salons. As for the large chain stores, at the present time, Henkel already cooperates with such big retailers as Letoile, Revigauche and others directly, as these retailers have their own logistic centers, although other specialized beauty stores have a small sales turnover and do not provide shipping and storage facilities, forcing Henkel to use intermediaries.

However, due to the specifics of professional beauty care products, the target audience of which are hairdressers and salons, Henkel resorts to the help of distributor agents, as the salons do not have warehouses and they do not buy the goods in a bulk.

Despite the facts that Beauty Care Professional products are sold through intermediaries and the Henkel sells a small number of beauty care goods through Traditional Distribution and Drug & Pharma channels indirectly, the company mostly sells beauty care products directly, because the sales volume of professional beauty care products is less than 15% of total sales and pharmacy cosmetics products are also not demanded as other goods.

Due to some specific features of the beauty care products that was mentioned above Henkel cannot implement only direct distribution because it is not profitable for the company. However, for Henkel it is vital important to have the maximum control over the business in this situation in order to satisfy all customer needs, therefore Henkel has employees who are responsible for promotion of beauty care products in points of sales, merchandising, consultation and other functions. Also, Henkel implements a platform called Optimum Asumt that provides the company with the opportunity to evaluate a performance of distributors, to collect data concerning sale-in and sell-out volume, covered points of sales and situation on the shelves, to analyze the efficiency of field teams and make reports. (Henkel, 2019)

Considering the prospects of Henkel's distribution, the company is planning to focus more on e-Commerce investing in digital platforms. In addition to developing its own platforms, Henkel has already started to sell its beauty care products through such big marketplaces, as Wildberries, Lamoda and others that

are the direct retailers of Henkel. Moreover, the company is going to reduce the number of offline sales that are made through intermediaries, because it is easier to control the business through online sells, the company can decrease costs due to the reduction of employees, such as sales representatives, merchandisers and others, also for Henkel it is a good opportunity to collect data about consumers in order to improve quality of the beauty care products and meet all costumers needs.

In order to find out the most suitable ratio of direct and indirect distribution it is important to consider a leader of the Russian FMCG beauty care market. L'Oréal is a leading FMCG beauty care company founded in France in 1909 by Eugène Schueller with a revenue equals to 27 billion euros. The first product of the company was the color consistency, that was sold to hairdressing salons in Paris. Innovative and research approach to the beauty care products became the main strategy of the company. L'Oréal was the first company who started to publish its products in newspapers. In 1910 Eugene Shueller convinced hairdressers to use his hair dyes, in addition, he created a school of hair coloring realizing the importance of relationship with hairdressers. By 1920, the company became international, selling its products in countries such as Italy, the Netherlands, the United States and others. Over the years, L'Oréal made several strategic acquisitions, expanding new distribution channels and increasing the influence on new markets that helped the company to become global. In 1950 L'Oréal established a factory that nowadays provides all Latin America with its beauty care goods. Concerning the Russian market, in 1990 the company created a joint Soviet-French venture which was produced Elsève shampoos, hair dyes and perfumes Maroussia. In 2010 L'Oréal opened its own factory in Russia located in the Kaluga region. It produces shampoos, conditioners and hair dyes for such brands, as L'Oréal Paris and Garnier. In 2012 the company opened its own Kiehl's boutique in Moscow developing its own retail network in Russia. L'Oréal has a wide range of beauty care products, because of this, there are four divisions: the Division of Consumer Products, L'Oréal Luxe, the Division of Professional Products and the Division of Active Cosmetics. (L'Oréal, 2019)

It is very interesting to consider the distribution of L'Oréal because the company uses a different strategy in comparison with its competitors. First of all, L'Oréal has a mix distribution where direct distribution equals to 60% and indirect distribution equals to 40%. It is vital important to mention that distribution channels of the company depend on divisions and this approach is really unique. Concerning L'Oréal Luxe Division, the company sells its beauty care products of such famous brands, as Lancôme Paris, Giorgio Armani, Kiehl's and others, through department stores, travel retail and cosmetics stores directly, as L'Oréal has its factory in Russia the company and such stores are big chain retailers with their own logistic centers. Also, the company sells the products of L'Oréal Luxe Division through its own stores, for example Kiehl's, directly. However, the number of stores is limited, and they are located only in major cities in Russia covering only Central, Southern and North-Western regions of Russia where the infrastructure is well-developed. Moreover, L'Oréal pays a lot of attention to e-Commerce and sells the beauty care products through its own official websites and different marketplaces. Considering Consumer Products Division, products of such brands, as Garnier, NYX, Maybelline NY and others, are sold through retailers directly. According to Professional Products Division, the goods of such brands, as Redken, Kérastase and others, are sold to salons through intermediaries in a big quantity because L'Oréal deals with salons on exclusive rights, it means that salons can use only beauty care products of L'Oréal. Also, the company has its own salons where the beauty care products are distributed directly, but there are only 4 salons that can be mainly concerned as a part of a marketing strategy rather than distribution strategy. Active Cosmetics Division beauty care products of such famous brands, as Vichy, La Roche-Posay and others, are sold through health and beauty outlets among them drugstores, pharmacies and spa-centers indirectly and using intermediaries, because many retailers are small companies which located in the areas with poor-developed infrastructure and buy products in a small quantity, that is why L'Oréal uses distributor agent in order to decrease costs on shipping and finally reach the maximum number of end-users. Although the company

increases direct distribution, but due to the facts that the main profitable divisions are Consumer Products (mainly direct distribution) and Active Cosmetics (mainly indirect distribution) and the less sales volume is provided by Professional Products Division and then L'Oréal Luxe Division, the company has only 60% of direct distribution. (L'Oréal, 2019)

It is important to mention, that in 2011 L'Oréal had an unpleasant situation in Russia concerning its distribution system, because ex-top managers (including Lindsay Owen-Jones) organized illegal "gray" supplies to Russia and other CIS countries through the company "Arbat-Prestige" where L'Oréal lost millions of euros. (Malysheva, 2011)

Moreover, the company invests a lot of money in e-Commerce, each brand has its own website, also L'Oréal sells its beauty care products through marketplaces and the share of e-Commerce equals to 5% of total sales. (Didkovskaya, 2017)

Unilever is a global FCMG company founded in the United Kingdom and Netherlands in 1929 by the merger of Margarine Unie (margarine manufacturer) and Lever Brothers (soap producer) with a revenue equals to 51 billion euros. The first which was manufactured by the company was a soap called Sunlight, which helped to improve cleanliness in England. In 1992 Unilever entered Russian market and opened its first branches in this country. The company imported household cleaners and personal care products in Russia. Unilever has 4 business divisions, such as Foods & Refreshment (36% of total sales), Home Care (22% of total sales) and Beauty & Personal Care (42% of total sales). The company has four own factories in Russia, two of them produce food including ice-cream, one factory for manufacturing of home and beauty care products located in Saint-Petersburg and the last one produces beauty care goods in Ekaterinburg. (Unilever, 2019)

It is important to mention that in 2011 Unilever decided to acquire a Russian company Kalina, that is the largest Russian manufacturer of beauty care products of such famous brands, as "Velvet Pens", "Black Pearls", "Clean Line" and others

of such segments, as oral, hair and skin care. For sure, it was a strong strategic decision because Unilever diversified its portfolio and also Kalina had a strong distribution system and sold its goods mainly in Russia, Ukraine and Kazakhstan. (Unilever to Expand its Business in Russian Beauty Market, 2011)

It is vital that Unilever has a very strong distribution in Russia, not only that, the company has 2 plants, which produce beauty care products, also Unilever has 58 distribution centers in Russia and exports its products in CIS countries. Concerning distribution, Unilever has a mix distribution, direct distribution equals to 80% of total sales while indirect distribution equals to 20%. Direct distribution brings the highest sales volume because the main distribution channels of Unilever are hypermarkets, supermarkets and beauty specialist retailers, of course, the company also sells its products through traditional channels using intermediaries, but the sales volume of this channel is low. Also, Unilever has professional brands, as TRESemmé and TIGI, which are sold through distributors because the target audience is hairdressers and it is costly to deliver the professional beauty care goods to each salon. However, products of these brands are also sold through chain beauty specialist retailers. (Unilever, 2019)

Considering e-Commerce, Unilever actively takes part in developing its own websites for each brand, but it is only for describing and promoting its beauty care products, to make a purchase is impossible on these websites. However, Unilever deals with a big number of marketplaces and retailers (who are present on e-Commerce platform), where customers can buy the beauty care products online and also on official websites of Unilever brands the company offers opportunity for end consumers to buy its goods from Unilever's retailers.

The Russian beauty care market is going to grow, it is why such companies, as Henkel, L'Oréal and Unilever stick with the strategy of developing production facilities, also expansion of distribution centers, all these companies are trying to increase the sales volume of direct distribution, but there are some specifics in the Russian FMCG beauty care sector which force the companies to use intermediaries. Moreover, despite the fact that, at first glance, Henkel, L'Oréal and

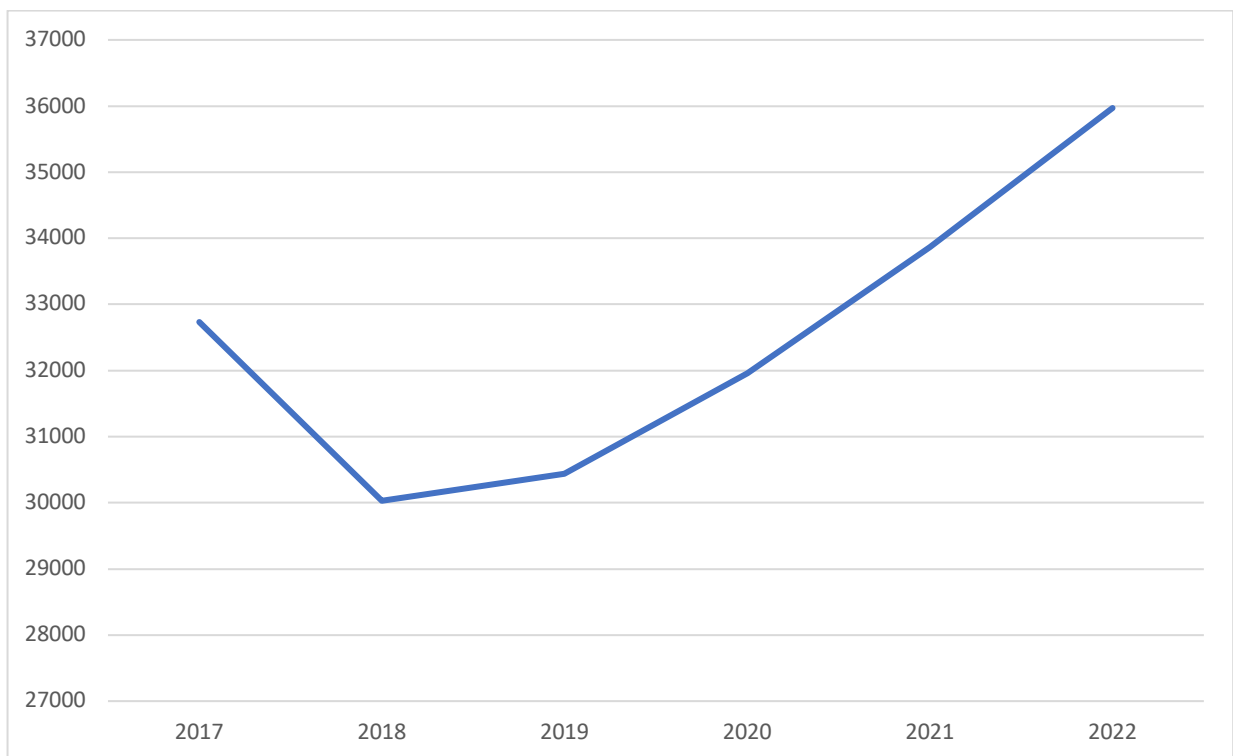
Unilever seem to be the same, in fact, they use different approaches to distribution. In confirmation of this, the companies have different ratio of direct and indirect distribution in the Russian FMCG beauty care sector. Moreover, all companies invest money in developing of e-Commerce channel, but they also have different approaches concerning it.



## 2.3 Distribution of beauty care products by FMCG companies in Brazil (the cases of Henkel, L'Oréal and Unilever)

Global FMCG beauty care companies pay a lot of attention to emerging markets and Brazil brings the highest sales volume to such companies in Latin America. Moreover, Brazil is a very big country, that is why global FMCG beauty care producers have a strong and flexible distribution strategy in order to meet all changes in the beauty care sector.

*Figure 14 Brazilian Beauty Care Market, Retail Value Sales, US mln.*



*Source: Compiled by the author based on Euromonitor International, 2019*

As it is presented in the Figure 14, after a dramatic drop in 2018 the Brazilian Beauty Care Market is growing and, in the future, it is expected that the market will face a sharp increase by about 20% by 2022. The market failure in 2018 was strongly connected with several factors. The economic situation in Brazil was unhealthy due to heavy taxes, high level of unemployment and, of course,

difficult political issues. Moreover, it also influenced on the level of investment in the country, the consumption and business environment in general. However, it is expected a growth and this expectation is reasonable. The beauty care sector in Brazil is very significant for national economy and it develops faster than GDP, there is an example that in 2017 GDP in Brazil decreased by 1% while the beauty care market increased by about 3%. Concerning product categories, Brazil fell from first place to second in fragrance category in sales volume, but it is also on the first place in term of number of units sold in this category. It is important to mention, that many global FMCG beauty care companies think that there is not a great increase of the beauty care market due to government regulations concerning taxes and import tariffs that impact on product price. However, the consumers will not stop to buy beauty care products because they care a lot about their appearance and hygiene, they can change their approach to purchase beauty care products (for example, to buy less expensive products) if the economic situation stay the same. (Born, 2018)

Considering the Brazilian FMCG beauty care market by categories, the situation is very different from global and Russian markets. The most demanded products are fragrances and their sales volume equals to 6 887 million dollars, the second category is men's grooming products and its sales turnover equals to a 5 966 million dollars (it is closely connected with a trend that all Brazilian men care a lot about their appearance), the third category is hair care products and their volume of sales equals to 5 918 million dollars. The less demanded category is depilatories and it brings 183 million dollars to beauty care companies in Brazil.

As it was mentioned in the first part of second chapter, distribution in Brazil is very important part for global FMCG beauty care companies, because Brazil is a big country with poor-developed infrastructure and high import tariffs, that is why it is very important to consider the distribution of Brazilian FMCG beauty care sector. The situation is pretty similar with global and Russian beauty care industry, the highest volume of sales is provided through Store-Based Retailing and it equals to 71%. Such distribution channels as supermarkets, hypermarkets and health and

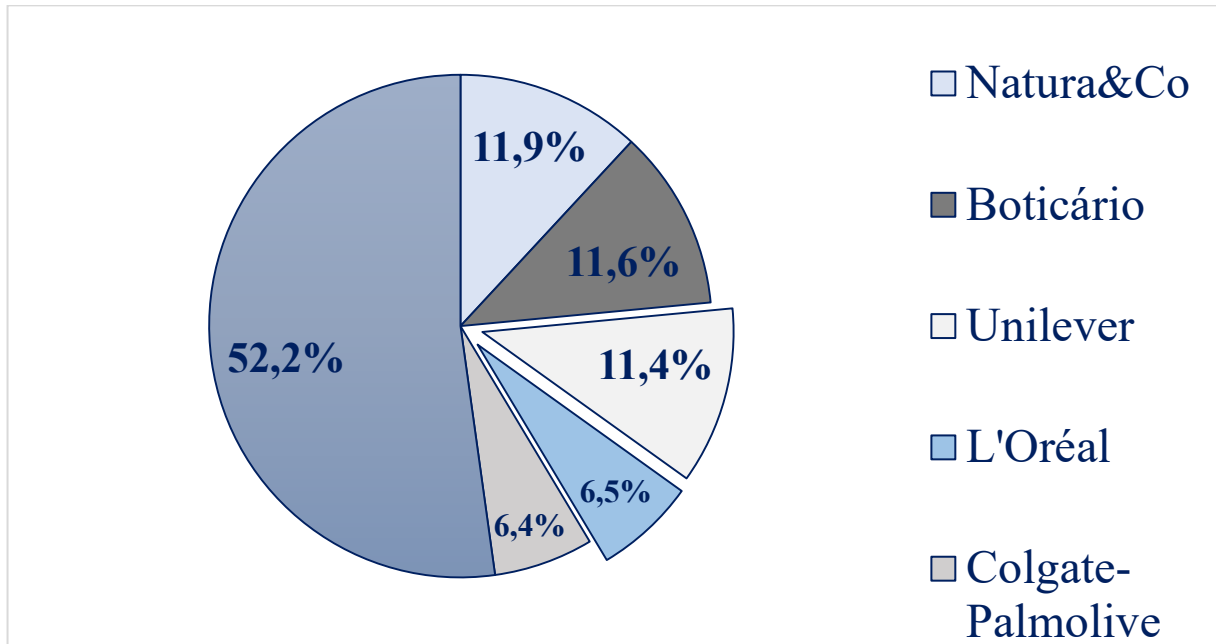
beauty specialist retailers bring the biggest sales turnover to FMCG beauty care producers. While, considering a Non-Store Retailing, the most popular distribution channels are direct selling (that equals to 26%), but internet retailing (that equals to 2,8%) is not such a popular channel as in Russia. However, it is important to mention that intern retailing is developing from year to year, for example, in 2014 it brought only 1,7% of total sales to beauty care companies. (*Euromonitor International*, 2019)

Concerning trends in the Brazilian FMCG beauty care sector, there are three main distribution channels:

- Traditional (retail stores, salons, etc.)
- Direct sales
- Franchises

Such brands as Avon and Nature are the leaders of direct distribution, due to the fact, that Brazilian women prefer to taste and discuss the product with assistants. Moreover, these brands are also sold through e-commerce. There is an active development of shopping centers, that affects distribution network, and emergence of multi-brand stores (like Sephora). That is why global beauty care companies started to open its own stores and provide franchises in Brazil. (Brazil: A significant shift in the distribution of cosmetics, 2018)

Figure 15 Brazilian Beauty Care Market by companies, 2018



Source: Compiled by the author based on Passport, 2019

The Brazilian Beauty Care Market is saturated and there are a lot of national producers, such as Natura&Co, Boticário and others, as it is presented in the Figure 15, but it is also possible to see that there are undisputable leaders on the market. The market leader is Natura&Co that has 11,9% of market share, on the second place is Boticário (its market share equals to 11,6%), the third company is Unilever (its market share equals to 11,4%) and L'Oréal with 6,5 % of market share. It is important to mention that Unilever was a market leader in Brazil until 2017, however, the situation changed and Unilever lost its position on the Brazilian FMCG beauty care market. Moreover, considering Henkel, who has a leading position in the world and in Russia, in Brazil its beauty care products are not demanded and its market share is less than 0,5% of market share. It is interesting to consider distribution of leading global companies, as Unilever and L'Oréal and also the company Henkel who is only a market follower.

Henkel is global FMCG company which entered Brazilian market in 1955, opening a factory. Nowadays Henkel has three factories in Brazil which produce adhesive products. Henkel has two departments, such as Adhesive Technologies

and Beauty Care. While Henkel is a leader in Adhesive Technologies, it is difficult to say the same about Beauty Care Department. However, the beauty care products of such famous brand, as Schwarzkopf Professional, are sold in Brazil, but the sales turnover is not high. It is strongly connected with the fact that: (Wischhover, 2014)

- First of all, the Brazilian beauty care market in hair care and coloration categories is the second largest market in the world after the USA that makes it attractive for hair care producers and makes competition in this country more tough. This negatively affects the sales volume of Henkel because customers are offered more beauty care products than in other countries, this variety of choice decrease the sales volume;
- Henkel is not popular beauty care brand among Brazilians who prefer national brands, as Natura&Co, Boticário and global ones, as Unilever and L'Oréal.

Considering distribution, when Henkel entered the Brazilian FMCG beauty care market it started to sell its products through distributors preferring indirect distribution and still continues to use this type of distribution (it equals almost 100% of total sales). This decision seems to be rational due to the fact that:

- Infrastructure facilities in Brazil are not well-developed, that makes shipping and delivering quite complex. Moreover, Henkel does not have a factory which produces beauty care goods in Brazil that will also make logistic costs increase;
- Henkel sells in Brazil only professional beauty care products, that is why its target audience is not end-consumer, but hairdressers and salons, which are relatively small and spread in different areas. That is why it would be costly to use direct distribution.

Considering e-Commerce, it is not the most popular distribution channel in Brazil, however, Henkel is planning to increase the percentage of online sales selling its products through distributors' websites.

L'Oréal is one of the leading beauty care companies on the Brazilian market existing since 1959. The company has two factories in Brazil which produces almost 95% of beauty care goods which are sold on this market and also two distribution centers. Also, L'Oréal has Research and Innovation center in Brazil that reflects a serious attitude to this market. There are four divisions, such as Consumer Products, Active Cosmetics, Professional Products and L'Oréal Luxe. Until 2017 the company has also The Body Shop Division, but it was acquired by national company Natura&Co. It is important to mention that L'Oréal has Brazilian brands, as Emporio Body Store and Colorama in its portfolio. Considering beauty care categories, L'Oréal is a leader of the professional, pharmacy cosmetics and luxury products. Moreover, L'Oréal has six professional academies where hairdressers are trained, they were launched in order to increase sales volume of professional beauty care products. (L'Oréal)

What is specific for the Brazilian beauty care market is a fact that about 70% of salons are located in remote areas. That is why L'Oréal launched the Matrix project in order to attract more customers in these areas (favelas). This project is not only aimed on increasing sales volume, but also on improvement social welfare. According to the project women from families with lower average income are provided with L'Oréal products and they search salons in favelas and promote these products. It results in the increase women employment in Brazil. Also, it important to mention that this way is fully direct distribution.

Due to the lack of exact information regarding direct and indirect distribution proportion of L'Oréal in Brazil, it is assumed that the company has indirect distribution proportion equals to 30-40% and direct distribution proportion equal to 60-70%. This assumption is based on the following information: (Trefis Team, 2015)

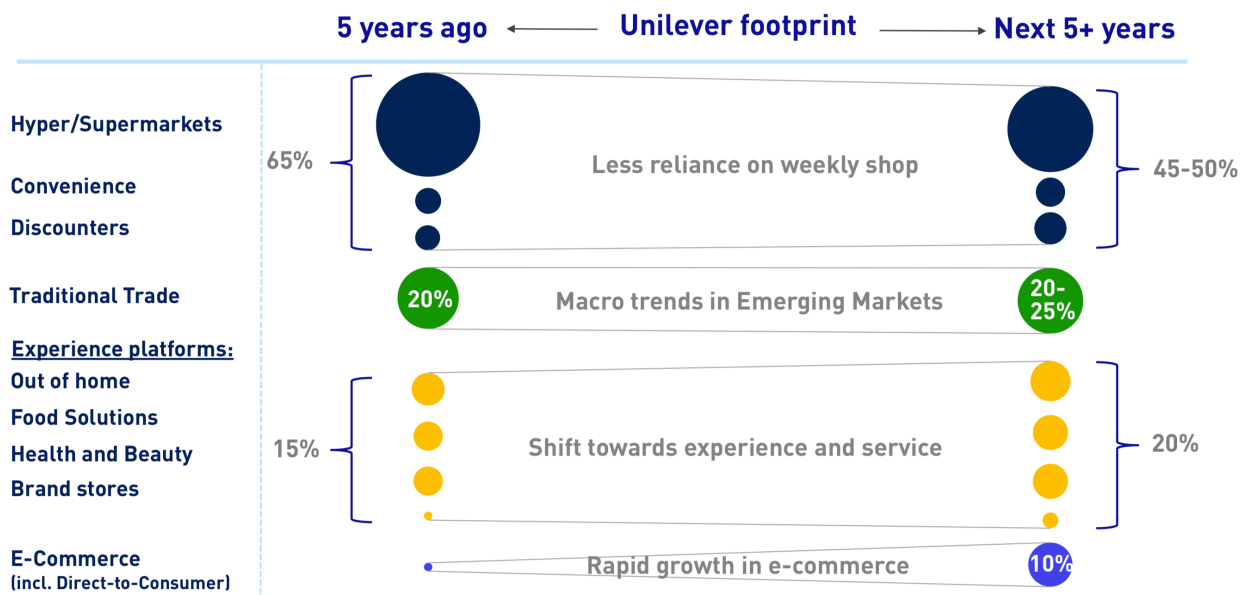
1. L'Oréal has two factories and distribution centers in Brazil
2. L'Oréal sales Consumer products, which provide the company with 50% of sales, through retailers directly.

Concerning Active cosmetics, this product category is mainly sold using distributor agents, through such distribution channels, as pharmacies and drug stores. Also, the company has opened its first dermacenter in Brazil, which is an exclusive seller of such brands, as La Roche-Posay, Vichy, Skinceuticals and L'Oréal directly distributes its products through this center. (The Active Cosmetics Division celebrates 15 years in Brazil, 2015)

3. As it was mentioned above, L'Oréal launched its Matrix project, in accordance with which its sales representatives promote Professional product to the salons in the remote areas. This results in increasing percentage of direct distribution.
4. L'Oréal bought Niely Cosméticos, that was the largest hair care producer in Brazil. It is important to notion, that this company had a very good established distribution network. (Trefis Team, 2015)

Unilever is a global FMCG company which entered the Brazilian beauty care market in 1996. The company has three divisions: Personal Care, Foods and Detergents. Brazil is one of the significant countries for Unilever. The company has 13 factories in Brazil, four of which produce personal and home care products. Also, it has many three innovation centers, one of which is responsible for oral and skin care. When Unilever entered this market, it started to sell beauty care products through intermediaries. The company still deals with distributors, but also sells its products directly through retailers.

Figure 16 Distribution of Unilever



Source: Unilever, 2019

The Figure 16 demonstrates the Global distribution of Unilever. The model reflects the real situation in distribution of Unilever in Brazil. As it can be seen, the direct distribution accounted for about 65% of total sales five years ago, but it is expected the figure to decrease to 45-50% in five years, due to the development of traditional trade (from 20% to 25%) and e-commerce (from 0% to 10%). Expertise platforms (out of home, food solutions, health and beauty, brand stores) are also expected to increase its share from 15% to 20%.

The fact of increase of indirect distribution is mainly connected with Unilever's plan to increase the volumes sold through small retail outlets, in order to cover larger territories and due to the fact, that there is an increasing demand on these stores among Brazilian customers. It is also important to emphasize, that Unilever is actively developing e-commerce. Though, the company does not have its own online store, but is sells it products through marketplaces and through online stores of their distributors.

So, to sum up the Brazilian care markets demonstrated increasing trends and is one of the most important markets for Global FMCG beauty care companies.



While developing their distribution strategy, it is important for these companies to take into account cultural peculiarities of the Brazilian customers, as more customers tend to buy beauty care goods through direct way, rather than in retail stores. (Ferreira, 2019)

In conclusion, the global FMCG beauty care market is growing, but there was a decrease on the Russian and Brazilian markets that is mainly connected with these countries' unstable economic situation. However, at the same time it expected that the beauty care market in these countries is going to increase, as Russian and Brazilian females are more and more conscious about their appearance. As it has been analyzed, global FMCG beauty care companies have to pay due attention to distribution strategies in order to reach customers in such large countries. Direct and indirect distribution proportion varies not only from company to company, but also from country to country, determining by such factors, as culture peculiarities, infrastructure and others. The analysis of Henkel, L'Oréal and Unilever demonstrate that there is one common trend shared by the distribution strategies of all these companies: they all actively invest in the development of e-Commerce.

## **FINDINGS AND RECOMMENDATIONS**

### **3.1 Findings and discussion**

Nowadays distribution strategy plays increasingly important role for the Global FMCG companies. There are two types of distribution: direct (from the producer to a final consumer) and indirect (producers provide goods to customers through intermediaries). In its turn, the indirect distribution is divided into three groups: one-level distribution (producer-retailer-final consumer), two-level distribution (producer-wholesaler-retailer-final consumer), three-level distribution (producer-agent-wholesaler-retailer-final consumer). The specific feature of the Global FMCG companies' distribution is the fact, that these businesses, as well as researchers, consider one-level indirect distribution channel to be direct one. As it was mentioned above, the implementation of indirect distribution results in lower level of control over the business processes of global FMCG companies. That is why in order to increase the control level, these companies have their merchandisers, sales representatives and business consultants who work in the retailers stores, promote the companies goods and regularly make reports to the head offices.

The researchers believe, that the best option for the global companies is direct distribution, but at the same time they admit, that on practice Global FMCG companies more often use two-level indirect distribution (0-20% of direct distribution and 80-100% of indirect distribution). However, the analysis of the case studies identifies, that this statement is partly false, as in reality Global FMCG Beauty care companies have the higher direct distribution ratio than indirect one.

In order to develop an effective distribution strategy, the following factors should be taken into account:

- Market (location of customers, size of average order, etc.)
- Product (shelf life of goods, stage of product lifecycle, type of product, etc.)

- Competition (competitors' performance, etc.)
- Company characteristic (size of a producing company, range of products, etc.)

Considering product factor, the case studies analysis demonstrates, that the target audience of the professional beauty care goods producers is salons which are small companies without logistic facilities and located in different areas (including rural areas), that is why global FMCG beauty care producers have to use distributors.

Nowadays there is shift of global FMCG companies from the traditional distribution model, as they started to think that they can sell products through retailers without distributors.

The case studies analysis of Henkel, L'Oréal and Unilever in Brazil and Russia demonstrate that different companies tend to use different distribution strategies and thus strategy may vary even in one global FMCG company from country to country.

It was found out that Henkel uses 70% of direct distribution in Russia selling its beauty care products mainly through retailers and 30% of indirect distribution in order to cover more points of sales in remote areas using traditional distribution channels. Also, the company produces professional beauty care products which are sold through distributors due to specific target audience (salons). Considering the Brazilian FMCG Beauty Care sector, all Henkel beauty care products are sold through intermediaries because the company sells only professional beauty care goods in this region.

L'Oréal has very interesting distribution. First of all, nowadays the company tends to open its own beauty stores where the goods are distributed by the company directly. Also, L'Oréal deals with huge retailers through which the company sells its Consumer Products. At the same time, in order to cover more outlets, the company also cooperate with intermediaries that helps to distribute its beauty care products in small stores located in different areas with bad infrastructure. However, it is very important to mention that in Brazil L'Oréal

launched a project Matrix, where women as sales representatives sell professional beauty care products directly to salons what helps the company to avoid intermediaries. Considering Active cosmetics, L'Oréal works mostly with distributors because many pharmacies and drugstores do not have logistic facilities. However, L'Oréal has its own dermacenter in Brazil where beauty care products are distributed directly. Considering Russia, L'Oréal has 60% of direct distribution and 40% of indirect, unfortunately, it was not possible to find information about ratio of direct and indirect distribution of the company in Brazil, but basing on the analyzed data, it was assumed that direct distribution percentage of L'Oréal equals to 60-70% and indirect distribution equals to 30-40%.

Concerning Unilever, due to the fact that the company has only beauty care products are targeted for mass market, the company has a big percentage of direct distribution because it deals with retailers. However, there is a trend that nowadays consumers prefer to buy FMCG beauty care products in specialized beauty stores or in outlets which are located near their houses and a size of the stores is not important for them. That is why Unilever decided to follow this trend and increase a percentage of sales through these distribution channels what in its turn will raise the indirect distribution percentage. Moreover, this trend is very actual for developing countries. The company has 80% of direct distribution and 20% of indirect distribution in Russia and as for Brazil, Unilever has 65% of direct distribution and 35% of indirect distribution. Moreover, the company is planning to increase the percentage of distribution through traditional channels in both countries that will increase the percentage of indirect distribution.

In conclusion, having analyzed the theoretical aspects and case studies, there is a new approach distribution in the global FMCG beauty care sector which is followed by all players and also cannot be considered as direct and indirect. Producers are investing in their online platforms and pay due attention to e-Commerce. Many global FMCG beauty care companies create their own websites in order to sell products directly to consumer and all companies started to deal with marketplaces avoiding intermediaries because big marketplaces already have their

own logistic facilities and can distribute goods directly from factories to final customers. Also, this trend is closely connected with consumer behavior because nowadays more and more people prefer to buy products online. Also, all companies point out that using online platforms facilitate their business process, increase the level of control over the business, allow to monitor retailers and make easier to share information.

All stated about demonstrates the importance of carefully elaborated distribution strategy and right calculations of direct and indirect distribution ratio.

### **3.2 Recommendations on direct and indirect distribution proportion for global FMCG companies**

Basing on the analysis the several recommendations for the global FMCG companies can be provided.

First of all, it is recommended for global FMCG companies to use indirect distribution while entering new markets. Though, it was noticed that direct distribution provides such great opportunity, as high level of control over business operations, it would be more reasonable for new market entrants to sell the products through intermediaries because they allow to cover more points of sale, have better knowledge about local markets peculiarities, have well-developed logistic facilities and have established partner relationships with local retailers.

The second recommendation suggests that global FMCG companies should develop traditional distribution channel, because there is a change in modern customers' behavior. Nowadays they are not ready to go to big supermarkets (that is a modern distribution channel) in order to purchase beauty care products and demonstrate higher willingness to buy these in the nearest small points of sales (that is a traditional distribution channel).

The case study of L'Oréal demonstrates that customers have more confidence to make purchases in the company's own stores, where products are provided on the exclusive terms. So, the third recommendation for the Global FMCG Beauty care companies is to open their own stores for the sale of their luxe goods. Another recommendation for this category of FMCG companies is to hire brand representatives who will go to the potential customers (final users) with the company's goods in the case and will sell goods due to established friendly relationships, as this is especially appreciated by female customers. A good example of this system is provided by Avon, whose representatives periodically visits customers at homes with product catalogs and pleasant smile on their face.

The fourth recommendation suggests the most effective distribution proportion, that is 30% of indirect distribution, 60% of direct distribution and 10%

of e-commerce. According to the analysis, more and more people nowadays tend to purchase different kinds of FMCG products, such as foods, beverage, home and beauty care and others through the Internet. That is why global FMCG companies should pay due attention to e-Commerce through creation of their own online stores or using marketplaces. So, the companies should actively develop this type of distribution in the area of digitalization.

So, it is believed that implementation of these recommendations will help global FMCG companies to increase the effectiveness of their approach to distribution that help the companies to increase volume of sales and decrease costs.

### **3.3 Directions for future research**

During the analysis the several problems were faced. First of all, there is a lack of academic literature concerning the ratio of direct and indirect distribution in different categories of Global FMCG companies. For example, it was very difficult to find any relevant information about the ratio of direct and indirect distribution in such category of Global FMCG companies, as Beauty care. However, it is very important to investigate this topic, as distribution plays very crucial role for the Global FMCG companies, especially in the modern realities, when there is a radical change in the approaches to the distribution.

The second recommendation concerns the difficulties which were faced during the study of L'Oréal distribution proportion in Brazil. The information about companies' distribution strategies in different countries will help to identify the factors that influence the choice of distribution ratio in different countries. However, it should be admitted, that the absence of such information may be connected with the fact that it is considered as confidential.

The third recommendation is to investigate the reasons why e-commerce was selected as a new type of distribution, that cannot be considered as direct or indirect, as this topic is considered to be very important and interesting, especially nowadays, when online shopping is becoming increasingly popular.

Fourthly, there was a lack of information in the academic literature concerning the exact definitions of such terms, as “distribution type”, “distribution strategy”, “distribution system” and “distribution channel” and it was not easy to identify the main differences between these term. This fact may cause problems with the understanding of key concepts of distribution among future researches, that may negatively influence effectiveness of their researches. That is why it is important to clarify these terms.

In general, it was possible to compensate these lacks thanks to the careful analysis of the case studies of Henkel, L'Oréal and Unilever, also a great help was provided by presentations and reports for these companies' investors. Moreover,



the process of the research was facilitated by the fact, that the author has taken an internship in Henkel Rus Beauty Care department.

## CONCLUSION

The Global FMCG sector is actively developing nowadays and is expected to continue to grow in the nearest future. Due to this fact, there is a tough competition struggle between Global FMCG companies and in order to succeed they have to deliberately think through all aspects of their strategies. As a result of creation of a global market, distribution strategy began to play a very important role for global companies, and in order to create an effective distribution strategy it is vital to carefully choose the right ratio of direct and indirect distribution, taking into account all specifics of the market.

The detailed analysis of the cases of Henkel, L'Oréal and Unilever companies' distributions in Russia and Brazil shows, that distribution strategies can vary from country to country and from company to company. It also allows to assume, that the development of an effective distribution depends on such factors, as market, product, competition, company characteristics. Concerning the exact distribution ratios, the following result were found out: Henkel uses 70% of direct and 30% of indirect distribution in Russia, while in Brazil Henkel beauty care products are sold through intermediaries. L'Oréal uses 60% of direct and 40% of indirect in Russia, and assumable to 60-70% of direct and 30-40% indirect distribution in Brazil. Concerning Unilever, it has 80% of direct distribution and 20% of indirect distribution in Russia and as for Brazil, Unilever has 65% of direct distribution and 35% of indirect distribution.

In general, there is shift of global FMCG companies from the traditional distribution model, as they started to think that they can sell products through retailers without distributors.

The research paper now allows to confirm or reject the following hypothesis:

1. *“In global FMCG companies indirect distribution accounts for 10%, while direct distribution accounts for 90%”*. The researches think the proportion of indirect and direct distribution for Global FMCG companies is the following: 0-20% of direct distribution and 80-100% of indirect distribution.

Moreover, the analysis of case studies also shows, that the percentage of direct distribution is higher than indirect one. So, the hypothesis is rejected.

2. *“It makes sense for Global FMCG Beauty care companies to develop indirect distribution, especially through distributors”*. As it was proved by the theory and case study analysis, in order to cover all point of sales, in all areas, including the remote ones, and to increase sales volume, Global FMCG Beauty care companies actively develop indirect distribution through distributors. Consequently, the hypothesis is confirmed.

The following recommendations were put forward in order to enhance the distribution strategy: 1) Global FMCG companies should use indirect distribution while entering new markets; 2) global FMCG companies should develop traditional distribution channel, because there is a change in modern customers' behavior; 3) Global FMCG Beauty care companies is to open their own stores for the sale of their luxe goods and it is also recommended to hire brand representatives; 4) The most effective distribution should include the following proportions - 30% of indirect distribution, 60% of direct distribution and 10% of e-commerce.

In addition, the following recommendations were given to the future researches: 1) To develop academic literature concerning the ratio of direct and indirect distribution in different categories of Global FMCG companies; 2) To investigate the reasons why e-commerce was selected as a new type of distribution; 3) To clarify the terms “distribution type”, “distribution strategy”, “distribution system” and “distribution channel”.

So, it is important for any global company to develop an effective distribution strategy as it helps to achieve organization's long-term and short-term goals, and carefully determine the ratio of direct and indirect distribution.

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## SUMMARY

Nowadays the Global FMCG market is steadily growing and provides large profits for the companies operating in the sector. That is why it can be characterized as very saturated with a high level of competition between market players. In order to succeed under conditions of such a tough competition, these companies try to think through all their business processes and special attention is paid to the distribution strategies, that can be divided into direct and indirect. The type of strategy and in what proportion it is used by the global FMCG companies depends on many factors: the host country infrastructure, type of provided products, market peculiarities and conjuncture.

One of the main categories of the Global FMCG market is Beauty Care. The main countries for this category are Russia and Brazil, as customers there are very conscious about their appearance. The specific feature of these markets is the fact, that these countries have very large territories and, in this regard, it is very important for the global FMCG beauty care companies to have very well deliberate and effective distributions strategy. It is very important to determine the right ratio of direct and indirect distribution, as in the case of failure it may result in higher shipping, storage, and delivery costs, uncovered areas and unsatisfied customer demand, that eventually lead to decreasing sales turnover.

The study analyzes of what proportion direct and indirect distribution strategies are used by the global FMCG beauty care companies in Russia and Brazil.

The object of the research - direct and indirect distribution of international companies

The subject of the research - direct and indirect distribution in the global FMCG sector.

The goal of the research – to identify the effective ratio of direct and indirect distribution in the global FMCG sector, on the example of the Global FMCG

beauty care companies of Henkel, L'Oréal and Unilever in Russia and Brazil and to give recommendations concerning the creation of effective distribution strategy.

On the way to achieving this goal the following tasks are put forward:

- Study theoretical aspects of direct and indirect distribution in the Global FMCG sector;
- Carry out thorough research of the Global FMCG Beauty care sector;
- Carry out detailed analysis of distribution strategies of Henkel, L'Oréal and Unilever companies in Russia and Brazil, and outline the main differences and similarities in these strategies;
- Define differences and similarities in approaches to developing distribution strategies of Global FMCG Beauty care companies, find the best proportion of direct and indirect distribution, provide recommendations for the companies.

The following hypotheses are put forward:

3. In global FMCG companies indirect distribution accounts for 10%, while direct distribution accounts for 90%;
4. It makes sense for Global FMCG Beauty care companies to develop indirect distribution, especially through distributors.

The work structure is the following: three chapters, each of which includes three subchapters, conclusion and references.

The main methods used are qualitative and quantitative analysis. In addition, the deep analysis of academic literature, outlooks of different inform agencies, case studies and articles are conducted.

Distribution plays a crucial role for business, especially for global companies which aim is to expand their businesses in new countries. It is crucial to outline a definition of global producers in order not to be confused due to the reason that global and international companies have almost similar meaning. Global companies unlike international ones perform all over the world, they are also represented in many countries and invest an enormous amount of money to



distribute their products worldwide. That is why it is vital to choose distribution channels very carefully.

There are several types of distribution channels, but the most commonly-used are direct, indirect and dual distribution. These distribution channels can differ depending on the number of stages between production of goods and reaching an end-consumer.

Direct distribution channel is the oldest form organized and controlled by manufacturing company. Producers sell their goods directly to customers through their own retail stores, post offices and companies' websites. It is more expensive than indirect channel of distribution, because a company has to invest a lot of money to warehouses, logistic system and opening own stores. While an indirect distribution channel can help to avoid these expenses, because they rely on intermediaries, such as wholesalers, retailers, brokers and distributors. However, a big disadvantage in indirect distribution is that a manufacturing company loses control over the business. This type of distribution is more appropriate for small countries and markets.

Researchers have identified a number of factors which global companies have to consider before choosing a distribution channel. The factors can be divided into 4 groups: market, product, competition and company characteristics.

Nowadays information technology is developing more and more, consumers want to spend less time on shopping due to these facts there is a possibility to buy products online. It is still a unique opportunity for global manufacturing companies to use e-Commerce as a distribution channel. It cannot be considered as a direct or indirect distribution, it can be both. Global companies can create their own online platforms or they can deal with intermediaries' online distribution channels and sell the products through marketplaces. Due to fast-growing e-Commerce there is a conflict between distribution channels, the consequence of which may generate negative results, such as a reduction in profit, a loss of market share, a decrease in customer satisfaction and others. However, if manufacturers develop an

appropriate strategy regarding distribution channels in order to avoid conflicts the online channel can bring positive results.

Global FMCG companies' distribution channels are also divided into direct, indirect and dual types as well. However, a specific feature of direct and indirect distribution channels in the global FMCG sector is that the manufacturers sell goods to retailers that deliver the products to points of sales and this type of distribution channel in the FMCG industry is considered to be direct, while in other industries it is considered as indirect. This way of distribution is very popular for FMCG companies, because producers share risks with their intermediaries, but at the same time have control over the business.

A traditional type of distribution for global FMCG companies is a two-level distribution channel which includes a producer, a wholesaler and a retailer, because the producers do not need to invest money on buying warehouses, opening stores, hiring employees when they expand their business and enter new markets. Moreover, companies can sell different types of products to retailers because they provide customers with a wide range of goods in their points of sales.

A number of researches were devoted to the investigation of ratio of direct and indirect distribution channel in different industries, including the global FMCG sector. It is considered that companies which produce fast-moving consumer goods mainly implement indirect distribution channels, referring to distributors, wholesalers or retailers for delivering their products to a final customer. In numerical terms, it equals to approximately 80 – 100% through indirect distribution, comparing with about 0 – 20% through direct distribution channel. This stands out significantly among other companies producing the following goods: consumer durables, industrial commodities, small capital equipment and large capital equipment. These manufactures use almost in equal proportions both types, except consumer durables producers where the ratio of direct to indirect channels is approximately 30% to 70%. This mainly connected with the fact that these companies have to provide a lot of after-sale services and as a result they have a developed a direct distribution channel. So, it can be concluded that product

features have a significant impact on the ratio of distribution channels. As for the global FMCG market, this sector includes a great variety of products that also have effect on the choice of direct and indirect distribution channels proportion depending on the category of goods produced.

Nowadays global FMCG sector is actively growing and it is expected to reach 15,362 billion dollars by 2025. Researchers attribute this to two factors that are: increase in global domestic product (GDP) in different countries; in general, in the world there is an increase in the level of consumption associated with the provision of a wide range of goods (mainly in Europe and Asia). However, this positive picture cannot be observed on every market, first of all, due to the reason that there is a trend of decreasing in the level of consumer confidence that is mainly connected with costumers' fears of negative effects of increasing inflation rate in such countries, as Kazakhstan, Turkey, the Ukraine, Brazil, Argentina and others.

Global FMCG sector include different divisions based on product category, geographical area and distribution channel. The first one consists of such categories, as Food and Beverages, Personal Care, Health Care and Home Care. Food and Beverages category occupies a leading position in term of market size while Personal Care is on the second place. Also, it is important to mention that it is expected a growth of market size in each category. Concerning the global FMCG Beauty Care Sector, there are unconditional market leaders: L'Oréal (accounting for 10%), Procter & Gamble (with 8%) and Unilever (with 7%), which of them takes the first plays varies from country to country. Moreover, all these companies concentrate a lot on developing countries.

The Global FMCG Beauty Care Sector Distribution channel is divided in the following groups: Store-Based Retailing, that is the most popular type of distribution and accounts of 79%; Non-Store Retailing, accounting for 20%; Non-Retail Channels, accounting for 1%. Concerning Non-Store Retailing in more detail, it should be pointed out that this group of distribution includes the following

categories: Internet Retailing (10%), Direct Selling (9%) and Home Shopping (1%).

Due to the fact that the market is global, a lot of attention is paid to distribution strategies of beauty cares. In this concern, Russia and Brazil due to their similarities in territory and economic condition provide interesting cases for the analysis of Global FMCG Beauty Care companies distribution strategies.

The Russian beauty care market is going to grow, it is why such companies, as Henkel, L'Oréal and Unilever stick with the strategy of developing production facilities, also expansion of distribution centers, all these companies are trying to increase the sales volume of direct distribution, but there are some specifics in the Russian FMCG beauty care sector which force the companies to use intermediaries. Moreover, despite the fact that, at first glance, Henkel, L'Oréal and Unilever seem to be the same, in fact, they use different approaches to distribution. In confirmation of this, the companies have different ratio of direct and indirect distribution in the Russian FMCG beauty care sector. Moreover, all companies invest money in developing of e-Commerce channel, but they also have different approaches concerning it.

Concerning distribution in Henkel, the company implements a strong distribution strategy in order to get final consumers and satisfy their needs. Henkel sells its products through direct and indirect distribution channels, but it is important to mention that direct distribution brings the highest sales turnover to Henkel and it equals to 70%, that is why the company pays due attention to this distribution channel. However, the indirect distribution (accounts for 30% of total sales) brings also a big volume of sales that is why it is vital for Henkel because how it was mentioned in the first chapter the manufacturer has less control over the business when it sells products through intermediaries, that is why Henkel is developing its distribution strategy in order to provide a strong and essential support on markets where Henkel cannot operate directly.

L'Oréal has a mix distribution where direct distribution equals to 60% and indirect distribution equals to 40%. It is vital important to mention that distribution

channels of the company depend on divisions and this approach is really unique. Concerning L'Oréal Luxe Division, the company sells its beauty care products through department stores, travel retail and cosmetics stores directly, as L'Oréal has its factory in Russia the company and such stores are big chain retailers with their own logistic centers. Also, the company sells the products of L'Oréal Luxe Division through its own stores directly. Moreover, L'Oréal pays a lot of attention to e-Commerce and sells the beauty care products through its own official websites and different marketplaces. Considering Consumer Products Division, products are sold through retailers directly. According to Professional Products Division, the goods are sold to salons through intermediaries in a big quantity because L'Oréal deals with salons on exclusive rights, it means that salons can use only beauty care products of L'Oréal. Also, the company has its own salons where the beauty care products are distributed directly, but there are only 4 salons that can be mainly concerned as a part of a marketing strategy rather than distribution strategy. Active Cosmetics Division beauty care products are sold through health and beauty outlets among them drugstores, pharmacies and spa-centers indirectly and using intermediaries, because many retailers are small companies which located in the areas with poor-developed infrastructure and buy products in a small quantity, that is why L'Oréal uses distributor agent in order to decrease costs on shipping and finally reach the maximum number of end-users.

It is vital that Unilever has a very strong distribution in Russia, not only that, the company has 2 plants, which produce beauty care products, also Unilever has 58 distribution centers in Russia and exports its products in CIS countries. Concerning distribution, Unilever has a mix distribution, direct distribution equals to 80% of total sales while indirect distribution equals to 20%. Direct distribution brings the highest sales volume because the main distribution channels of Unilever are hypermarkets, supermarkets and beauty specialist retailers, of course, the company also sells its products through traditional channels using intermediaries, but the sales volume of this channel is low. Also, Unilever has professional brands, as TRESemmé and TIGI, which are sold through distributors because the target

audience is hairdressers and it is costly to deliver the professional beauty care goods to each salon. However, products of these brands are also sold through chain beauty specialist retailers.

Considering the Brazilian FMCG beauty care market, it is expected to grow despite the sharp decrease in 2018. When Henkel entered the Brazilian FMCG beauty care market it started to sell its products through distributors preferring indirect distribution and still continues to use this type of distribution (it equals almost 100% of total sales). This decision seems to be rational due to the fact that:

- Infrastructure facilities in Brazil are not well-developed, that makes shipping and delivering quite complex. Moreover, Henkel does not have a factory which produces beauty care goods in Brazil that will also make logistic costs increase;
- Henkel sells in Brazil only professional beauty care products, that is why its target audience is not end-consumer, but hairdressers and salons, which are relatively small and spread in different areas. That is why it would be costly to use direct distribution.

L'Oréal is one of the leading beauty care companies on the Brazilian market existing since 1959. The company has two factories in Brazil which produces almost 95% of beauty care goods which are sold on this market and also two distribution centers. Also, L'Oréal has Research and Innovation center in Brazil that reflects a serious attitude to this market.

Due to the lack of exact information regarding direct and indirect distribution proportion of L'Oréal in Brazil, it is assumed that the company has indirect distribution proportion equals to 30-40% and direct distribution proportion equal to 60-70%. This assumption is based on the following information: (Trefis Team, 2015)

5. L'Oréal has two factories and distribution centers in Brazil
6. L'Oréal sales Consumer products, which provide the company with 50% of sales, through retailers directly.

Concerning Active cosmetics, this product category is mainly sold using distributor agents, through such distribution channels, as pharmacies and drug stores. Also, the company has opened its first dermacenter in Brazil, which is an exclusive seller of such brands, as La Roche-Posay, Vichy, Skinceuticals and L'Oréal directly distributes its products through this center. (The Active Cosmetics Division celebrates 15 years in Brazil, 2015)

7. As it was mentioned above, L'Oréal launched its Matrix project, in accordance with which its sales representatives promote Professional product to the salons in the remote areas. This results in increasing percentage of direct distribution.

L'Oréal bought Niely Cosmetics, that was the largest hair care producer in Brazil. It is important to notion, that this company had a very good established distribution network.

Concerning Unilever, the direct distribution accounted for about 65% of total sales five years ago, but it is expected the figure to decrease to 45-50% in five years, due to the development of traditional trade (from 20% to 25%) and e-commerce (from 0% to 10%). Expertise platforms (out of home, food solutions, health and beauty, brand stores) are also expected to increase its share from 15% to 20%.

Nowadays there is shift of global FMCG companies from the traditional distribution model, as they started to think that they can sell products through retailers without distributors.

The case studies analysis of Henkel, L'Oréal and Unilever in Brazil and Russia demonstrate that different companies tend to use different distribution strategies and thus strategy may vary even in one global FMCG company from country to country.

It was found out that Henkel uses 70% of direct distribution in Russia selling its beauty care products mainly through retailers and 30% of indirect distribution in order to cover more points of sales in remote areas using traditional distribution channels. Also, the company produces professional beauty care products which are

sold through distributors due to specific target audience (salons). Considering the Brazilian FMCG Beauty Care sector, all Henkel beauty care products are sold through intermediaries because the company sells only professional beauty care goods in this region.

L'Oréal has very interesting distribution. First of all, nowadays the company tends to open its own beauty stores where the goods are distributed by the company directly. Also, L'Oréal deals with huge retailers through which the company sells its Consumer Products. At the same time, in order to cover more outlets, the company also cooperate with intermediaries that helps to distribute its beauty care products in small stores located in different areas with bad infrastructure. However, it is very important to mention that in Brazil L'Oréal launched a project Matrix, where women as sales representatives sell professional beauty care products directly to salons what helps the company to avoid intermediaries. Considering Active cosmetics, L'Oréal works mostly with distributors because many pharmacies and drugstores do not have logistic facilities. However, L'Oréal has its own dermacenter in Brazil where beauty care products are distributed directly. Considering Russia, L'Oréal has 60% of direct distribution and 40% of indirect, unfortunately, it was not possible to find information about ratio of direct and indirect distribution of the company in Brazil, but basing on the analyzed data, it was assumed that direct distribution percentage of L'Oréal equals to 60-70% and indirect distribution equals to 30-40%.

Concerning Unilever, due to the fact that the company has only beauty care products are targeted for mass market, the company has a big percentage of direct distribution because it deals with retailers. However, there is a trend that nowadays consumers prefer to buy FMCG beauty care products in specialized beauty stores or in outlets which are located near their houses and a size of the stores is not important for them. That is why Unilever decided to follow this trend and increase a percentage of sales through these distribution channels what in its turn will raise the indirect distribution percentage. Moreover, this trend is very actual for developing countries. The company has 80% of direct distribution and 20% of



indirect distribution in Russia and as for Brazil, Unilever has 65% of direct distribution and 35% of indirect distribution. Moreover, the company is planning to increase the percentage of distribution through traditional channels in both countries that will increase the percentage of indirect distribution.

In conclusion, having analyzed the theoretical aspects and case studies, there is a new approach to distribution in the global FMCG beauty care sector which is followed by all players and also cannot be considered as direct and indirect. Producers are investing in their online platforms and pay due attention to e-Commerce. Many global FMCG beauty care companies create their own websites in order to sell products directly to consumer and all companies started to deal with marketplaces avoiding intermediaries because big marketplaces already have their own logistic facilities and can distribute goods directly from factories to final customers. Also, this trend is closely connected with consumer behavior because nowadays more and more people prefer to buy products online. Also, all companies point out that using online platforms facilitate their business process, increase the level of control over the business, allow to monitor retailers and make easier to share information.

All stated above demonstrates the importance of carefully elaborated distribution strategy and right calculations of direct and indirect distribution ratio.

Basing on the analysis the several recommendations for the global FMCG companies can be provided.

First of all, it is recommended for global FMCG companies to use indirect distribution while entering new markets. Though, it was noticed that direct distribution provides such great opportunity, as high level of control over business operations, it would be more reasonable for new market entrants to sell the products through intermediaries because they allow to cover more points of sale, have better knowledge about local markets peculiarities, have well-developed logistic facilities and have established partner relationships with local retailers.

The second recommendation suggests that global FMCG companies should develop traditional distribution channel, because there is a change in modern

customers' behavior. Nowadays they are not ready to go to big supermarkets (that is a modern distribution channel) in order to purchase beauty care products and demonstrate higher willingness to buy these in the nearest small points of sales (that is a traditional distribution channel).

The case study of L'Oréal demonstrates that customers have more confidence to make purchases in the company's own stores, where products are provided on the exclusive terms. So, the third recommendation for the Global FMCG Beauty care companies is to open their own stores for the sale of their luxe goods. Another recommendation for this category of FMCG companies is to hire brand representatives who will go to the potential customers (final users) with the company's goods in the case and will sell goods due to established friendly relationships, as this is especially appreciated by female customers. A good example of this system is provided by Avon, whose representatives periodically visits customers at homes with product catalogs and pleasant smile on their face.

The fourth recommendation suggests the most effective distribution proportion, that is 30% of indirect distribution, 60% of direct distribution and 10% of e-commerce. According to the analysis, more and more people nowadays tend to purchase different kinds of FMCG products, such as foods, beverage, home and beauty care and others through the Internet. That is why global FMCG companies should pay due attention to e-Commerce through creation of their own online stores or using marketplaces. So, the companies should actively develop this type of distribution in the area of digitalization.

So, it is believed that implementation of these recommendations will help global FMCG companies to increase the effectiveness of their approach to distribution that help the companies to increase volume of sales and decrease costs.

During the analysis the several problems were faced. First of all, there is a lack of academic literature concerning the ratio of direct and indirect distribution in different categories of Global FMCG companies. For example, it was very difficult to find any relevant information about the ratio of direct and indirect distribution in such category of Global FMCG companies, as Beauty care. However, it is very

important to investigate this topic, as distribution plays very crucial role for the Global FMCG companies, especially in the modern realities, when there is a radical change in the approaches to the distribution.

The second recommendation concerns the difficulties which were faced during the study of L'Oréal distribution proportion in Brazil. The information about companies' distribution strategies in different countries will help to identify the factors that influence the choice of distribution ratio in different countries. However, it should be admitted, that the absence of such information may be connected with the fact that it is considered as confidential.

The third recommendation is to investigate the reasons why e-commerce was selected as a new type of distribution, that cannot be considered as direct or indirect, as this topic is considered to be very important and interesting, especially nowadays, when online shopping is becoming increasingly popular.

Fourthly, there was a lack of information in the academic literature concerning the exact definitions of such terms, as “distribution type”, “distribution strategy”, “distribution system” and “distribution channel” and it was not easy to identify the main differences between these terms. This fact may cause problems with the understanding of key concepts of distribution among future researches, that may negatively influence effectiveness of their researches. That is why it is important to clarify these terms.

In general, it was possible to compensate these lacks thanks to the careful analysis of the case studies of Henkel, L'Oréal and Unilever, also a great help was provided by presentations and reports for these companies' investors. Moreover, the process of the research was facilitated by the fact, that the author has taken an internship in Henkel Rus Beauty Care department.

In conclusion, the Global FMCG sector is actively developing nowadays and is expected to continue to grow in the nearest future. Due to this fact, there is a tough competition struggle between Global FMCG companies and in order to succeed they have to deliberately think through all aspects of their strategies. As a result of creation of a global market, distribution strategy began to play a very

important role for global companies, and in order to create an effective distribution strategy it is vital to carefully choose the right ratio of direct and indirect distribution, taking into account all specifics of the market.

The detailed analysis of the cases of Henkel, L'Oréal and Unilever companies' distributions in Russia and Brazil shows, that distribution strategies can vary from country to country and from company to company. It also allows to assume, that the development of an effective distribution depends on such factors, as market, product, competition, company characteristics. Concerning the exact distribution ratios, the following result were found out: Henkel uses 70% of direct and 30% of indirect distribution in Russia, while in Brazil Henkel beauty care products are sold through intermediaries. L'Oréal uses 60% of direct and 40% of indirect in Russia, and assumable to 60-70% of direct and 30-40% indirect distribution in Brazil. Concerning Unilever, it has 80% of direct distribution and 20% of indirect distribution in Russia and as for Brazil, Unilever has 65% of direct distribution and 35% of indirect distribution.

In general, there is shift of global FMCG companies from the traditional distribution model, as they started to think that they can sell products through retailers without distributors.

The research paper now allows to confirm or reject the following hypothesis:

3. *“In global FMCG companies indirect distribution accounts for 10%, while direct distribution accounts for 90%”*. The researches think the proportion of indirect and direct distribution for Global FMCG companies is the following: 0-20% of direct distribution and 80-100% of indirect distribution. Moreover, the analysis of case studies also shows, that the percentage of direct distribution is higher than indirect one. So, the hypothesis is rejected.
4. *“It makes sense for Global FMCG Beauty care companies to develop indirect distribution, especially through distributors”*. As it was proved by the theory and case study analysis, in order to cover all point of sales, in all areas, including the remote ones, and to increase sales volume, Global

FMCG Beauty care companies actively develop indirect distribution through distributors. Consequently, the hypothesis is confirmed.

The following recommendations were put forward in order to enhance the distribution strategy: 1) Global FMCG companies should use indirect distribution while entering new markets; 2) global FMCG companies should develop traditional distribution channel, because there is a change in modern customers' behavior; 3) Global FMCG Beauty care companies is to open their own stores for the sale of their luxe goods and it is also recommended to hire brand representatives; 4) The most effective distribution should include the following proportions - 30% of indirect distribution, 60% of direct distribution and 10% of e-commerce.

In addition, the following recommendations were given to the future researches: 1) To develop academic literature concerning the ratio of direct and indirect distribution in different categories of Global FMCG companies; 2) To investigate the reasons why e-commerce was selected as a new type of distribution; 3) To clarify the terms "distribution type", "distribution strategy", "distribution system" and "distribution channel".

So, it is important for any global company to develop an effective distribution strategy as it helps to achieve organization's long-term and short-term goals, and carefully determine the ratio of direct and indirect distribution.