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A GROUND STUDY OF SALES AND DISTRIBUTION CHANNEL STRUCTURES OF TEN DIFFERENT INDUSTRIES IN INDIA

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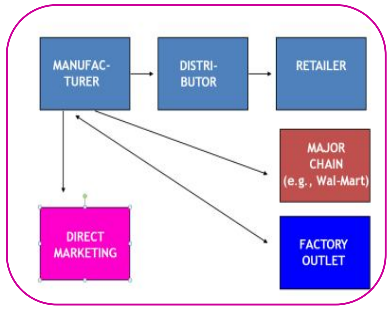
ABSTRACT

A sale is a commercial act of selling a product for compensation. There is passing of the title (ownership) of the item and settlement of a price. The seller, not the purchaser generally executes the sale and sometimes may be completed even prior to the payment. Marketing channels are the pathways through which product and services are made available to the customers for consumption. Distribution management is the art and science of designing the channel, selecting and motivating channel members and promoting the product or service through the channel. This study is an attempt to understand and explain the sales and distribution channel structures in ten different industries in India. It offers a classification scheme for grouping marketing channels into homogenous clusters based on similarity/dissimilarity. This scheme offers to explain the variety found in structures and suggests alternative channel possibilities. This will help in formulating marketing strategies and in deciding upon operational issues as well.



KEY WORDS : *India, Marketing Channels, Marketing Strategy, Relationship Marketing, Sales and Distribution Channels. Channel Structure.*

INTRODUCTION

This paper investigates the sales and distribution channel structures in ten different industries in India in an attempt to explore and explain the similarities and differences found in the varied set of industries. Theoretical material available on Sales and Distribution channels do not offer much guidance in this regard, as these only discuss functions and flows in very general terms, and more often than not the focus is narrow and on a single industry/sector. An example would be a chapter that focuses on retailing, industrial marketing or consumer goods channels. This treatment in our opinion does not recognise fully the ***similarities and differences*** that one finds across sectors in marketing channels. A thorough identification and recognition of these commonalties or lack thereof may prove helpful to businesses in making strategic and operational decisions concerning leveraging existing channels to their "fullest potential" by adding or deleting products and services. They may also decide to modify channels to suit their product and service portfolios.

RESEARCH METHODOLOGY

The research in this paper is carried out using secondary data. We have used information available regarding all the industries under study and also of the companies for which examples have been taken to depict the picture of the industry as a whole. Also as the research pertains to the nationwide market for the various industries, collection of primary data holds no importance. We have also used perceptual map, which helps us to compare between the industries taking into consideration the various variables.

Detailed summaries of channel structures in 10 different industries in India

The following is a summary of 10 different industries' sales and distribution channel structures. The aim here is on capturing the channel structure of the industry as a whole. In a few cases the write up captures the dominant firm's channel structure. This is done to paint a rich picture and to enhance readability. The point of view is that the chosen firms' structures represent industry structures. The 10 industries are Cars, Newspaper, Credit Cards, Cell Phones, Footwear, Motorbikes, Ice Cream, Chocolate, Toothpaste, and Detergents & Shampoos. The data used for the following write-up is subject to change, and hence can be used only as an approximation. Readers may like to refer to more current information for up-to-date and exact data.

1. Passenger Cars:

This sector is characterised by high unit value, high margins and high competition. Given the high investments that dealers are required to make upfront and also towards working capital, margins can easily get offset. Sales are seasonal. Yearend sales are low as car models and year of manufacture affect resale values. Organisations also tend to make use of depreciation allowances by purchasing before the end of financial year and also to meet budgetary provisions and expenditure. Manufacturer-dealer relationships, given the fact that not many firms need more than 200 dealers to cover the nation, have the potential to develop into *strong partnerships*. Low volumes cannot sustain a large number of dealers. This channel is a simple chain in terms of flows and functions. Rural markets may not be able to support dedicated local dealerships.

2. Newspaper Industry:

Newspapers are sold in India at prices as low as Rs.2/-. Advertising revenue is said to be the main source of income for businesses in this sector. Margins to distributors, wholesalers, retailers, and hawkers account for as much as 50% of sale prices. This business requires "direct-to-consumer's-door-delivery". Timely delivery is essential, and unsold copies have little value. Firms battle for circulation figures which help in raising advertising revenues. Movement of goods is a key sales and distribution function. Main cities and towns are easy to serve when production (local editions) is local. The only precondition is minimum volumes or circulation levels.

3. Credit Card Industry:

Given the low penetration levels and cash culture, this sector's fortunes are tied to the burgeoning middle class size and spending habits. A number of banks who have tie ups with either Visa and/or MasterCard or offer own labels compete aggressively to enrol members. Using bank branches as well as direct sales associates (DSAs) for marketing credit cards to existing bank customers and others through targeted databases are the preferred strategies. One estimate puts the number of credit card users at seven million. Credit ownership does not however translate into usage. Owning multiple cards only makes this market even more problematic. Defaulting on credit card payments used to be a significant issue, but not any more so. The increased scrutiny of applications to verify creditworthiness and other factors appears to have driven the industry to focus on the upper end of the market. Increasing awareness of credit cards, usage options, special offers, and retaining and adding to customer base are the focus areas for businesses in this sector. A number of banks appear to be using credit card products for cross selling to existing bank customers rather than to operate as credit card marketing specialists.

4. Mobile phones industry:

Indian cell phone subscriber base has grown rapidly in the last couple of years and now stands at about 50 million. In many urban areas, the number of cell phone connections is larger than the number of installed landline connections. In comparison, China has a subscriber base of 200 million. Reliance Industries, the largest Indian firm, has recently entered as a player in this market with their product Jio and has in a year's time gained a market share that is close to 12%. But with its aggressive marketing, cheaper call rates and Internet data plans, it has already given the existing market players a scare. This firm employs *multiple channels (own outlets as well direct selling agents)* for acquiring customers unlike the competition who mostly employ marketing agents for this task. The firm imports and sells handsets which are customised to its network. This is helping the lower middle class customers enjoy all the privileges which they could enjoy only by having a premium handset. Huge investments in infrastructure are backed up by the appointment of direct selling agents for reaching consumers.

5. Footwear Market:

Bata has 60% share of the organised shoe market and sells 60 million pairs a year. The company has a network of 1600 showrooms (1100 owned and 500 franchised), 500 wholesalers and 30,000 small dealer shops to which it supplies 1200 product lines. Brand loyalty and reach have been the key factors in the success of the firm for the 70 years of its existence. To counter old fashioned image perceptions of the firm is a challenge that the firm is struggling with at the moment. The entry of several well known foreign brands has also had its impact although some of the firm's showrooms stock Reebok, Nike etc. A large number of new footwear showrooms have come up in the recent years and many of them are associated with and are dedicated to brands that compete with Bata. Sports and casual wear market is branded and differentiated, and this is an area that Bata cannot match the investments and promotion of multinationals like Nike and others.

6. Two Wheeler Market:

Indian two wheeler market's sales volume is 7 million units a year. India is the biggest market in the world after China. This market is divided into three distinct segments, motorbikes, step thru scooters, and mopeds. The motorbike segment alone has 4 million units sales volume. Premium end of the bike market has bikes that are priced at Rs.90,000 and constitutes 15% of the market. Most of the bikes are of 100cc capacity and are highly fuel efficient with some bikes giving as much as 100 km per litre. Low end bikes are priced as low as Rs.50,000. Financing is easily available and dealers have direct tie ups with financing agencies. Given that cars are not yet easily within the reach of the majority of the population, two wheelers are the most popular option of transport. All manufacturers have exclusive showrooms (owned as well franchised) in all major cities and towns. Dealers do not stock/sell competing brands but do carry all brands of a single manufacturer with whom they are associated. These multi-brand outlets' profitability is driven by volumes in a growing market and cross selling opportunities. Financing and sale of insurance are also other related activities that a number of dealers carry out.

7. Ice Cream Market:

This market's annual sales are estimated at US$ 370 million. The organised sector accounts for one-third of the market. The industry is dominated by a number of local firms, and three national level players. Transport and storage are critical departments in this sector, and given the inadequate infrastructure that India offers it is near impossible for large players to dominate all geographic territories. While consumer convenience mandates that ice cream firms employ extensive coverage, usually only a small proportion of retail outlet universe in India (estimates vary from 5 to 10 million) is serviced by any one firm. Vadilal, a company in the Western India that has 15% of the market share has only 20,000 retailers. This gives an indication of reach and coverage possible in this business given the product's sensitivity to transport and storage conditions.

8. Chocolate market:

The size of the chocolate market in India is about 228,000 tonnes (2016 data) and is expected to cross US$ 3.2 billion by 2018. Cadbury India has the biggest market share at 70 per cent while Nestle is the second largest at 20%. Cadbury's reaches 0.6 million retail outlets. Recently there was a crisis that Cadbury's had had to resolve when it was reported that worms were found in a few of the Cadbury's chocolates. Since then the company has invested in upgrading packaging facilities and in making sure that the product's quality and integrity is maintained. Given that not all retailers have cold storage facilities, the firm has to continue to try and educate channel members regarding proper storage facilities.

9. Toothpaste Market:

Colgate has a market share of 55.5% and has a retail outlet reach of 2.8 million. The company has a direct reach of 0.8 million using 1600 stockists, whereas 24000 wholesalers service the balance 1.8 million in what is indirect reach. In a major restructuring and modernisation drive, Colgate has drastically reduced own sales force. To upgrade frontline sales force, Colgate equipped stockist salesmen with palmtops for accurate recording and processing of orders and other information. This is reported to be delivering major gains in reach, effectiveness, coverage and brand promotion. Investments downstream to arm those who are directly in touch with the last link in the channel viz., retailer is a new innovation in this market.

10. Detergents and Personal Products:

Unilever India is the largest FMCG (fast moving consumer goods) firm in India and has the widest reach in the nation with a retail network of 4 million outlets. Levers are implementing an IT system to connect 3,500 stockists in 1200 towns who account for 80 per cent of company sales. A redistribution stockist deals mainly with financing stocks, providing manpower, servicing the retailers, implementing promotional activities, extending indirect coverage, reporting sales and stock data and screening transit damages. Unilever is experimenting with a new model and is planning to go in for a fewer number of stockists handling larger areas of outlets in the future. This could mean reduced costs for the company.

ANALYSIS OF MARKETING CHANNEL STRUCTURES

Ten variables have been extracted from the detailed case studies and case summaries in the preceding section. This necessarily is subjective and a selective process. As one may observe, this set is limited and can easily be expanded by including consumer related variables (e.g. frequency of purchase) and several others. However, our purpose is to highlight a research process and its application, and the chosen variables and their measurement are both subject to improvement as we argue in this paper later but serve the illustration purpose as an embodiment of infusing rigour into qualitative research methodologies. The summary is presented in Table 1 and has in columns the ten key variables and our assessment of the degree of importance (measured on a Likert scale of 1-5) for each of the 10 variables for each of the 10 chosen industries.

Table 1: Sales and distribution structures of different industries - A comparison

Sales and Distribution structures of different industries: A Comparison											
	Industry	Competition	Unit Value	Volume	Unit Margins	Seasonality	No. of retailers	Retailer Investment		Retailer Sales	Manufacturer Retailer Relationship
								Capital	Working Capital		
1)	Car	High	High	Low	High	Medium	Low	High	High	High	High
2)	Newspaper	High	Low	High	Low	Low	High	Low	Low	Low	Low
3)	Credit Cards	High	High	Medium	Medium	Low	Medium	Low	Low	Low	Medium
4)	Mobile phones	High	Medium	Medium	Medium	Low	Medium	Medium	Medium	Medium	Medium
5)	Footwear	High	Medium	High	Low	Low	High	Medium	Medium	Medium	Medium
6)	Two Wheelers	High	High	Medium	High	Medium	Low	High	High	High	High
7)	Ice cream	Medium	Low	High	Low	High	High	Medium	Low	Low	Low
8)	Chocolate	Medium	Low	High	Low	Low	High	Low	Low	Low	Low
9)	Toothpaste	High	Low	High	Low	Low	High	Low	Low	Low	Low
10)	Detergents & Personal products	High	Low	High	Low	Low	High	Low	Low	Low	Low

The ten variables in Table 1 above may be categorised into two distinct variable groups. The ten variables fall into two broad categories namely industry related ones and channel member related ones.

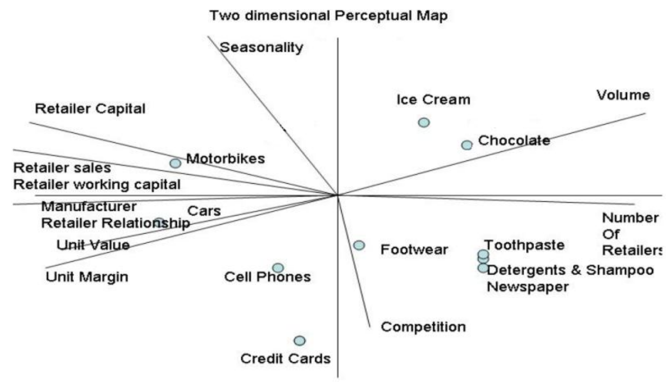
- Industry related variables: Competition, Unit Value, Volume, Unit Margin and seasonality.
- Retailer related variables: Number of Retailers, Retailer Capital investment, Retailer Working Capital requirements, Retailer Sales Value, and Manufacturer retailer relationship.

The degree of importance that appears in the table is a *subjective assessment* on the part of researchers and appears in the table as High (5), Medium (3) or Low (1) representing the variables' nature and strength. This measurement is relative to the set of the chosen industries. This subjective assessment is commonly referred to as judgemental data and can easily be the average of multiple data points across a set of managers or even across several sample strata. As long as we understand that the purpose is the exercise is theory generation, not verification, one need only to think of both *validity and reliability* as suited to the context of theory building. The conversion of qualitative data into quantitative data is an important step as this step, in our view, is a key link to making qualitative accounts more amenable to analysis, interpretation and verification. Elements of rigor and reliability and by extension validity are introduced into the research process through this critical act. This, we argue, is a key contribution of the paper in addressing a lacuna in the analysis and interpretation of qualitative data, and in increasing reliability and validity of qualitative research process.

Limitations of study and scope for further research

This study is limited to the Indian market and also to only 10 industries/sectors. The study can be extended to various other industries. It may also be worthwhile to add more variables apart from the 10 considered. Theoretical extensions and comparing the findings of this study with the existing theories is another possible avenue for further research.

FINDINGS, CONCLUSIONS AND CONTRIBUTIONS



Based on the above data and output, we may classify marketing channel structures into several different clusters. An illustration of a four cluster grouping is presented below:

Cluster 1: Cars and Motorbikes
Cluster 2: Credit Cards, Cell Phones, Footwear
Cluster 3: Chocolate, Ice cream
Cluster 4: Toothpaste, Detergents & Shampoos and Newspapers

This is a visual map classification. The clusters and their composition can change depending upon researcher perspective and/or practitioner aims. For instance the seasonality variable appears to have ice cream as a part of the cluster. However, the volume dimension makes ice cream a part of the cluster made up of chocolate.

This classification may prove to be very useful in many strategic and tactical ways. This classification or typology scheme can influence both the design and management of marketing channel structures. We feel that this typology/classification has several applications and offers explanations for hitherto unexplained phenomena. This schema may also offer empirical support to strategic management theories that focus on diversification into related businesses downstream. Diversified firms also may find strategic and operational rationales for portfolio of product-markets that they may be operating in or intend to enter into.

Limitations of the study and further research avenues

This investigation is exploratory given the qualitative methodology employed in exploring the subject under scrutiny. This study is focused on one single nation viz., India and also is limited to 13 different businesses/sectors. It would be useful to extend the number of industries covered to include others and test the mapping solution both for stability and comprehension. It may also be worthwhile to add more variables and constructs in addition to the ten used in this study. Theoretical extensions and comparing the findings of this study with existing theories is another possible avenue for future research.

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