Contemporary Channel Scenario in India

The Indian retail sector is witnessing tremendous growth with the changing demographics and an increase in the quality of life of urban people. At this moment, we cannot be sure whether the Indian retail market will replicate the success stories of names such as Walt-Mart Stores, Sainsbury and Tesco but at least the winds are blowing in the direction of growth. Kishore Biyani launched the country's first ready-made trouser brand in 1987 and diversified from there. Now, as CEO and managing director of Pantaloon Retail (India) Limited, he oversees thirty-two department stores in fifteen cities. Retail sales now accounts for 44 % of the GDP. Food sales have grown from 3.81 lakh crores in 1996 to 10 lakh crores accounting for 63 % of the total retail sales. The organized retail food and grocery sector constitutes the largest opportunity for growth and account for 2% of total sales at present. Urbanization, working spouses, increasing household disposable incomes and convenience of one stop shop with good ambience drive growth of retailing in India

"Retailing is the industry of the future in India" has been the refrain of various industry bodies of India like CII, FICCI and international consultancy majors like McKinsey and A.C. Nielson. Such drum beatings have raised the expectation on retailing industry. But the retail industry has not lived up to this hype. Except for Pantaloons and Foodworld, all other retailers have their bottom lines in the negative. Putting aside Pantaloons and Foodworld for the time being and focusing on the retail industry per se, the reason for the dismal performance of retail industry can be ascribed to the fact that a single model of retailing is not scalable across the length and breadth of India. The retailer has to provide for variation in its model stores so as to cater to the economics and idiosyncrasy of the target segment. Even within a city the wares of a retailer in a particular area has to be different from those of the same retailer in another part of the city.

The short point is that there is a lot of learning involved. It is not like setting up a successful shop in one part of one city and replicate the same all over the country and you have success assured.

Growth of retail outlets in India

- Number of retail businesses grew by 26% in past 5 years (1996-2001)
- Food & food services outlets grew by 33%
- Non-food outlets grew by less than 30%

The retailing industry in India, estimated at INR 9300 billion (2003-04), is expected to grow at 5% per year and organised retailing is well on its way to becoming an INR. 350 billion market by 2005 according to India Retail Report 2005: An IMAGES-KSATechnopak study released at the KSA Retail Summit 2005 in New Delhi, India by Kishore Biyani, managing director of Pantaloon Retail, India's largest retailer.

Five reasons why Indian organised retail is at the brink of revolution

- Scalable and Profitable Retail Models are well established for most of the categories
- Rapid Evolution of New-age Young Indian Consumers
- Retail Space is no more a constraint for growth
- Partnering among Brands, retailers, franchisees, investors and malls
- India is on the radar of Global Retailers Suppliers

Briefing on the report R S Roy, editorial director, IMAGES Group said that the presentation of India Retail Report 2005 required a yearlong interaction with over 1000 companies representing the entire gamut of manufacturing, retailing and the services sector that had direct or indirect impact on consumer spending. The study required a thorough understanding of the world market, major players, strategies and emerging trends and the evolution of Indian retail across multiple segments.

Conventional Wholesale-Retail Trade Continues to Dominate the Scene

In total contrast with the western countries, where formats like supermarkets/retail chains dominate the distribution system, conventional wholesale-retail trade dominates the scene in India. Again, unlike the West where a handful of apex distribution chains service the millions of retail shops, in India, stand-alone wholesalers/retailers dominate the scene. Some experts believe that before long, India too will see the massive growth of distributing companies/retail chains. Many others, however, feel that in India, large distribution outfits will not replace traditional distributors in the near future.

Image of the Trade is Changing

Till recently, the image of a stockiest/distributor in India was one of a cash-rich trader interested in quick profits. Such an image was a concomitant to the prevailing marketing environment. Many products enjoyed a premium, often in black, in view of the all-round shortages and the system of price controls. The distributive trade was making merry at the cost of the consumer. The situation has changed considerably in recent years. With the increased availability of products, removal of price controls, increased competition and increased choices to the consumer, the environment in which the distributive trade was operating has changed significantly; the distributor of today has to put in harder effort to sell his products and he has to service the customer properly. Naturally his image has undergone a change. Companies too are now keen to present to the public/consumers a cleaner image of their distributors.

Firms go in for non-traditional channel arrangements

In recent times, firms have been taking to different kinds of non-traditional channel arrangements such as:

Outsourcing of Channel Arrangement

Complete outsourcing of channel arrangement is the most striking of the non-conventional attempts. Firms contract outside logistics specialists to operate as their marketing channel.

Exclusive Retailing

In India, many firms have been practicing exclusive retailing for the past several years. In recent years, however, the idea has proliferated fast. More and more companies are now recognizing the inadequacy of the traditional wholesaler-retailer trade channels and are going in for exclusive retail networks. Across industries, it is becoming a trend, partly displacing and partly co-existing with the traditional wholesaler-retailer set-up.

Firms pursue exclusive retailing in different forms such as:

- Exclusive dealers without franchising arrangement
- Exclusive retailing through showrooms
- Exclusive retailing through shop-in-shop
- Franchising

Exclusive Dealers Without Franchising Arrangement

Exclusive retail networks have been in existence in India for many years now. In the earlier days, businesses like textiles and footwear were the ones in which this concept was widely prevalent. In textiles for example, Reliance (Vimal) achieved phenomenal success by setting up a network of exclusive retail shops. Garden Silks too has taken to this route. It has over 150 exclusive retail outlets, of which seven are company-owned. Bombay Dyeing is another example. Ready-made garment brands like Louis Philippe and Van Heusen, have also taken to exclusive retailing. In footwear, Bata runs a network of 1,200 exclusive shops and is expanding it further. It also has a parallel network of BSC stores, which are also exclusive shop to a large extent. Liberty Shoes, Bata's challenger, has also gone in for exclusive shops. It now has over 150 such shops.

Degree of Exclusiveness can vary: A scrutiny of practices prevailing in the market shows that a firm can practise exclusive retailing to varying degrees of exclusiveness and in combination with non-exclusive retailing. Bata, for example, has 900 company-owned exclusive shops, 120 franchisee exclusive shops and 600 market extension programme dealers, who are semi-exclusive. In addition, it has a; separate, non-exclusive wholesaler-retailer system, consisting of 200 wholesalers and 12000 dealers.

Ready-made garment brands like Louis Philippe, Van Heusen, and Allen Solly were, to start with, marketed through exclusive outlets/franchisee showrooms. But, after some time, the companies concerned voted for a policy of semi-exclusiveness. They opened the door to multi-brand textile shops. They also adopted the shop-within-shop concept. In the matter of size, exclusive retail networks can range from very small to very huge depending on the nature and 'class' of the product/brand. Pierre Cardin, for example, markets its products through just eight exclusive shops in India. Reliance (Vimal), against this, has a network of over 2,000 odd exclusive Vi mal showrooms.

<u>Shop-in-Shop</u>

Today many super stores reserve special areas in their shops exclusively for particular brand. These are called shops-within-shops. The Louis Philippe line, for example, is sold through the shop-in-shop in the super store Shoppers Stop.

Philips Corners: Philips is another good example of a company using the shop-in-shop concept. It has established its 'shops-within-shops' in many stores, and named them the 'Philips Corners'. In fact, Philips overcame the problem of not having exclusive showrooms by voting for the shop-in-shop concept. It gained good visibility for its products in multi-brand outlets. 'Philips Comers' helped in keeping a good presence in outlets where consumers went to compare various brands. The internationally standardised colours, shelves and display windows of the 'Corners' helped Philips to cut across the clutter.

Advantages of Exclusive Retailing

- Helps the firm get best locations.
- Superior store image
- Uniform store image.
- Spreading awareness about the company and its brand.
- More appealing visual merchandising.
- Full product range of the company can be stocked and displayed in all outlets.

- With exclusive outlets, the firm can avoid margin wars.
- Superior store image
- Facilitates building store loyalty
- Creates special enthusiasm for the company's brand at the retail level; multi-brand outlets cannot create such enthusiasm for a particular brand.
- Enables better control of the outlets.

Showrooms

Showrooms are one type of exclusive outlets. There are actually two kinds of showrooms:

- Own
- Franchised

Titan Watches is a good example of a company putting the concept to fine use. The two kinds of showrooms have certain commonalities as well as certain differences.

Advantages of Own and Franchised Showrooms

Own showrooms

- Help the firm to be closer to the customers and in direct touch with time.
- Help the firm get market feedback directly from customers; with franchisee showrooms, this advantage may not be available to the same extent.
- Own showrooms can be controlled better and used more for enhancing company image as compared to franchisee showrooms.

Franchised Showrooms

- Franchised showrooms often do not the job more economically; they incur lower overheads compared to company showrooms.

• Often suitable space is not readily available at the desired locations for setting up own showrooms; franchises bring in such space.

• Help save set-up time

• Budget constraints also drive firms towards franchisee showrooms

• Setting up own showrooms is usually an expensive business. Singer, for example has estimated that it cost Rs. 4 lakh to set up one showroom of its own. Companies can at best have only a limited number of own showrooms, as coverage of the entire market will be prohibitively costly given the size of the country. Franchisee showrooms become the easy answer for quick growth without sacrificing the requirement of exclusive retailing. Titan Watches is a good example of a company using a mix of own and franchisee showrooms, leaning heavily on the latter in view of their advantage.

Franchising

Franchising is one form of exclusive retailing. It, however, involves certain special features. Franchising, in fact, is not just a method of retailing; it is a method of marketing, Here, the franchisee, who is an independent businessperson, abides by the marketing plan of the franchiser and pays him a fee for the use of his brand and know-how. In many cases, franchising covers manufacturing as well, wherein the franchisee uses the process/formula of the franchiser in addition to the brand and marketing know-how.

Real Life Case Scenario

Citihome

Citibank's home loan division, Citihome appoints franchisees under its Shelters scheme for generating customers for home loan. It has found that the franchisees carry out the task at much lower cost compared to the company's own branches. The franchisee's personal knowledge of the customers is an added benefit. In addition, franchisees also ensure continuity. These factors are of special importance in home loan business.

Firms Embrace Non-Store Retailing;

So far, we have been discussing retailing methods wherein retailing takes place through a retail store

Non-Store Retailing Methods Gain Ground

- Direct selling/Home selling
- Multi-level marketing
- Network marketing
- Marketing by vending machines
- Consumer fairs

Direct Selling/Home Selling

Direct selling/home selling, also known, as door-to-door selling is one of the major non-store retailing methods. Of course, it is the most ancient method of marketing known to man. Before marketing channels came into being, the producer was selling his product to the user directly. However, direct selling in the context of modern mass marketing of branded products needs to be explained specifically.

Direct selling and home selling are almost synonymous. Let us first clarify the terminology. The two terms direct selling and home selling, which have emerged concurrently, denote the same thing. Both of them are person-to-person selling and both take place away from and without the help of any retail store.

Some experts make out a minor distinction between the two, by referring to direct selling by employee-salespersons as home selling, and direct selling by independent salespersons-cum-distributors as direct selling. There does not seem to be any logic in this approach. On the contrary; we can think of one or two more meaningful distinctions between the two. While home selling invariably takes place at customer's home, direct selling can take place either at the customer's home or her work place. Second, while home selling is always one-to-one, direct selling can at times be to a group. The latter method is referred to as party selling or one- to-many direct selling. It is, however, safer and more logical to treat them as one and the same.

Direct Selling Catches up in India

In recent years, direct selling has been catching up in India rapidly: Avon, Amway, Oriflame are all now present in India. So is Tupperware, which is in the business of plastics food containers. Modicare has been using the method for quite some time now for selling its homecare and personal care products.

Multi-level Marketing (MLM)

Multi-level Marketing (MLM) is a modified version of direct selling. Only a few firms, who do not mind experimenting in reaching out to the consumers, practise it.

Avon, Amway, Oriflame, ModiCare: Avon, Amway, Orif1ame International are among the largest MLM outfits in the world. The Indian firm, ModiCare of the K.K. Modi Group also sells its range of household and personal care products through a large MLM network.

MLMutilises a multi-tiered, non-employee sales persons-cum-distributors to sell the products. We have seen the process to an extent in the Amway exhibit. The process begins with the recruitment of a core group of sales persons-room-distributors, who have to be introduced to the company by a sponsor. Each of these distributors picks up products worth a certain sum, say Rs 1,000 at a time, and sells them directly to the consumers. After they have sold their first consignment they are allowed to pick up their next lot.

No distributor is expected to make all sales on her own. Instead, the system envisages the distributor recruiting a second rung of distributors. The distributor earns commissions at two levels. The first is the commission that accrues to her on what she sells by herself, and is made up of the difference between the distributor price and the consumer price. The second is the share that accrues to her out of the commissions earned by the distributors at the next lower level, whom she has recruited and trained. The value of the products a distributor has sold is worked out in the form of point value (PV). Supposing a first-level distributor sells products worth 100 PV on her own and has recruited six second-rung distributors, each of whom sells products worth 100 PV; she gets a commission that corresponds to 700 PV. The distributor can, if she so wishes, charge a lower price than the one suggested by the company, foregoing a part of her commission.

MLM's plus points: The plus points of direct selling in general discussed earlier, are plus points of MLM as well. Because of the unique multi-level nature of the distribution, an MLM distribution network grows rapidly; continuously; and automatically Multiplication and growth are inherent to network marketing. MLM is, therefore, a quick, and cost-effective, method of marketing. It is especially suited to fast-moving consumer products such as special cosmetic or premium fragrances, targeted at niche markets.

MLM's drawbacks: Being basically a direct selling model, MLM shares all its drawbacks. It suffers some additional drawbacks on account of its peculiarity. First, like the classic chain letter, MLM is a winner while the network keeps growing unbroken. But, should the link snap at many a place, the entire distribution-cum-sales pyramid will suffer a setback. Second, in the MLM system, the distributors are quite often perceived as an irritant by the prospect. Third, distributors are also customers in most cases; losing distributors will amount to shrink-age of the customer base.

One specific minus point is that in the MLM system, the seller cannot have control over the sales persons to the desired extent as they are not employees of the company Moreover, in the MLMsystem, the sales persons-cum-distributors often reduce prices arbitrarily in order to meet their sales targets. As a result, the equity of the brand suffers.

Sometimes, some sales people use 'high-pressure' tactics. It spoils the reputation of brand. Many who joined Amway Network are buying Rs 1,500 worth of products just to reach the required level and keep the Network going. They may be just storing them.

MLM lays excessive emphasis on meeting people and making friends, which creates an artificial behaviour.

Sales forecasting is usually more difficult in the MLM method. So, incidence of mismatch between supplies and sales, and consequent piling up of inventories will be more in MLM. Finally, in India, the government too does not seem to be so favourably disposed towards the MLM concept.

Network Marketing

The student may often come across the term network marketing in the direct selling context. It needs to be clarified that the term is used in two different senses. Some use it to denote MLM; others use it to denote independent direct selling by third-party outfits, which direct sell others' products for a commission. To avoid confusion, we shall call the former MLM and the latter as 'independent direct selling'.

Independent Direct Selling Outfits

Here, a third party-an external independent agency/service provider-enters the picture as direct selling service provider. There are many manufacturing firms, who prefer to keep away from the marketing task. They entrust their marketing task with a suitable outside marketing agency; some among such firms are also particular that their products should be marketed by the direct selling method. In recent years, some help has become available to such firms in the form of independent direct-selling outfits. These outfits direct sell products of different companies to consumers.

The ET Bazaar

• In recent years, the economic Times has been sponsoring and organizing the ET bazaars which are basically consumer fairs.

• The first ET bazaar organised in 1994 in Mumbai

• Manufactures of many leading brands of consumer products participated in it.

• The sellers were able to access thousands of consumers in an enclosed carpeted area of over 1 lakh sq. ft.

• Discounts premiums and other promos were an integral part of the bazaar. In fact, 'Good Prices, Great Prizes' was the theme of the bazaar.

• Prize given at hourly contests boosted consumer participation and over 2 lakh consumers have visited the bazaar and sales worth Rs. 10 crore have taken place.

• The second ET Bazaar was organised in Mumbai and Ahmedabad by the close of 1995 for four days each

• ET and Mudra Diversified, the direct marketing and promotion arm of Mudra communication, jointly organized the fair. They gave extensive publicity to the fair through the local media.

Fresh Force: The Bangalore-based Fresh Force is an example of an independent direct selling outfit. It has established a commercial, direct selling network, with a team of salespersons of its own and functions as a direct selling service provider to any company that wishes to sell its products through direct selling but is wary of establishing a direct selling system of its own. Fresh Force compensates its sales persons with commission, which increases geometrically as the sales goes up. A tie-up with outfits like Fresh Force confers some advantages on the firms hiring their services. Without maintaining a direct selling system of their own, they are able to direct-sell their products.

They also get the benefit of quicker sales and faster cash recovery, as they can instantly offload their products on the direct selling service provider. For the consumer too there is some benefit in this arrangement. She enjoys the convenience of shop- ping at home, getting several products from the same direct seller in this case.

Marketing by Vending Machines (Automatic Vending)

Retailing through vending machines also belongs to the category of channel-less marketing non-store retailing techniques. It enables the principals to have the benefit of intensive and extensive retailing without any manned retail stores at all. This method also has been catching up of late in India, especially in urban centres and is bound to acquire increased importance in the coming years. Usually; products which belong to the 'buy on impulse' category like soft drinks, cigarettes, candy, etc., and select articles of daily consumption such as milk, edible oils, etc., lend themselves to be marketed by this method.

Consumer Fairs

Selling through consumer fairs also belongs to the non-store retailing category; Exhibition- cum-sales is what happens here. Marketers often use this as an additional tool of retailing. Usually; independent promoters and trade associations organise these fairs in which various manufacturers participate and sell their products.

Conclusion

Sometimes, firms tend to think that channels could be easily dispensed with and that the firm would be better off doing so. The firms assume that by eliminating the channels, they can eliminate the channel costs, which is an erroneous thinking.

The problem arises due to the confusion in thinking. The firms concerned might be viewing channels as mere 'middlemen', with a negative connotation attached to the term. And, they might consider the channels as parasites. No wonder then, they think that they would be better off by dispensing with the channel, in part or full. It needs to be emphasised that channels/middlemen are no parasites. They are an essential and valuable part of the firm's marketing activity. Manufacturers use them as there is economic sense in doing so, and all things considered, using them improves distribution efficiency.

Sometimes, duplication of channel functions does take place in a channel system; the same function being performed by more than one tier. Firms often presume that in such cases, it is beneficial to dispense with one of the tiers. This is again incorrect thinking. Duplication of functions by different tiers need not automatically imply inefficiency, or waste. In many cases, such duplication may be essential for achieving the desired service level in distribution. For example, inventories may have to be kept at different levels/tiers of the channel so that the flow of products is smooth and customers get the products at the time and place of their choice. In such cases, duplication is essential and beneficial. 'The firm, therefore, has to find out whether duplication is wasteful. If it serves the interests of the firm, it is not wasteful. So based on the facts of the case, the firm should find out how costs are reduced, efficiency increased and waste eliminated.

The decisions on channel have a vital bearing on other decisions relating to marketing. Pricing decisions, for example, are related to the channel pattern adopted by the firm and the compensation paid to the channel. Similarly, decisions on sales force, its size, type, etc. depend on the nature and size of the marketing channel adopted. The channel pattern influences the pattern of salesmen's operations. It also determines to a significant measure the size and complexity of the marketing department of the firm.

Channel decisions usually bind the firm with long-term commitments. The channel types and the number of levels/tiers in the channel cannot be changed every now and then. For example, once a firm has developed a marketing channel of its own, with company's own stock points performing the wholesaling/semi-wholesaling task, and dependence on external channel limited to retailing activity alone, it cannot all of a sudden switch to a sole-selling agent system or even a wholesaler-retailer system. Having invested heavily in company's own stock points/depots, the firm cannot suddenly extricate it from the commitments already made. Basically once a firm adopts a particular channel model and goes along with it for some time, exiting the model will be difficult.

<u>Distribution at a snapshot</u>

Basic Channel Functions	**Types of Intermediaries**
Decreasing the cost of delivering products to customers	Retailers
Regrouping	Wholesalers
Activities standardizing transactions	
Matching buyers and sellers	
Provide customer service and support	
Number of Intermediaries	**Criteria for Evaluating the Channel Alternatives**
Intensive distribution	Economic criteria
Selective distribution	Control criteria
Exclusive distribution	Adaptive criteria
"Push" versus" Pull" Strategies	
"Push" strategy involves companies aggressively promoting their products to intermediaries through personal selling, trade advertising, and trade incentives.	
"Pull" strategy consists of building a reputation with customers through direct advertising and branding. It creates a desire for the manufacturer's brand, which is then pulled through the channel of distribution.	