

A DESCRIPTIVE STUDY ABOUT THE CHANGING TRENDS OF RETAIL DISTRIBUTORSHIP IN INDIA

NIJANTH ANAND* & VIVEK N**

*Senior Associate Developer, Dell Services, Bangalore

**Teaching Fellow, Department of Management Studies, Anna University, Regional Campus, Madurai

ABSTRACT

Distributors and dealers are participants in a supply channel, the distributor usually a wholesaler who sells to dealers and dealers usually retailers who sell directly to the public. The dealer-distributor terminology is most common in the distribution of machinery and mechanical goods—thus in automobiles, trucks, farm and construction equipment, yard and garden goods (green goods), appliances (white goods), electronics, and also in the sale of industrial equipment. This basic structure has many variants. This article deals about the Change in Retail Distributorship Trends in India

Keywords: Retail, Distributorship, Market Share.

INTRODUCTION

Retail distributorship is

An entity that buys noncompeting products or product lines, warehouses them, and resells them to retailers or direct to the end users or customers. ... They usually also provide a range of services (such as product information, estimates, technical support, after-sales services, credit) to their customers.

OBJECTIVES OF THE STUDY

- To study about the Change in Retail Distributorship Trends in India
- To arrive at various findings and suggestions

CHANGE IN RETAIL DISTRIBUTORSHIP TRENDS

Distributorship refers to an authorised seller who buys products from the Company and sells it to the End Customer or to a Shop Keeper/Outlet who in turn sells it to the End Customer. Distributors are basically the middle men in the flow of a product from the Manufacturer to the Outlets which reach out to the customers. Distributors cash in on the margins the Company provides them. In this paper, we are going to discuss the concept of distributorship, the flow involved in it and the change in trends in the segment.

CONCEPT OF DISTRIBUTORSHIP

The whole idea of Distributorship emerged as a result of manufacturers wanting to increase sales as it is not possible for a Company to focus on sales and delivery to individual outlets through the length and breadth of the country as it is a tedious process. This resulted in the birth of concept of Distributorship to improve sales and improvise focus on the market. So Distributorship is as discussed below a middle man in the flow of goods from the Manufacturer to the outlets/retailers. Generally a company has a National Target which is then split into regional target followed by area target & Distributor target & When a company grows exponentially huge and has attained the stage where it needs the help of Distributors to increase sales they call for applicants. New Distributors may also be required when company plans on bifurcating an existing Distributors territory to focus more on the region with an extra new Distributor. The Distributor needs to analyse the profile and scope of the company before investing, as a company with a commanding market share or an exceptionally performing new product would ideally have better scope for a Distributor. The company decides the turnover and margin it is going to offer the Distributor and a newly appointed Distributor has to pay a Caution deposit to the company and get the necessary certifications required for the Distributorship (Eg. Bank Statement, TIN no or GST no, PAN no, Partnership deed, Drug Licence no, FSSAI Certificate for food product Distributorship). Once the Agreement process is done the Distributor gets his stock based on the invoice value, once he pays upfront based on the company policy.

The margins vary from company to company based on the turnover and operational cost of the distributor. The Distributor stocks up his products and sells it to the outlets/retailers based on the orders taken from the market. The Distributor has his own Sales team who take orders from the market, warehouse keepers, a logistics team for efficient delivery of the goods to the market, a back-end team to audit sales bills, Sales tax, claims etc. The company's sales representatives, merchandisers, promoters are also part of the Distributor ecosystem

contributing to the same cause. The company has a regional sales target which is forced on the Distributor and the Distributor in turn pumps goods into the market to achieve targets which drives sales ideally.

OPERATIONS

The Distributor generally gives credit to the outlet or in some cases cashes in based on the products demand. Like in any business a Distributor also aims to get a higher ROI.

$$\text{ROI} = \text{GROSS PROFIT} - \text{EXPENSES} * 100$$

INVESTMENT

The Distributor keeps track of his investment and the turnover ensuring he does a higher Sales Turnover with a lesser investment & expenses ensuring higher profit as profit are proportional to Turnover. The lesser the investment, with lesser credit limit and a good margin percentage would be the ideal condition for a Distributor which would help him increase his Return on Investment (ROI)

A Distributors investment is divided as Fixed capital (like Delivery vehicles, Furniture, Building etc) & Working capital.

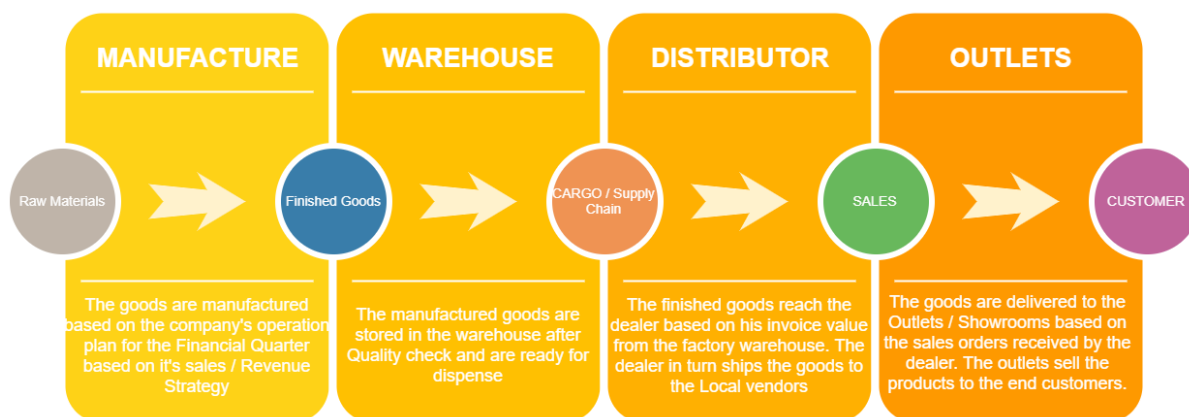
$$\text{Working capital} = \text{Inventory} + \text{Market outstanding} + \text{Claims} - \text{Dues to the company.}$$

In case of goods with Expiry dates, the Distributor takes back goods from the market which have expired and gets claim from the company for the expired value of the goods.. In a country like India where trading accounts for a large portion of the business ecosystem especially in small towns and districts, there are multiple Distributorship options ranging from Automobiles, FMCG, Pharmacy, Branded Textiles, Paints, Mobiles to Iron and Steel Distributorships. Distributorship businesses which were once considered prime businesses are currently on the decline which we will be discussing in the later part of the Paper.

PROCESS FLOW INVOLVED IN DISTRIBUTORSHIP

The company decides it's operational plan based on the performance in the previous financial quarter. The decision may range from increasing production to increase Revenue Growth to decreasing Production as a result of stagnation of products in the marker. Production plans may include increase in a particular vertical the company produces, decrease in the production of smaller quantity variants and increase in larger Family Saver packs to increase sales value. Company's may also decrease the production of certain verticals based on the brand

performance. The company also takes into account ingredient cost, current economy and the market condition to finalise on it's Production plan. So once the production is done, the goods are ready for dispense from the warehouse after the Quality test of the goods are done. The Finished products are to be shipped to different parts of the Country/World based on the Sales plan made by the sales team. Demand for products varies based on region and hence production is done at the nearest plant to cut down on logistics.



The Sales team decides on the targets for each Distributors and the orders are placed according to the capability of the Distributors market. Once the invoice is done the goods are dispensed to the Distributor once the payment is done (This varies between companies as few Companies offer credit while few cash in immediately on the goods). The Distributor in the meantime plans his secondary strategy (Sales/outflow) based on his Primary value (Product Inflow/Invoice from Company). The Distributor has his own Sales executives/team who help achieve the Secondary target. The company also has it's Sales team/Promoters who work in the market to ensure improvement and increase in reach and sales of the product. Once the orders are taken by the Distributors sales team they dispense the goods on a daily basis to the market based on the beat the Sales team had worked on the previous day. A Distributor has a particular area in a city or multiple cities/districts at his disposal and plans his everyday sales beat according to the size of his territory ensuring his sales person visits each outlet at least once a week. The goods are shipped to the outlets in each area on a regular basis by the Distributor's logistic facilities. It is purely the option of the Distributor to either offer credit or get ready cash from the Outlet which he decides based on the reputation and the Turnover of the Outlet. The outlets then put the products on display for the public adding their margins to the cost price or in most cases sell at the MRP. An outlet which has a high turnover would get schemes and discounts from the Company for it's high sales volume thereby resulting in a lesser price compared to most other stores. A high demand products stock is bound to get exhausted early resulting in the outlet clearing its pending Cash Invoice balance with the Distributor and placing a fresh order and vice versa. So the company and the Distributors profitability depend on the sales in the outlets.

FACTORS AFFECTING DISTRIBUTORSHIP TRENDS

An array of factors are currently affecting Distributorship businesses which are discussed below in detail.

➤ **Increasing Operational Cost**

The predominant expense for any Distributor is the Operational cost of running the business. With increasing salaries and employee bonuses the cost of labour has increased rapidly. The cost of running an office has also increased with the investment in Technology and software requiring an annual update alongside meeting and Broadband expenses.

➤ **Decreasing Margins**

There is a change in the approach of companies to Distributors as most companies are currently in the trend of decreasing margins to Distributors. Earlier companies ensured an ROI of a minimum 30% but now it has come down to 15% to 18%.

➤ **Higher Investments**

The company gives unrealistic targets to show high growth in a financial year which would lead to dumping of stocks, excess market credit & claims from trade schemes & expired stocks result of which the Distributor has to increase his investment manifold YOY which decreases his profitability. The more the excess Investment required, the Distributor has to pump in more cash into the business or they would have to go with a bank loan which directly affects his Income.

➤ **Competition from Competitor Brands**

Gone are the days when a company was considered Monopoly in a particular segment. Each and every company now comes with a competitive and efficient alternative product similar to that of the leader in the segment with an at par pricing strategy with more schemes which affects the market share of the companies. Decreasing market share is certainly not a good sign for a Distributor.

➤ **Modern Trade**

Modern Trade is a similar supply flow which Companies currently are encouraging. A modern Trade outlet is a chain of stores which have a national/ Strong regional presence or in few cases are MNC outlets

which directly purchase from the Company with better margin percentages bypassing the Distributors. They pose a serious threat to Distributors and the local outlets affecting the ecosystem in small cities and towns.

➤ **Online Channels**

With technology on the rise and e-commerce growing rapidly customers are seldom going with Online purchasing as it offers Home delivery and you don't have to travel all the way to a store to buy a product. Also you get a variety of options with Sellers from all over the country/world featuring their products in e-commerce sites. Distributors are hugely affected by online channels as it results in loss of sales for them. Currently online channels offer heavy discounts on Electronic goods, a result of which the whole local Electronic goods Distributorship system is at jeopardy.

➤ **Infiltration of Goods from Black Market**

In huge countries where each region has a different Sales Tax percentage, there is inflow of goods from other regions where the tax is less result of which the Cost prices are lesser. Such black markets have parallel supply chains and affect Distributors. Also inflow of discounted and hoarded goods affects Distributors.

➤ **Company Policy & Management**

A Distributor invests in the company's product and indirectly works for increasing the sales and turnover of the company in a particular region. So if the company policy changes and they fail to take into account the interests of Distributors in their new policies it affects the relationship with the Distributors leading to resent. Also the Management in the company has a major role to play, if the sales representatives, promoters in the region are not supportive to the Distributor then he may eventually stop patron aging the company.

➤ **Market Condition**

The market condition also has a huge role to play in the sales of the products. With social media usage on the rise people are more aware about the pro's and con's of products and their judgmental skills are not just based on advertisements. With user reviews now available online, customers are able to view the performance of the product and then buy. So a product needs to be highly convincible to the customer and

with competition from competitor brands gaining Market share is now a tedious process. Also, the economy of the region has a huge role to play.

➤ **Dip In Income**

The main purpose of any business is for Income. As discussed above, with so many factors affecting the Distributorship business, there is a dip in Income prompting Distributors to look for alternative higher Income businesses.

The above discussed factors collectively affect Distributorship businesses resulting in a declining trend. Distributors in general associate themselves with the company over a long period of time expressing their loyalty to the company, but now with changing trends and a whole array of factors Distributors who have age-old bonding's with companies are now shifting to other alternative businesses.

FUTURE OF DISTRIBUTORSHIPS

An array of factors currently affecting the Distributorship businesses were discussed above in detail. If the current trend continues Distributorships are at complete stake and may cease to exist in a decade's time. Distributorships provide employment and contribute vastly to the business ecosystem in the city they are located. So a declining trend in Distributorships will affect the Trading ecosystem of the City.

CONCLUSION

The paper has thrown insights into the change in Distributorship trends. Future work of study in this field would involve coming up with a strategy to integrate Distributorships with the changing business trends so that they remain an integral part of the business ecosystem.

REFERENCES

1. Patrick M. Dunne and Robert F Lusch, Retailing, Thomson Learning, 4th Edition 2008.
2. Chetan Bajaj, Rajnish Tow and Nidhi V. Srivatsava, Retail Management, Oxford University Press, 2007.
3. Swapna Puadham, Retail Management -Text and Cases, Tata McGraw Hill, 2 nd Edition, 2008.
4. Dunne, Retailing, Cengage Learning, 2nd Edition, 2008
5. Sivakumar, Retail Marketing, Excel Books, First Edition, 2007.
6. Ramkrishnan and Y.R.Srinivasan, Indian Retailing Text and Cases, Oxford University Press, 2008.