STRUCTURE OF MARKETING CHANNELS OF SELECTED MANUFACTURING INDUSTRIES IN KERALA

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by

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CERTIFICATE

Certified that the thesis "STRUCTURE OF MARKETING CHANNELS OF SELECTED MANUFACTURING INDUSTRIES IN KERALA" is the record of bonafide research carried out by Mr.G. ANTONY, under my guidance. The thesis is worth submitting for the Degree of Doctor of Philosophy in Management.

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DECLARATION

I declare that the thesis entitled "STRUCTURE OF MARKETING CHANNELS OF SELECTED MANUFACTURING INDUSTRIES IN KERALA" is the record of bonafide research carried out by me under the supervision of Prof. N. Ranganathan, Professor of Marketing and Dean, Faculty of Socical Sciences, Cochin University of Science and Technology. I further declare that this has not previously formed the basis of the award of any degree, diploma, associateship, fellowship or other similar title of recognition.

G. ANTONY

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LIST OF RESEARCH PAPERS PUBLISHED AS PART OF THIS STUDY

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1. MARKETING AS A DEVELOPMENTAL VARIABLE IN ECONOMIC PLANNING, Indian Manager, Vol.13, No.1 (January-March 1983) pp.57-70.

2. MARKETING - MADE IN USA

   1. Paradigms for Economic Development Lost?

   2. Paradigms on Optimum Resource Use.

   3. Modernisation of Distributive Trade.

   - The Economic Times 8, 9 & 10 March 1984.

3. DYNAMICS OF DISTRIBUTION CHANNELS IN A DEVELOPING ECONOMY, Indian Manager, Vol.15, No.2 (April-June 1985) pp.160-180.

4. ADAPTIVE BEHAVIOUR OF MARKETING CHANNELS, Indian Manager, Vol.15, No.4 (October-December 1985) pp.331-373.

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INTRODUCTION

The structure of distribution is assumed to be a given environmental factor. Manufacturing firms tend to make choices among the various channels that are in the structure. The structure itself is, however, taken as an uncontrollable variable. Though marketing channels are generally regarded as a variable aspect of the marketing mix of the manufacturers, they often receive less managerial attention than considerations of product, price and promotion. This is because much of the channel, in the typical case, is 'outside' the company, where it is difficult to do anything about it, especially in the short run. The result is that manufacturers frequently overlook the opportunity to make a break-through by innovations in distribution channels.

It has become apparent that in the developing world, distribution problems have been more obstructive than many other deterrents to the process of industrialisation. An efficient distribution system is a necessary condition for industrial and economic advancement. If effective marketing institutions are not available, or do not develop at the right time, producers may be blocked from evolution to higher and more productive levels. If many firms in an economy are similarly blocked, the process of development will be severely hampered. Apprehensions have been expressed that manufacturers in India find it increasingly difficult to match mass production with mass distribution and that the inadequacy of the present distribution structure creates bottleneck in the economy.

Objectives of the Study

The prime objective of the study is to analyse the existing structure of marketing channels with a view to ascertain the adequacy of the present distribution system to provide the distribution services most appropriate for the emerging mass production situation.

Based on the main objective, the study is directed to find out:

1. The 'channel mix' used by specific industries and individual manufacturing firms--the combination of the different channels used to serve different market segments--so as to see whether distribution

channels are used by manufacturing firms for strategy differentiation;

2. The length of the channel--the number of levels of intermediaries between the manufacturer and the consumer--in order to probe whether there are redundant intermediaries in the channels;

3. The institutional and functional characteristics of the different types of intermediaries used in various industries, with a view to find the emerging trends in institutional innovations and functional adaptations;

4. The intensity of distribution, so as to analyse the policies of exclusive and selective distribution, the availability and selection of channel members, the extent of vertical integration, and the level of channel cooperation and control.

Analytical Model and Research Design

As the research tradition in marketing usually treats distribution system as a static mechanism, the dominant approaches to marketing analysis are not adequate for analysing the dynamics of distribution channels in a developing economy. A new conceptual model has been developed for the purpose of this study. Four structural variables of marketing channels, i.e., number of channels, number of levels in the channels, type of intermediaries, and number of channel members at each level, have been analysed. The study attempts description and analyses the development, dynamics, and determinants of each of these variables. Specific hypotheses have been formulated and tested with reference to 16 aspects of the structure of marketing channels.

The study is both descriptive and analytical. Different methods of research have been employed for collection and analysis of data. While selecting industries, due representation was given to different categories of industries, consumer products, semi-industrial goods, and industrial products. The fifteen industries covered by the study include soaps, pharmaceuticals, packaged food and soft drinks, agricultural inputs and implements, batteries, lamps, TVs and radios, fans, tyres, paints, watermeters, transformers, electromechanical components, power cables and chemicals. To represent the various industries, thirty manufacturing firms were selected using statistical judgement for detailed analysis.

Interviews were held with marketing executives of the selected manufacturing firms. An elaborate schedule was used to collect primary data from these companies. A second source of information was the trading community. As a third source, experienced executives of some leading firms located outside Kerala were interviewed, primarily for clarifications regarding trade practices in different industries. From the last two sources relevant data were obtained through unstructured interviews.

Scheme of the Study

For convenience of analysis, the study is divided into seven chapters. Chapter I attempts to set the study in its right perspective by tracing the adaptive behaviour of marketing channels in the course of economic evolution. The pattern of evolution in the major structural variables of distribution is analysed by reviewing the economic histories of the United States, U.K., and Japan. Chapter II defines the research problem, develops a conceptual model for analysing channel structure, and discusses the methodology used for collection and analysis of data.

While the first two chapters give a theoretical background, the subsequent four chapters contain empirical analyses of four aspects of the structure of marketing channels. Chapter III deals with the multiple channel structure. Tracing the number of channels used in different industries, and differentiating the role of direct and indirect channels, the study proceeds to discussions on channel design, addition and deletion of channels, and the dynamics of channel change. The last part of the chapter is devoted to the discussion on the determinants of strategic adaptations in distribution channels.

Chapter IV begins with a description of the number of levels and intermediaries, and analyses the additions and deletions of channel levels. As part of the dynamics of channel length, issues such as redundant intermediaries and their impact on cost of distribution, unnecessary repetition of functions, communication bottlenecks and channel speed are discussed. The search for the determinants of channel length leads to the analysis of the impact of customer buying patterns, physical and economic distance, market density, size and market power of the manufacturer, and product characteristics.

Chapter V deals with institutional dynamics in the distribution system. From a description of the extent of trade specialisation among wholesale and retail intermediaries, the study leads to the institutional evolution and functional adaptations of marketing intermediaries. Trade margins and cost of distribution are analysed in the context of trade functions. The last part analyses the factors inhibiting institutional innovations and focuses on the challenge of rationalisation and modernisation of wholesaling and retailing.

Chapter VI discusses the horizontal structure of distribution by tracing the policies of intensive, selective and exclusive distribution at various levels, and analyses the vertical relationships among channel participants. The issues analysed include the availability of channel members for relatively smaller firms, the legal environment of distribution, the channel dominance by manufacturers, and the factors influencing vertical integration as well as formation of centrally coordinated channels. Chapter VII consolidates the major findings of the empirical analyses in this study.

CHAPTER I

ADAPTIVE BEHAVIOUR OF MARKETING CHANNELS*

1.1.1. Distribution system is indeed rooted in culture and social structure. It has been postulated that societies become increasingly similar in social and cultural characteristics as they reach higher levels of economic development, and that this convergence occurs in the marketing and distribution systems as well. If so, greater understanding of the pattern of evolution in the structure of distribution in advanced societies will provide a broad perspective for analysing the structure and dynamics of distribution channels in a developing economy. Briefly reviewing the economic histories of the United States, U.K. and Japan, this chapter attempts a comparative analysis of the adaptive behaviour of the distribution systems in response to socio-economic evolution.

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*An earlier version of this chapter has been published: "Adaptive Behaviour of Marketing Channels", Indian Manager, Vol.15, (October-December 1985) pp.331-73.

1.1.2. Economic histories of some of the developed societies apparently support the postulate that marketing channels respond to the pressures of a dynamic environment by innovations and adaptations. Nothing ever remains static in marketing, not even the most likely candidate - the distribution structure. Structure is derived from functions. Functions are closely related to opportunities, and marketing opportunities are in the environment. Changes in the environment entail changes in marketing functions and modifications in functional assignments among institutions. The resultant strains and tensions lead to structural adaptations in the distribution system. The pace and direction of change in the channel structure, and their determinants and economic growth implications, provide a rich vein of inquiry that has too long been neglected.

1.1.3. Distribution system is indeed an economic institution evolved to satisfy certain basic human needs. The system, however, encompasses far more than the mechanistic flow of goods. It is a basic component of the social system and is deeply embedded in the cultural milieu. This broad perspective of distribution has several important implications.

1. Although the distribution system seeks to satisfy basically the same human needs

in various societies, the manner in which it performs its task varies widely, and the pattern is determined to a large measure by the socio-cultural environment in which the system operates.

2. The distribution system, in order to remain an effective socio-economic institution, must maintain its functional viability in terms of the milieu and must be responsive to environmental changes, adapting to meet the new needs posed by environmental changes.

3. While the distribution structure in a society is shaped by other institutions in that society, the influence is by no means one-sided. As a dynamic institution the distribution system is capable of generating changes on its own, which, in turn, will have significant impact on the entire society.

Thus, in an economy in transition, the distribution system has to reassess its basic mission, evolve new patterns, design new institutional structures, and assume new functions.

1.1.4. In recent years a number of empirical studies have been conducted in order to understand the influence of the environment on the marketing system, particularly to identify the variables that have a direct bearing on shaping the distribution structure in different countries. Although specific relationships between environmental variables and the distribution system have yet to be established, some insights have been obtained regarding the relationship between the structural dynamics of distribution and the changes in the economy.

1.1.5. Little attention has, however, been given in research to the process of change in the distribution system. What Yoshino observes about studies on marketing systems is perhaps more relevant to distribution systems. "Past studies have focused exclusively on the description and analysis of the marketing system in a given society at a particular moment in time and have largely neglected to examine the evolutionary pattern of the marketing system in response to environmental changes in a given society"[1]

1.1.6. Investigation of the change process in distribution structure, particularly in relation to changes in the economy, becomes imperative in development analysis.

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[1]M.Y.Yoshino, The Japanese Marketing System: Adaptations and Innovations, (Cambridge, Massachusetts, The MIT Press, 1971), p.xvi.

An array of significant issues remains unprobed; questions such as: Does the distribution system lead development or lag behind it? How is change in the distribution structure initiated? What should be the direction of change as the economy moves through different stages in its economic evolution? What are the factors that initiate change or influence its direction? Or alternatively, do these changes occur automatically? Stated differently, is distribution really a self-adjusting mechanism that readily adapts in response to changes in the environment? Study of these questions is meaningful at any stage of economic development; but it is more pertinent when a society is in transition from a subsistence economy to a market economy.

1.1.7. Dynamics of Distribution

Goldman[2] has postulated two stages in the evolution of distribution in an emerging economy. At the initial stage of development, distribution involves the very basic functions of retailing and wholesaling which seem to be indispensable. The population is largely agricultural and the standard of living is low. As the standard of living gradually improves, the wholesaling tasks of collection and redistribution as well as the retailing activities are further supplemented by more sophisticated and specialised operations.

[2]Marshall I Goldman, Soviet Marketing, (London, Collier-Macmillan Company, 1963) pp.188.89.

1.1.8. In the secondary stage of economic evolution, the importance and the number of middlemen rapidly increase. Soon there is the problem of calculating and meeting the demand of consumers who suddenly have a chance to exercise their choice among several varieties of a given product and competing types of products. The changes in consumption pattern lead to a general increase in marketing activity. The goods themselves are new to the economies in question and, therefore, need introduction and explanation. Even when familiar, these kinds of goods require continuing marketing effort in the form of demonstration, service, advertising and personal selling; for, increase in income permits not only increase in consumption, but also increase in the variety of goods from which consumption choices are made, and in the convenience with which merchandise is made available to all kinds of final users[3]. These increases in both variety and convenience involve changes in the distribution structure, starting with innovations in retailing.

1.1.9. The Clark-Fisher hypothesis[4] which generated considerable debate two decades ago, identifies three

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[3]Lee.E. Preston, "The Commercial Sector and Economic Development", Reed Moyer and Stanly C. Hollander (eds), Markets and Marketing in Developing Economies, (Homewood, Illinois, Richard D. Irwin Inc. 1968) p.18.

[4]Allen Fisher, "Marketing Structure and Economic Development - Comment", Quarterly Journal of Economics,

fundamental stages in the course of economic development: the primary stage characterised by agricultural and extractive activities, the secondary stage predominated by manufacturing, and the tertiary stage marked by service activities, including trade. The Clark-Fisher formulation postulates an increase in the relative importance of secondary, and then tertiary activities, in the course of development, emphasising that tertiary activities tend to loom larger in the total economy at its advanced stage of development. The relative growth of distribution activities in the course of development is a crucial element in this proposition.

1.1.10. At the primary stage, the essential problem confronting the economy is the provision for the physiological needs. Marketing activities are likely to be limited to physical distribution and storage, with little compelling need for a mass communication network. A relative shortage of want - satisfying goods means that relatively little selling effort is required. A ready and unsophisticated market exists for whatever is produced. It follows that distribution efforts are relatively unimportant. During the secondary stage of economic evolution, the fundamental problem confronting the economic

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Vol.68, (February 1954) pp.151-54; P.T. Bauer and B.S. Yamey, "Economic Progress and Occupational Distribution", P.T. Bauer and B.S. Yamey (eds), Markets, Market Control and Marketing Reform - Selected Papers, (London, Weidenfeld and Nicolson, 1968) pp.10-13.

system lies in discovering the most efficient means of production. Demand, in the aggregate, exceeds supply, and relative shortages still exist. The emphasis is on manufacturing, fabrication, and assembly. Although the means of distributing mass produced goods and services are not developing, the emphasis is on mass production.

1.1.11. The tertiary stage has been described as the 'distribution stage' of economic development. Problems in agriculture and manufacturing still exist, but the predominant concern requiring immediate societal attention is an inadequate and inefficient distribution system. The situation that prevails early in the tertiary stage of development may be described as an incongruity - an incongruity between manufacturing and distribution. Although manufacturing methods have achieved high degree of sophistication, distribution continues through relatively archaic means. The crucial problem confronting the economy is the expedient distribution of great quantities of mass produced goods and services. The problem can be viewed as a disparity in capacities; the capacity for production has increased, but the capacity for distribution is something less. The manufacturing capability exceeds the ability of the distribution pipeline to purvey goods and services. The early part of tertiary stage thus embodies a serious bottleneck problem.[5]

1.1.12. The economic histories of nations, both developed and developing, seem to illustrate that the shift from a deficit to a surplus economy exerts pressures on the distribution structure to change its institutional framework and functional assignments. Trade is indeed rooted in tradition and culture. Even when it evolves, it develops in tune with the socio-cultural milieu.

1.1.13. Despite significant variations in social systems and cultural orientations, the broad pattern of evolution in trade channels in different countries, appears to be surprisingly similar, even though, at a particular point of time, distribution structure do differ among societies, largely on account of socio-economic factors. There is indeed a widely held view that societies will become increasingly similar, not only in economic, but also in social and cultural characteristics, as they reach higher levels of industrialisation[6]. This

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[5] Ronald R.Gist, Marketing and Society, (Hindsdale, Illinois, The Dryden Press, 1974), pp.59-60.

[6] Yoshino, Op. cit., p. xv.

convergence, it has been postulated, will take place in the area of marketing and distribution systems as well. If so, greater understanding of the distribution systems of the industrialised societies may be of considerable value as guideline for developing nations, as they aspire to achieve higher levels of development. Therefore, a comparative study of the adaptive behaviour of distribution systems in some of the developed economies would provide a broad perspective for analysing the dynamics of distribution channels in a developing economy.

1.1.14. In spite of the limited scope of the present study in terms of the number of industries and manufacturing firms selected for empirical analysis, the study is set on a broad perspective. Changes in the institutional structure of distribution and shifts in the relative power position of channel participants have been two familiar themes in marketing literature, although analytical studies have been largely confined to the American distribution system. The present study adds two more dimensions to this traditional analytical perspective. The two aspects that merit emphasis are the multiple channel strategy and the changes in the length of channels. As the present study addresses itself to the four dimensions of channel analysis, the rest of this chapter looks for a comparative analysis of the dynamics of distribution channels in the United States, U.K. and Japan, primarily in terms of these four aspects.

1.2.0 Revolution in Distribution - The American Miracle

1.2.1. Since 'marketing' is an American innovation of the twentieth century, with all conceptual developments in marketing triggered by changes in the U.S. economy, it is but logical to preface this comparative analysis with the dynamics of distribution structure in the United States. During the days of colonialism, domestic production in American colonies was suppressed, in order to enrich the British traders and manufacturers. The whole theory of the mercantilist economy envisaged the colonies as producers of commodities needed by the home country and, in turn, as purchasers of the latter's manufactured products. This necessitated the development of active commercial relations. To prevent colonial manufacturing from competing with the home industry, colonial governors were instructed to "discourage all manufacturers"[7].

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[7] Harold Underwood Faulkner, American Economic History, (New York, Harper and Row, 1964) pp. 75, 110.

1.2.2. Complete dependence of the colonies on European manufactured goods gave the colonial importer, called shipping merchant, the commanding position in the domestic economy. Eventually, colonial trading merchants who were often political leaders as well, led the uprising against tax and navigation laws, and set the pace for independence on the American shore. "Political historians suggest that the Revolutionary War was precipitated and fought partially because the English persisted in interfering with American marketing channels"[8].

1.2.3. The shipping merchants (importers) not only sold at wholesale, but also operated retail outlets. A weak jobber group existed. The products reached the consumer via two different channels. The channel involving the jobber was obviously a longer channel and it served as the secondary channel in a multiple channel structure. While a retail structure with speciality stores developed in the towns, travelling trademen carried the imported items inland to small communities. The retailer relied almost entirely on the wholesale supplier to determine the kinds and quantity of merchandise.

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[8]Martin L. Bell, Marketing Concepts and Strategy, (London, Macmillan, 1966) p.90.

1.2.4. With the advent of political freedom, manufacturing began to develop. Although the scale of operation was relatively small, there was the need to sell to distant consumers and this gave rise to merchant wholesalers. Anticipating competition and recognising the need for a more positive selling function, the British manufacturers began to replace importers by appointing selling agents. The selling agents sold directly to retailers at auction, thus eliminating the jobbers. Here is an instance of a passive intermediary in the multistage wholesale structure being bypassed as competition increases. The obvious result was the reduction in the length of channels.

1.2.5. The shipping merchants who found their pre-war functions taken over by selling agents, now redefined their role and transformed themselves into merchant wholesalers for domestic producers. With the movement of people to the West, general stores developed there. As large population centres emerged, speciality stores were established. The itinerant peddler was gone, the general store was restricted to rural areas, and seeds were sown in urban centres for the development of department stores and chain stores.

1.2.6. The years after the Civil War saw phenomenal growth in manufacturing. The whole economy was expanding rapidly. Large-scale manufacturers began to feel the need for mass distribution. The retail structure was inadequate to meet the task. It was still composed mostly of small, but growing, speciality stores and general stores. The merchant wholesalers, on the other hand, met the needs. Improvement in the general economic activity had already made possible specialisation in wholesaling, just as it had enabled the growth of speciality stores at the retail level. Large wholesale centres already existed in many cities. The wholesale structure consisted of specialised agencies such as importers, exporters, auction companies, brokers, commission merchants and jobbers. Wholesalers received shipments from manufacturers, and delivered, in turn, to the retailers who often visited the wholesale centre. The distribution system was dominated by the wholesalers. The type of goods sold, and the way they were sold, were matters that rested largely in the hands of the wholesaler. The manufacturer depended on him for distribution and volume. The retailer turned to the wholesaler for merchandise and credit.

1.2.7. The rapid transition from an agricultural economy at the time of Civil War to an industrial economy at the end of the century, poured into the market such quantities of products as to warrant the conclusion that a sellers' market was being replaced by a buyers' market[9]. Both manufacturers and retailers began to grow rapidly. As urban centres grew in size, speciality stores naturally expanded their lines and logically organised along departmental lines, and mail order houses expanded rapidly, much to the alarm of small retailers and their wholesale suppliers. Department stores and mail order houses grew as a result of and at the expense of the inefficiencies of the older type of retail establishments. Chain stores began to take roots.

1.2.8. Dominance of the Wholesaler

Under conditions of scarcity the wholesaler dominated the distributive structure and enjoyed a large measure of control over the economy. It was the wholesalers who were the big businessmen of the early nineteenth century. These wholesalers were able to dominate the puny manufacturing industries of the early industrial revolution. They provided the only means of disposing of the manufacturers' output. They had access to greater stores of capital and often were able to finance nascent manufacturers. The wholesaler kept pace with the changing pattern of trade from rural to urban markets, and from general line to speciality merchandising, as

[9] Robert Bartels, The Development of Marketing Thought, (Homewood, Illinois, Richard D.Irwin, Inc., 1962) p.22.

long as such changes were slow, and retained their domination in the distribution structure well into the twentieth century[10].

1.2.9. Manufacturers were gaining dominance through cooperative action among producers themselves, and through product differentiation, advertising and brand identification. Forward integration as a means of market control was attempted by forming manufacturers' branch wholesale establishments, and manufacturer-owned retail outlets. Restricted distribution through exclusive agencies, pressure tactics of full-time forcing, and resale price maintenance were all indications of the power of manufacturers, and all these apparently sealed the manufacturer's importance in the consumer market[11]. The growing opportunity for expanding and retaining a large share of the market, and the market assurance necessary for large scale production and investment, encouraged the manufacturers to grasp greater control of the marketing channels. In the nineteenth century itself, manufacturers began to challenge the sole supremacy of the intermediate marketer. The period between 1860 and 1920 witnessed a gradual shift in power, from the wholesaler to the manufacturer. However, the control of the market was more or less shared by manufacturers and

[10] U.S.Temporary National Economic Committee (TNEC), Monograph No.17, (Washington, GPO, 1941) pp.159-60.

[11] Bell, Op.cit., p.93.

wholesalers. Wholesaler was still the established outlet for greater portion of manufactured goods. By the closing years of the period, the power of the wholesaler was distinctly on the wane, and the authority of the manufacturer increasing.

1.2.10. As economic and social conditions change, the retail structure and its methods of operation change, and the retailer who effectively adapts himself to the changing conditions is successful. New type of stores gain at the expense of the traditional retailers. It was not until the last part of the nineteenth century that the department store was of sufficient importance to be recognised as a characteristic institution for retailing. Although the chain store came into being during the last half of the nineteenth century it became a leading institution much later[12]. In more recent times, the supermarket has taken business from the old-line grocer and the discount house from the department store. Traditional retailers always find it necessary to "modernise or die". This has been the story of American retailing.

1.2.11. Growing Specialisation

Growth of urban population and improvements in transportation had tremendous effect on the American

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[12] Fred M. Jones, Retail Merchandising, Homewood, Illinois, Richard D. Irwin, 1957) pp.14-16

distribution structure. Increased urbanization allowed more specialisation in both wholesaling and retailing, and better transportation has had almost revolutionary effects upon rural buying. Wholesalers came to specialise in single commodities as a result of population increase and geographic concentration. In large cities, areas were given over to wholesaling and retailing of specific commodities. Specialisation in retailing has always been the normal practice in urban communities where there is enough business to make it possible. Interestingly enough, one persistent trend has been contrary to specialised selling. This is indicated by the development of the department store, the first of which was established in New York in 1860. The convenience, particularly for suburban buyers, of making all their purchases under one roof was sufficient to make a place for the department store. The business of some of these stores has now become so large that their various departments could be conducted as efficiently, and on as large a scale as the specialised store[13].

1.2.12. The Automobile and the Retail Innovations

Rural buying at the end of the last century was largely done in the country general store, which like the city's department store carried almost everything that the community needed. The old fashioned

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[13] Faulkner, Op.cit., pp.532-33.

peddler who travelled from door to door still existed, but his significance was declining. Two developments of the 1890's did much to change this picture: the introduction of the rural free delivery and the invention of the automobile. The first made possible the rapid expansion of the mail-order house. To the typical American farmer and the small town American, the mail order purchase became as common as that from the country store. The automobile extended the farmers' purchasing radius. It became easy for the American peasant to make week-end shopping to the nearest town. The automobile gave another blow to the country store, already forced to reduce its business to a few necessities. As the distance between the country and the town was reduced by the automobile, the mail-order house changed its technique. To catch the farmer's business on his frequent trips to the city, the mail-order house opened retail outlets in many of the small and medium sized urban centres - a development which occurred in the 1920's. The development of these chain outlets was in line with a development which has been going on for years since 1858[14].

1.2.13. By the turn of the century the retail structure was changing and gaining importance. The steady growth of large-scale retail institutions in the first two decades

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[14] _Ibid_., p.533.

was followed in 1920's by the phenomenal growth of chain stores which rose to a dominant position in the retail structure. More people with greater purchasing power and more varied and demanding buying preferences, and an increasingly concentrated urban population expressing expanding propensities to consume, created retailing giants that dwarf the largest wholesale operation of a century ago. At the same time, competition among large-scale retailers forced them to differentiate their offer - the bundle of goods and services. The tendency for direct dealing between the large-scale producers and the large scale retailers became very strong. These changes in the institution structure had two other impacts on the distribution system, besides the shift in the power position of the channel participants: reduction in the number of levels in the channels and the emergence of an additional channel.

1.2.14. By the 1920's we find a strong American manufacturer balancing his power with an increasingly powerful retailer. Manufacturers' dominance in the channel is indicated by factors such as extensive use of multiple channels, promotion of manufacturers' brands, maintenance of resale price at all levels in the channel, allocation of territories and selective or exclusive dealing, and a host of other restrictive covenants. Retailer power, on the other hand, is implied by distributors' brands and backward integration of retailers into manufacturing. However, a large number of small retail establishments still existed and the bulk of the American retailing was still carried on by small retailers. The wholesaler was not replaced, but he was different. He still serviced the small retailers and served the small producers. However, changes did take place in the wholesale structure, and the wholesaler's functions have been rearranged. The full-service merchant wholesaler yielded place to the manufacturer's sales branch, the chain store warehouse, or the single-line, limited service, or agent middlemen.

1.2.15. Concern for Distribution

American economy of the 1920's was a 'mature economy'. It had solved the production problems of mere survival. However, the Depression ushered in a new problem. Jones describes how the Americans were forced to shift emphasis from production to distribution[15]: The age of 'industrial capitalism' had faced a central economic challenge -production; the new age of 'consumer capitalism' had to face a new challenge-demand. Most

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[15] Peter D.A. Jones, The Consumer Society, (Middlesex, Penguin Books, 1965), p.281.

industries had moved into a surplus goods situation in which immediate demand ran behind the industry's ability to produce. There was a critical need to devise a system of mass distribution. Mass production without mass distribution is unworkable. In 1929 the official 'Committee on Recent Economic Changes' groped towards reality: ... "it is not sufficient to be able to produce abundantly; we must also be able to distribute intelligently"[16].

1.2.16. The Depression forced innovations in retailing and the 1930's saw the appearance and rapid growth of the supermarket. The discount house registered tremendous growth after World War II. Another innovation was the voluntary chain. The competitive impact of the department store and the mail-order house which had originated in the nineteenth century, had subsided by the 1920's. Subsequent decades have seen immense competition among the retailing giants.

1.2.17. Some of the important factors responsible for the present ferment in large-scale retailing are the huge volume of consumer goods, the rise in population, the increase in purchasing power, and the shift in consumption patterns. Upgrading the taste in the mass market since World War II has been nothing short of spectacular.

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[16] Ibid.

As never before, the mass market has, and can afford, the sort of standards the class market uses. The explosion of the suburb and the population movement to the suburbia, aided by the automobile, has been another significant factor contributing to the growth of the mass merchandising institutions[17]. Yet, side by side with these giants exist a multitude of almost minute retail establishments which account for but a small percentage of sales.

1.2.18. The grand total of retail firms includes the few giant stores serving metropolitan centres, the more numerous moderately large units in large suburbs or small cities, still more firms of a moderate size serving towns and suburbs, and finally, the thousands of small stores in residential and rural areas[18]. The economic existence of the small store certainly tends to be "poor, nasty, brutish, and short". Thus, there lies at the bottom of the distributive pyramid a broad, marginal, and depressed base.

1.2.19. The wholesaler who had retained his dominant role in the distribution structure until well into the present century, lost ground by the middle of the century

[17] Delbert J. Duncan and Charles F. Philip, Retailing, Principles and Methods, (Homewood, Illinois, Richard D. Irwin Inc., 1959) pp.765-68.

[18] Joseph C. Palamountain, Jr., The Politics of Distribution (Cambridge, Massachusetts, Harvard University Press, 1955) p.8.

both to the manufacturer who established his own wholesale outlets and to the retailer who purchased directly from manufacturer. Although attacked from both sides, the wholesaler has not been routed; he still made around 50 per cent of all sales to retailers by the middle of the century.[19] On the whole, the wholesale intermediary has been losing ground heavily and his economic response has been primarily defensive.

1.2.20. The manufacturer's dominance in the distribution structure is seriously being challenged by a countervailing power in the distribution system. With the rapid growth of large-scale retail institutions, there has been an erosion in the uncontested position of the manufacturers.

1.2.21. In summary, marketing channels have followed or, perhaps more accurately, kept pace with the changes in the economy, and there have been changes with respect to all the four dimensions of channel structure analysed in this study. The institutional structure of distribution has been steadily undergoing changes and adaptations. Distributive institutions such as selling agents and jobbers had been made redundant. Changes in the socioeconomic conditions have favoured the emergence of largescale retail establishments. There has been increasing specialisation at the wholesale level and the signi-

[19] Ibid, pp.19-20.

ficant institution today is the limited line, limited function wholesale merchant. The manufacturer has been increasingly absorbing the distribution functions, particularly of the wholesale level.

1.2.22. There has been reduction in the number of levels in the channels. First, certain levels in the multistage wholesale structure had been eliminated and in many cases, the wholesale stage itself has been by-passed. However, where the wholesale middlemen have been replaced by the manufacturers' sales branches, there have not been any net reduction in the number of levels in the channels. But with the growing tendency for direct transactions between the manufacturers and the large retailers the short channel has come to dominate the distribution structure.

1.2.23. Multiple channels are the usual mode of distribution for a typical American manufacturer today. Especially with the growing emphasis on market segmentation, different channels are being used to offer optimal marketing programme for each segment. The channel options available to manufacturers include direct sales to consumers through vertically integrated channels, direct sales to large retailers, and the channel involving wholesalers to reach dispersed markets.

1.2.24. The triumvirate of marketing has been made up of the three great links in the marketing channel - manufacturer, wholesaler and retailer. The principal effect of historical changes on the distribution structure has been the shift in the division of power within this triumvirate. The forces that influenced the changes in distribution system were largely social and economic, and these forces cannot and will not stand still.

1.2.25. Distribution has been regarded as "the American miracle" and many scholars, particularly marketing scholars, seem to echo the sentiments of Lee Waterman: "Our vaunted production miracles have been achieved not in spite of but because of our distribution system"[20].

1.3.0. Evolution of Marketing Channels in Great Britain

1.3.1. A nation, the traders of which conquered vast continents and converted their markets into a lucrative empire, obviously had no dearth of trade channels when largescale manufacturing began to develop. While tracing the evolution of trade channels in England, it is significant to recall that the industrial revolution was preceded by the commercial revolution. Mercantilism grew up during an age of imperial expansion and it attached

[20]R. Lee Waterman, "Distribution - The American Miracle", Malcolm P.McNair and Mira Berman, (eds), Marketing Through Retailers, (Chicago, American Management Association, 1967), p.100.

greater importance to trade than to industry or agriculture. Therefore, English merchant class was able to grow rich and to accumulate capital on middlemen's profits, by the end of the seventeenth century[21]. A well developed trade structure was awaiting the products of the Industrial Revolution.

1.3.2. The development of internal trade in England was not different from the evolution of trade elsewhere. The emergence of the provincial shop from the welter of markets, fairs, and hawkers is a case in point. As long as people had only small sums to spend on articles other than food, their purchases were bound to be occasional, usually after the harvest, in an economy so largely agrarian. Although this seasonal flow of money persisted well into the nineteenth century, the periodic fair was already declining in importance by 1700. Its place as a method of distribution was increasingly taken by the weekly markets and the shop. Buying was ceasing to be marginal and intermittent, and was becoming continuous. In London, the shop was well established even in the seventeenth century; by 1750 the use of printed bills for the sending out of accounts was common, and a few tradesmen were experimenting with press advertising. As

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[21] Ralph Davis, "English Foreign Trade , 1660-1700", E.M. Carus-Wilson (ed), Essays in Economic History, Vol. 3, (London, Edward Arnold Publishers Ltd., 1962) p.269.

early as 1676, the large villages had their grocers, petty-grocers, and butchers. By the mid-eighteenth century, thriving towns could boast of a 'dozen drapers, stationers, and a goldsmith'. But as today, such centres also served the needs of those who lived in the villages around, and many town shopkeepers had their stalls in the small local markets[22].

1.3.3. The growth in demand for goods, both by consumers and manufacturers, had its repercussions on the manner in which the wholesale market was organised. By the early decades of the eighteenth century, 'the hawkers, peddlers and packmen' had, as their companions on the road, a large number of outriders or commercial travellers. Inland iron merchants made a six-monthly visit to their smith and founder customers; so did representatives of the London and Bristol drysalters. The Manchester warehouseman, the West England clothier, the Birmingham hardware factor, and some of the wholesale grocers, all sent their travellers around the country.[23]

1.3.4. Trade Specialisation

The country, by 1750, was a good way from being a mere collection of regional economies to

[22]A.H. John, "Aspects of English Economic Growth in the First Half of the Eighteenth Century", E.M. Carus-Wilson (ed), Essays in Economic History, Vol.3., (london, Edward Arnold Publishers Ltd., 1962) pp.369-70.

[23]Ibid, p.370.

achieving some economic unity. The socio-economic changes during the period had been accompanied by important changes in the institutions and agencies through which commercial transactions were carried on. Down to the eighteenth century, the weekly market was the main centre of retail trade. Housewives brought their supplies there or patronized itinerant peddlers. In the latter eighteenth century, London and other large towns had specialized shops of the modern type, and these gradually spread into the provinces and the rural districts. Similarly, wholesale trade had also undergone change. The old-fashioned annual or bi-annual fairs had died out, wholesaling and retailing had been increasingly segregated, and functional specialisation was increasing in the wholesale sector[24].

1.3.5. Wholesaler Dominance

Despite the emphasis on technology, Adam Smith and his contemporary economists were concerned with the distribution of wealth. However, this concern was not felt by the manufacturers and distributors of the time. Markets at home and abroad were expanding and the problems facing manufacturers were not those of distribution but of production. They were operating in

[24] Arthur Birnie, An Economic History of the British Isles, (London, Mathuen & Company Ltd., 1961) pp.260-66.

a huge sellers' market. Mass production introduced a difference. While production was in direct response to orders received under the old system of production and distribution, now goods were being produced in anticipation of demand. This raised the risk element. It was the wholesale merchant who intervened to shoulder the risk. Retailing was performed almost exclusively by a multitude of tiny shops. The only innovation in retailing prior to 1850 was the emergence of the cooperatives which accounted for a very small share of the retail sales. The wholesale merchant was obviously the dominant force in the distribution structure.

1.3.6. The first half of the nineteenth century was the age of the small shopkeepers. Thereafter, large-scale retail business rapidly developed. The innovations were the department stores and the multiple chains. The department stores were really collections of shops under one roof. They sold all sorts of things, but specialised in things that appealed to women. They did not operate branches, but eventually started mail order business. Multiple firms or chain stores operated numerous branches, scattered throughout the capital and the provinces, which enabled them to get into closer touch with their customers. Naturally, multiple shopping came to be firmly entrenched in grocery and provision trade[25]. In the middle of the century, middle and upper class shoppers of London had to pay a high price for the lavish retail services which were then customary at the small scale retail stores, offering particular product lines. In general, retailing costs were high, and price competition was weak. Dissatisfaction with the prevailing methods and practices and the scope for more economical methods were exemplified in the establishment and rapid growth of middleclass cooperative enterprises in London in the latter part of the nineteenth century[26].

1.3.7. Direct Sales to Retailers

The Great Depression during the last quarter of the nineteenth century produced rapid fall in demand and profits and provided the spur for reforms in distribution system. The evolution of largescale retailing during the late nineteenth and early twentieth centuries enabled some of the leading manufacturers to bypass the wholesaler and sell direct to large retailers. However, only the largest manufacturers could afford the relatively expensive sales organisation which direct selling demanded, and even where the manufacturer sold directly

[25]Birnie, Op.cit., p.260.

[26]J.Hood and B.S. Yamey, "Middleclass Cooperative Retailing Societies in London, 1984-1900", T.A. Tucker and B.S. Yamey (eds), Economics of Retailing, Selected Readings, (Harmondsworth, Middlesex, Penguin Education, 1973) p.131.

to retailers rarely did it involve his entire output. Multiple channels were used by manufacturers. To large buyers he supplied directly, but the small retailers were supplied through wholesalers. In spite of the emergence of large producers and large-scale retailers, the power position in the distribution structure was not radically altered until World War I, primarily because the retail scene was still dominated to a great measure by relatively small shops. Direct sales to them was uneconomical for the manufacturer.

1.3.8. Manufacturers' Dominance

The inter-war period, however, saw a shift in the locus of power in the marketing channels. Although his position varied considerably from trade to trade, it would appear that the wholesaler, on balance, lost ground during the inter-war years[27]. The development of new mass production techniques that turned out large quantities of standardised merchandise, forced manufacturers to bypass the wholesalers and sell direct to the central buying organisations of large retailers. With the erratic nature of the level of demand due to cyclical fluctuations in economic activity, the attention of manufacturers was drawn to the need for branding,

[27] S.R.Hill, The Distributive System, (London, Pergamon Press, 1966) p.4.

national advertising and sales promotion activities. The task was to presell the product and to reduce the selling efforts of the intermediaries. The new marketing policy of the manufacturers increased their bargaining power over the small distributors. The producers could now insist on resale price maintenance. Manufacturers further organised themselves more effectively through trade associations. One of the main functions of these associations was to determine the selling prices and margin available to distributors. Distributors who ignored the fixed selling prices faced the danger of not obtaining further supplies of the merchandise. The indication is the gradual domination of the distribution channel by the manufacturer at the expense of the wholesaler.

1.3.9. Innovations in Retailing

However, the most outstanding development in the distribution channels during the years between the Wars was the growth of the large-scale retailer. Goods which were branded by the manufacturers bypassed the wholesaling stage to an ever increasing degree. Considerable change in the consumer buying pattern induced growth of large retailers. As road transport developed, the central shopping area became easily accessible and the consumers felt an extremely strong attraction towards it. The shopping habit of the housewife had been changing and she began to make more frequent shopping visits. To the average housewife, shopping became a social event. As living standards rose, the amount of a person's disposable income spent on food represented a diminishing proportion of the total income. He began to spend more on durable consumer goods and services. He demanded fashion, style and, above all, choice. All these requirements were met by the central shopping area. Since the international market was subject to cyclical fluctuations in demand, the opportunity presented itself of purchasing imported merchandise at relatively low prices. These had to be purchased in bulk and sold, which only the large retailers could perform.

1.3.10. As expenditure on nonfood items increased, the department stores were well placed to absorb the resultant increase in trade. They offered variety and fashion, and provided a wide variety of merchandise under one roof with an increasing number of services. Consequently, the interwar years were years of growth for the department store. The store, nevertheless, received the greatest competition from the multiples. The single department within a store could not compete in either the quantity or the range of merchandise offered by the multiple chain. They had expanded their product mix to include ready-made garments, tobacco,,etc. Furthermore, the multiples were well situated in the central city and suburban areas. As there was a tendency for hire purchase trade, particularly in the more expensive consumer and consumer durable goods, multiples offered the service. Each branch within the multiple chain was treated a profit center; the unsuccessful branches could be relocated and the unprofitable productlines dropped. The multiples, therefore, had tremendous potential for growth and the post-war years have witnessed the phenomenal growth of the multiples.

1.3.11. Variety chain stores, a specialised form of multiple trading, also had their rapid development during the period. Their operating policy was to place substantial orders for future delivery at very competitive prices. Their influence over the manufacturers is such that they even advise manufacturers on managerial and technical aspects and provide raw materials upon which the manufacturers work. The cooperatives also continued their growth during the inter-war years, mostly through food sales and, in particular, by the innovations they introduced in the distribution of bread and milk. Since the cooperatives appealed mostly to the working class, their sales in nonfood items were not much.

1.3.12. The Small Store

The growth of large-scale retailing did not, however, displace the small retailer. The fact that even in 1960's they accounted for more than fifty per-cent of total retail sales shows their relative position in British distribution system[28]. Although the small store has been losing ground to the more innovative institutions, it has not been driven out of the field, for a number of factors. For certain commodities such as groceries, meat, vegetables and milk, the housewife likes to have a shop round the corner. The small shop-keeper maintains personal rapport with the customers, gives greater attention to their individual wants, and on occasions, allows a more liberal credit than the big shop. It is true that the mortality among the small shops is high, but there are always hopeful new entre-preneurs to come forward and fill the gap. The desire of so many people to be their own masters leads annually to the establishment of large number of small shops, as

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[28] Harper W. Boyd, Jr., and Ivan Piercy, "Retailing in Great Britain", Journal of Marketing, Vol.27 (January 1963), pp.29-35.

this is one of the easiest ways of achieving economic independence[29].

1.3.13. In a way, the change in consumer buying pattern in favour of frequent, low volume purchase of consumer goods has been a 'countervailing force' against the invasion of retail trade by large institutions. As suburban shopping areas developed, the independent retailer recognised the changing distribution of population and moved out to the suburb himself. The destiny of the small retailer has been more or less bound up with the destiny of the wholesaler who supplied the majority of the merchandise the independent retailer required.

1.3.14. The inter-war years, thus, saw the emergence of the prominence of the manufacturer and the retailer in the distribution channel. Although innovations in retailing were spectacular, retailer control of the channel was not much in evidence. Before World War II, the manufacturer was selling direct to retailers as much as he was selling through wholesalers. The very fact that they were using multiple channels indicates the power position achieved by the manufacturers. On the one side, they bypassed the wholesalers, and on the other, they

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[29] Birnie, Op. cit., pp.266-67.

controlled the wholesalers effectively. The manufacturer domination of the distribution structure was much in evidence, although he shared, in certain instances, his power position with the large retailer.

1.3.15. To an observer of the distribution pattern of the late forties, the scene appears to be one of stagnation. Demand outstripped supply. Even otherwise, goods were presold prior to entry in the shops. The wholesalers and retailers, therefore, had little function to perform and the distribution techniques developed during the preceding decades were to lie dormant for many years. By the early fifties, when industry changed its production line from war materials to consumer goods, it became apparent that a healthy home market was to be developed. However, an antiquated distribution system was waiting to receive the goods[30].

1.3.16. Adaptations

British distribution structure which remained stagnant after the war took a new turn in the late fifties. The growth of multiple chains has enabled more manufacturers to sell direct; wholesalers have redefined their role and provide more than traditionally defined functions; small retailers are increasingly forming group-buying organisations.

[30] Hill, Op. cit., p.7.

1.3.17. The wholesale merchants of the consumer goods have been largely relegated to a distinctly subordinate position in the distribution channel. It appears that many of them are fighting for their lives. Some have been instrumental in forming voluntary chains of independent retailers, where the typical wholesaler performs more than his traditionally defined functions. Their package of services include promotional aids and programmes, and management advice. The manufacturer's tendency to sell direct to retailers caused the wholesaler to provide better services without increasing their margins. Many of them have improved their deliveries, have developed a more aggressive sales force and have begun to carry larger stock. Some of them have developed self-service departments in an attempt to trim selling expenses. Rather than send out salesmen, the wholesaler encourages the retailer to come and 'serve himself'. The idea appeals particularly to tiny retailers since it provides flexibility in purchasing and helps them to avoid excessive inventories. Packaged food and household products are the mainstay of the wholesalers, followed by textiles and agricultural products[31].

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[31] Harper W. Boyd Jr., and Ivan Piercy, "Marketing to the British Consumer", Business Horizons, Vol.6, (Spring 1966) pp.77-86.

1.3.18. Independent grocers have been increasingly forming group buying organisations in order to strengthen their competitive position with respect to multiple chains. Group organisations take two forms: voluntary groups, where the participating retailer buys from one wholesaler or one group of wholesalers, and independent retail cooperatives, where members buy collectively, usually direct from manufacturers. More than one third of all independent retailers were members of some such organisation by the sixties.

1.3.19. The British distribution structure more or less resembles that of the American system, but with some difference: the difference is more in degree than in kind. The difference is rather the reflection of the difference in affluence in the two societies. The pace of innovations has been retarded by such factors as conservative taste, lack of mobility, low desire for change and the appeal for services. Consequently, stores are relatively smaller and the capital employed is less; the highly specialised, small, service retailer still remains a vital part of British retailing.

1.3.20. In sum, the broad pattern of evolution in the structure of distribution in Great Britain by and large follows the pattern in the United States. The increased scale of the manufacturing operation has increased the scope for direct sales to customers. The result is the opportunity for an additional channel, most often a short channel. The emergence of the largescale retail establishment has augmented the scope. The opportunity for direct sales to retailers offered yet another channel option, an option for a relatively shorter channel. The elimination of the wholesale levels has considerably reduced the number of levels in the channels. The growing power of the manufacturer enables him to use multiple channels. The locus of power in the channels has been changing: an early dominance of the wholesaler, the gradual shifting of power to the manufacturer as the economy advances, and the final emergence of largescale retail institutions and the sharing of power between the manufacturer and the large retailer at the stage of economic maturity. At the bottom of the distribution pyramid is a large depressed base of small retailers whose relative share of sales is inversely related to the affluence of the society.

1.3.21. While tracing the economic history of England, Arthur Birnie identifies three broad tendencies in its commercial evolution: expansion, specialisation, and reintegration. The first implies the phenomenal growth in the volume of goods produced and sold. Commercial specialisation is indicated by clearcut distinction which has arisen between wholesale and retail trade, and by the appearance of an army of commercial functionaries, brokers, commission agents, commercial travellers and so on. 'Reintegration' shows itself in the tendency of trade and industry to draw together again, the manufacturer taking over the work of wholesaling and retailing, or the merchant reaching back to control the earlier process of manufacture[32]. Birnie notes that within recent years, economic evolution has shown a somewhat surprising tendency to reunite the functions that the progress of division of labour had separated. This is particularly true of the making of goods and their marketing. At one time these two functions were performed by one person, by the medieval craftsman, for instance. Even as late as the eighteenth century, many manufacturers traded directly with their customers. In the nineteenth century, however, the advantage of separating these functions was realised, and most manufacturers handed over the marketing of their products to specialists. Now the tendency has been reversed. Many manufacturers have begun to do their own marketing again. In certain industries, they have by-passed the wholesalers and sell direct to retailers. In some others, they sell through their own retail establishments[33]. To a student of marketing, Birnie's observations based on British economic history ring true for all economies, except perhaps the very primitive.

[32] Birnie, Op.cit., p.260.
[33] Ibid. p.267.

1.4.0. Innovations and Adaptations in Japanese Distribution System

1.4.1. The Japanese economy provides an excellent setting for analysing the adaptive behaviour of an age-old distribution system. The high economic growth during the 1960's and the emergence of a gigantic middle-class market brought the traditional distribution channels under strains and tensions. The dynamic adaptations and innovations in the Japanese distribution structure in recent decades have been dramatic.

1.4.2. To the extent distribution channels are the means to relate manufacturers with consumers, no crucial difference in functions can exist between Japan and Europe or the United States. The function of distribution in one country is, by definition, not different from those in another, but the customs and practices in the course of physical transactions differ from one to another, according to the social background of the country concerned. Japanese distribution channels are endowed with various unique characteristics, but the peculiarity is nothing more than mere proof of the cardinal principle that distribution practices are created by certain social and economic factors at a certain period in the history of a country's economic development, and are modified by changes which subsequently take place[34].

[34] Dentus Incorporated, Marketing Opportunities in Japan, (London, McGraw-Hill Book Company, U.K. Ltd., 1978) p.54.

1.4.3. As long as three hundred years ago, Japan already had an established distribution system.[35] At the beginning of the seventeenth century, when the Tokugawa family came to power, the regime sought to create a stable society hospitable to it by introducing elaborate devices for social control; a class structure was created by classifying the entire population into rigid hereditary hierarchy of statuses, consisting of four classes: warriors, farmers, artisans and merchants. Rigid rules of conduct governed the thoughts and behaviour pattern of each class. Traders were ranked at the bottom because they were considered to be socially unproductive.

1.4.4. The political stability and national integration achieved during the period, besides improvements in transportation and standardisation in currency and weights and measures,helped the development of a nationwide economy. Under these circumstances, commercial activities began to flourish. Despite its low social status, the merchants accumulated considerable wealth during this feudal 'Edo' era, and the merchant class enjoyed considerable freedom in evolving extremely complex institutional arrangements bound by very strict code of commercial ethics. Traders developed very strong

[35]Yoshino, Op.cit., p.2.

group solidarity with well-defined particularistic ties. With a view to eliminate competition, they resorted to collusive actions such as price fixing.

1.4.5. Wholesaler as Channel Captain

The distribution system during the period was dominated by the wholesale merchants. Production units were extremely small, with unsophisticated technology and limited financial resources. The retail scene was characterised by small stores. With increasing level of commercialisation, a number of prominent merchants emerged in key commercial centres. They came to be known as the city merchants. In contrast, there arose, in the outlying areas, a group of traders called 'provincial merchants' who were of peasant origin. The development of money and credit resulted in the growth of itinerant trade as well. With the rapid growth in commercial activities, the influential merchants with considerable financial resources began to extend control over the production of goods, by extending loans to producers, by advancing raw materials and equipments, and even by acquiring outright ownership of productive facilities. The small retailers depended on them for merchandise and credit.

1.4.6. Multistage Wholesale Structure

Large wholesalers thus came to occupy the pivotal position in the distribution system. An important feature of the wholesale trade was that wholesalers tended to be specialised both in functions and in products handled. Multiple wholesaling was another significant aspect of the distribution dystem. The system was so complex and fragmented that the products had to pass through many levels of wholesale middlemen, most of them performing only specialised wholesale functions. Particularly relevant in this context were the traders known as loading tonya (wholesalers), unloading tonya, and storage tonya[36].

1.4.7. With the Meiji Rostoration in 1868 and the establishment of constitutional government, there were sweeping reforms, including the abolition of the status hierarchy. Monopoly pirvileges enjoyed by prominent merchants were also abolished. The new government emphasised the development of strategic industries, and consumer industries received a low priority. As a result of the growth in the economy and the improvements in transportation and communication, a national market was evolving. Leading wholesalers still dominated the distribution system by extending a host of services to the small factories and the tiny retailers. However, as industrialisation progressed, the manufacturing sector

[36]Charles David Sheldon, The Rise of the Merchant Class in Tokugawa Japan, 1600-1868: An Introductory Survey, (New York; J.J. Augustin, Inc., 1958) p.47.

began to gain prominence over the commercial sector, particularly at the turn of the century.

1.4.8. Nevertheless, large wholesalers dominated the distribution structure. Until the end of World War II, large manufacturing firms confined their spheres to heavy industries of strategic significance. The impoverished consumer market was served by a myriad of highly fragmented small producers. The market for consumer goods was extremely segregated and served by tiny retail stores. There was almost no direct distribution, even by the large scale manufacturers. Almost without exception they relied upon wholesalers. Even the enormously large department store chains depended on wholesalers exclusively as their source of supply.

1.4.9. Segregation of Production and Marketing

The Japanese distribution system has some historical endowments inherited from the distant past. The most significant, perhaps, has been a general tendency in the Japanese marketing climate for manufacturing and sales to be separated. This is in contrast to the American situation, in particular, where for almost a century, both the areas have been considered inseparable, largely under the control of the manufacturer. The very organisation of the large corporation known as Zaibatsu made it unnecessary for its manufacturing components to undertake marketing functions. A major Zaibatsu typically consisted of a holding company at its helm and a number of manufacturing subsidiaries, financial institutions, and a trading company with clear-cut functional specialisations. Manufacturing subsidiaries confined their functions to production, while the trading company, supported by financial institutions, served not only as sales and procurement agents for the producing firms, but also played a coordinating role.

1.4.10. Until the end of World War II it was common for manufacturing firms to delegate the entire distribution function to intermediaries. The producing firms considered their mission completed, once the merchandise was shipped out of their warehouses. They did not bother to consider how their products were being distributed. Rapid economic development and improved standard of living in the post-war Japan resulted in the emergence of a mass consumer market leading to a consumption revolution. The existing distribution structure proved wholly inadequate to meet the new situation. Manufacturers were initially baffled by the problem. As late as 1959, Lawrence P. Dowd[37] observed a complete lack of

[37] Lawrence P. Dowd, "Wholesale Marketing in Japan", _Journal of Marketing_, Vol 23, (January 1959) pp.257-62.

marketing orientation in Japanese manufacturing firms. Even the large manufacturers seldom undertook marketing of their products intensively. Producing firms seldom had any marketing or sales departments. Manufacturing concerns were more concerned with technological problems than marketing. As a result, Japanese marketing system was dominated by wholesalers even in the late 1950's.

1.4.11. Very long channels had been a characteristic feature of the Japanese distribution system for centuries. The wholesale structure was highly fragmented with amazing multiplication of wholesalers in individual channels of distribution. The products used to pass through as many as five separate wholesalers before it finally reached the retail shelf. The multistage wholesale structure was dominated by the enormously large, highly integrated, general wholesale organisations commonly referred to as "trading companies". They were the descendants of the pre-war Zaibatsu firms. These trading companies usually acquired all the output of a number of manufacturers in an industry. In some cases, a whole industry was controlled by one trading company and it was not uncommon that the very same enterprise controlled several industries. The general wholesalers who engaged in 'putting out' basic commodities for processing, frequently sold them to speciality wholesalers who often confined their operations to one line of products or even part of a line. Basic product speciality wholesalers, in turn, sold to speciality wholesalers who 'put out' the products to finish product processess for finishing before distribution to regional wholesalers. Regional wholesalers, located in secondary trading centres, usually limited their distribution activities to the immediately surrounding territory.

1.4.12. Prof. Dowd identified two serious limitations in the domination of Japanese marketing by wholesalers: domestically, the economic potential of Japan was not being developed to its full potential; and internationally, lack of responsibility for marketing by manufacturers and failure to promote sound market development by wholesalers tended to produce unstable market penetration.

1.4.13. The post-war years witnessed the development of large corporations in the consumer industries and they began to take active interest in marketing. The Zaibatsu firms were dissolved and each of the former subsidiaries became an independent corporation. With the loss of military market, large manufacturers had no choice but to switch to peace time industries. Japanese consumer industries gained momentum during the post-war years. Besides the large corporations of the strategic industries now shifting to consumer market, many aggressive large corporations emerged in the consumer industries, particularly after the abolition of the Saibatsu. Unlike the pre-war era, when industries were largely controlled by wholesalers, with small manufacturers serving as their sub-contractors, large manufacturing corporations began to dominate the distribution system.

1.3.14. Marketing by Manufacturers

As large manufacturing firms actively sought to strengthen their hold on the emerging consumer market, they soon realised that they had to become actively involved in marketing for a variety of reasons. The basic corporate marketing principle during the high economic growth period of the 1960's was to make the product permeate the gigantic middleclass market effectively and in the shortest possible time[38]. The pressure for capacity expansion, the desire to obtain a great share of the market, and the need for market information entailed active marketing efforts by large manufacturing firms. Another significant reason was the inability and unwillingness of the traditional distribution sector to meet the new conditions created by the rapid rise in output levels and the high rate of new product introduction.

1.4.15. The multistage wholesale structure as it existed was not obviously the ideal institutional set-up to distribute the output of a rapidly growing mass production and mass consumption economy. During the 1960's therefore, most large Japanese corporations went through a series of organisational changes, particularly to improve their marketing capabilities. In effect, companies had to create new channels of distribution, reduce the number of levels in the channels, use multiple channels, had to become heavily involved in demand creation, and were forced to assume considerable market risks. At least in the initial stages, large consumer goods manufacturers assumed an active role in marketing only reluctantly, perceiving no other alternative. However, many of these firms subsequently realised that such involvement would bring substantial benefits. As a result, they began to intensify their marketing efforts. It is now well accepted in Japan's leading corporations that marketing is an essential business function. The typical large corporation today operates a network of branch offices throughout the nation, whose primary task is to perform sales and service functions.

1.4.16. A significant development in the post-war Japanese marketing scene is the extensive control attained by large manufacturers in the distribution structure. Centrally coordinated distribution channels under the initiative of large manufacturers have rapidly emerged in many consumer industries. This has resulted in a basic shift in the locus of power in the distribution structure. Large wholesalers, who for centuries enjoyed considerable influence over the actions of retail outlets and dictated to small manufacturers what and how much to produce, have been pushed to a subordinate position. This alteration in the power position has been largely the result of the inability of the old-style intermediaries to cope with the new demands placed on them by the development of a large consumer market.

1.4.17. There are three fundamental patterns in the newly emerged manufacturer-controlled distribution system:

1. Manufacturers distributing their products through their own outlets;
2. Distribution through manufacturer-controlled franchise system;
3. Large manufacturers bringing existing independent intermediaries under their control by organising them into a group of affiliated wholesalers and retailers[39].

[39] Yoshino, Op. cit., pp.92-99.

The power of the manufacturers has been largely the result of their market development programmes including market communication and market information functions. The strategy of distributing product through multiple channels and the cooperation extended to the manufacturers by intermediaries are indications of this power position.

1.4.18. <u>Innovations in Retailing</u>

Most of the very fundamental innovations in distribution channels have taken place in the retail sector. A significant recent development is the gradual decline in the importance of very small retail stores and the concentration of sales among a small number of very large retail establishments. The new types of retail institutions share two common characteristics: their operating policy is mass-merchandise-oriented, with major appeal to the mass market; they are chain-operated.

1.4.19. These innovative institutions are of four types. Most important is the 'supermarket', which combines the characteristics of the American supermarkets and discount stores. They emphasise high volume, low margin, high turnover, and low price, and are operated on a selfservice basis. The second type is a unique Japanese institution known as 'instalment department store'. Essentially a department store, it is engaged primarily in instalment sales. Another innovation in retailing is the establishment of suburban shopping centres[40]. A more recent development is the emergence of consumer cooperative societies.

1.4.20. Socio-economic Changes

Among the environmental changes responsible for the phenomenal growth of large-scale retailing is the emergence of the mass consumer market. A middle class with discretionary income was gradually developing. New products flooded the market and aggressive advertising messages were constantly beamed to consumers by large manufacturers. Consumer wants were stimulated and their consumption horizons pushed beyond their available means. Consequently price became an important consideration. The existing retail institutions, particularly the prestige-oriented and conservatively managed department stores, were unable to fill the needs of this rising middle class. Mass merchandising techniques such as strong price appeal, extensive use of loss-leader merchandise, active advertising and promotion efforts, and limited services were consistent with the equally aggressive desire of the rising middleclass to improve its standard of living.

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[40] Yoshino, Op. cit., pp.132-33.

1.4.21. Another factor was the geographic shift of the population. The rising trend towards urbanisation and the rapid rise in suburban towns favoured the growth of the mass merchandising firms which opened new stores in such areas. The innovations in mass merchandising institutions had the American example to follow. However, it is significant to note that major adaptations were necessary to make the American type merchandising workable in Japan. Another striking innovation is the trend for smaller retail and wholesale establishments to form cooperative and voluntary chains. Such organised groups invariably strengthen the otherwise weak position of these small establishments.

1.4.22. In several product categories mass merchandising institutions are now attempting to bypass wholesalers and deal directly with manufacturers. Realising the significance of the mass merchandising firms, several major manufacturers have taken the initiative for setting up special organisational units to supply merchandise to these institutions. Some large mass merchandising firms have gone into private branding. The development of private brands is significant evidence of the growing power of largescale mass merchandising firms. Large chains follow two distinct strategies in this regard. They persuade large manufacturers with well known brands to manufacture private brand merchandise. The 'battle of brands' that emerged between large manufacturers and large chains have been satisfactorily resolved, and the manufacturers are now forced to produce 'dual brands'. The other strategy of retailers is to persuade small manufacturers to produce private brand products for them.

1.4.23. The striking feature of the recent dynamism in the Japanese retail sector is the change in the power relationship in distribution channels. The large manufacturers are now forced to share their recently acquired power position in the channel structure with the emerging largescale mass merchandising firms.

1.4.24. Adaptations of Traditional Retailers

Despite the volatile and dynamic developments in Japanese retailing, extremely small retail establishments prevail. Located close to the living quarters of the entrepreneur's family, the typical small store contributes only a part of the family income. Often the stores are run by family members, perhaps the wife, while the husband has a full time job elsewhere. These stores serve a very limited number of customers and the business depends on personal relationships and convenience. Most of the stores are quite oblivious of the environmental changes and the threats to their existence.

1.4.25. Great changes have indeed been taking place in the Japanese retailing. However, these changes are presently taking place alongside the conventional retail structure. A large number of small stores still dominate the retail structure. The reasons are social and historical. The customers had been accustomed to and thus persist in purchasing particular products only at particular stores. The traditional 'one-item specialisation' of the retail stores was also the result of answering consumer's buying habits and requirements, and it contributed to the large number of retailers as well as to the variety of retailers. Another reason appears to have been the low social status traditionally attached to the merchant class. The tarnished image of the trader has lingered even after the Meiji Restoration, probably until the 1930's. Although this image no longer remains in present-day Japan, this historical factor explains to some extent the low rate of innovation and adaptation in the traditional retail sector[41].

1.4.26. Some efforts have, however, been made by small traders to formulate counter strategies on a co-operative basis. One approach has been to pool resources by small retailers, construct a large store in a strategic

[41] Dentus Incorporated, Op.cit., p.82.

location and thus physically move into a central location. The small firms are thus brought together to form a department store or a supermarket. Another co-operative effort has been the formulation of retail cooperative buying groups, known as cooperative chains. Yet another response is the formation of wholesaler sponsored voluntary chains.

1.4.27. The department store which is considered to be a traditional element in the Japanese distribution structure has also become vulnerable to the recent changes. The same has been the plight of the store in UK, and USA. Although the department stores have grown rapidly in the post-war years, there is growing evidence that their once uncontested leadership is being challenged by the emerging mass merchandising chains.

1.4.28. Wholesalers

The wholesalers who had traditionally enjoyed a prominent position in Japansese business, today find the very rationale for their existence threatened by changes in the environment. At least some of the traditional wholesale functions are now being performed with greater effectiveness and efficiency by large manufacturers and retailers. Earlier the producers as well as the retailers looked upto the wholesalers for knowledge of the market, contacts in the market place, and financial assistance. They had also absorbed the business risk. However, recent developments in the economy made them the most vulnerable element in the traditional distribution system.

1.4.29. Attacked from both sides, from manufacturers and large retailers, Japanese wholesale business now finds itself in a precarious and defensive position. Manufacturers attempt vertical expansion to include wholesale trade by setting up their own selling companies to control the entire distribution route and to extend their market share. Retailers are organising voluntary chain stores to acquire wholesale functions for direct dealing with manufacturers. Added to these is the recent tendency of consumers to organise neighbourhood cooperative societies for direct bulk purchases from manufacturers without intermediary wholesale services[42].

1.4.30. The wholesale sector has, by and large, been oblivious of the recent changes in the economy. Majority of the wholesalers failed to perform adequately the task of market development for new products that have been introduced continuously by large manufacturers in post-

[42]Ibid., p.61.

war years. Wholesalers apparently felt the performance of such tasks beyond the scope of proper wholesale functions. Retailers, on the other hand, felt the wholesalers' services in terms of advice on merchandising and dissemination of useful market and industry information quite inadequate. It is evident that wholesalers have tended in the past to depend complacently on personal relationships with their retailers and have largely failed to improve their services and efficiency. Naturally, they are losing ground. The impact has been particularly serious among small, secondary wholesalers.

1.4.31. Adaptations by Wholesalers

Some of the wholesalers have been responding positively. They are reorienting their operations to meet the needs of large scale retail chains. Despite the trend towards buying direct from manufacturers, large retail chains still purchase the bulk of their merchandise from wholesalers, and the progressive wholesalers have responded by establishing separate sections or departments to service large chains, and also by improving their physical distribution. Some wholesalers are converting themselves into chain operations, by establishing branch stores and distribution centres in strategic locations in order to serve better the needs of large mass merchandising firms. Some wholesalers have responded by vertical integration downward by establishing their own retail outlets. A major step towards rationalisation has been the cooperative effort of wholesalers located in a given area to establish a new joint wholesale distribution centre, and physically move their operations there, particularly for better warehousing and physical distribution functions.

1.4.32. Large primary wholesalers have tried to organise secondary wholesalers on a selective basis into a loosely coordinated network of affiliates. The logic is that given the preponderance of very small retail outlets, small secondary wholesalers will have a useful role to perform in the Japanese economy. The primary wholesalers extend financial, managerial, and such other assistance to the affiliates. Another attempt by wholesalers to achieve downward integration is through organising retailers to form voluntary chains.

1.4.33. A unique character of the Japanese distribution system has been the mutual affiliation of primary wholesalers, secondary wholesalers, and retailers. The tendency is quite conspicuous even today, and transactions among them are conducted continuously on a steady basis.

The vertically affiliated distribution structure with the primary wholesaler on top is supported by the long history of its development and by the inherent tendency of the Japanese people to get great value on long-standing commercial relationship. This tendency is reflected even in the vertical marketing system involving intermediaries controlled by manufacturers.

1.4.34. The mighty Japanese trading companies which support and sustain the Japanese position in the international market, are aggressively seeking to adapt their strategies and structures to survive in the domestic market. "A modern Japan without its major trading companies would be inconceivable", wrote Sueyuki Wakasugi, as late as 1964[43]. However, some argue that the days of trading companies are numbered as they have been more or less excluded from the domestic distribution of consumer products. However, these organisations have always been quite sensitive to changes in the environment and flexible in their strategies. They have been trying to capitalise on the opportunities created in the mass consumer market. Besides strengthening their ties with large supermarket chains, leading trading companies are actively promoting voluntary chains through their networks of controlled

[43]Sueyuki Wakasugi, "The Mighty Japanese Trading Companies", Business Horizons, 7 (Winter 1964) p.5.

wholesalers. The wholesalers, with the assistance and guidance from the trading companies, organise their retail customers into voluntary chains to which the trading companies supply merchandise. Strong alliances have also been established between trading companies and large supermarkets for mutual advantage. In addition to financial services, trading companies offer to large chains the opportunity for private brands, as they have their own small producing subsidiaries.

1.4.35. On the whole, it appears that while some traditional institutions have gone a long way towards attaining new viability in the changing distribution structure, others have been complacent. There is not doubt that the interaction between the old and new will become increasingly more dynamic, and the fate of those who fail to adapt will be all but certain[44].

1.4.36. In sum, the evolution of Japan's distribution system had lagged behind her economic development, prior to World War II. This was largely because the pre-war industrialisation had emphasised the development of strategic industries much to the detriment of consumer industries. However, as an affluent mass consumer market emerged from the ruins of the war in a very short period

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[44] Yoshino, Op.cit., p.219.

of time, the distribution system that came under serious strains and tensions began to take rapid strides both by innovations and by adaptations.

1.4.37. Channel length has been reduced considerably. This has been the result of a combination of factors such as rationalisation of the multistage wholesale structure, emergence of large scale retail institutions enabling direct distribution to retailers, and the formation of vertically integrated channels by manufacturers. Almost the very same factors have led to the emergence of multiple channel structures as well. Leaving the trodden path the product now moves to the market via different routes: from the factory direct to consumers, direct to retailers, and through the wholesalers.

1.3.38. Among the triumvirate in the marketing channels, the wholesaler dominated the distribution structure for an extended period, till the 1960's. With the integration of production and marketing functions by the large manufacturers, the locus of power began to shift from the wholesaler to the manufacturer. As largescale retailing achieved momentum, a countervailing power has emerged, and the manufacturer has been forced to balance his power with the large retailer. The Japanese consumer still patronizes a large number of small shops and the economy still supports relatively small producers. The wholesaler, therefore, is not dead, but different.

1.4.39. Investigation of the dynamic adaptive behaviour of the Japanese distribution system leads to the observation that the emerging system is becoming similar to the patterns found in other mass consumption societies.

1.5.0. Trends in Channel Evolution : Model

1.5.1. A survey of the economic histories of the three nations unravels a more or less uniform pattern in the evolution of marketing channels. There are some major tendencies.

1.5.2. The first is the reintegration of manufacturing and marketing. In the primitive economy, manufacturing and selling are integrated. With increase in production, the economy of specialisation leads to the segregation of marketing and manufacturing. But with industrialisation and the emergence of a buyers' market where large manufacturers compete for customers, most of the distribution functions come to be reabsorbed by manufacturers, thus effecting reintegration of production and manufacturing. There is also the tendency for large retailers to go into manufacturing.

1.5.3. The second feature is the tendency for cyclical movement in the length of channels. In the primitive society, the manufacturer, one who literally makes by hand, sells his output to the known, local customer. As output increases, there arises the need for distant markets, and the task of distribution are delegated to intermediaries. Multistage wholesaling increases the length of channels. Factors which give rise to a multistage wholesale structure are physical distance, inadequate transport and communication facilities, functional specialisation among wholesalers, and a retail structure characterised by a large number of small establishments. As large manufacturing and large-scale retailing institutions develop, most of the wholesale functions come to be performed by either the manufacturers or the large retailers, or both. The wholesaler gradually comes to be eliminated. However, as long as there are small producers and small retailers, the wholesaler is not entirely eliminated from the economy.

1.5.4. The third feature in the evolution of trade channels is the change in the size and structure of wholesale and retail institutions, and their functional adaptations. Although institutions by nature tend to be static, the dynamics of the market place exert pressures on these institutions. With gradual improvement in economic conditions, fairs, weekly markets, and itinerant traders yield place to regular shops. Further improvements in the economy bring specialisation in wholesaling and speciality stores at the retail level. Particularly significant are the functional realignments among the channel participants. A common feature in all the economies is the emergence of largescale retail establishments. The size of the manufacturing and retailing institutions, and the extent to which these institutions perform the marketing functions, decide the structure and functions of the wholesale intermediary. Often the wholesaler becomes the casualty in the process of economic development.

1.5.5. The fourth aspect of channel evolution is the increasing tendency to use multiple channels. As manufacturing achieves momentum, multiple channels emerge as the natural mode of distribution. Change in market geography, segmentation of the mass market, and the emergence of retail institutions of various sizes - all point to an optimal channel for each market. The most obvious indication is the manufacturer selling through his own branch wholesale or retail establishments and at the same time, reaching certain markets through regular wholesale and retail intermediaries. To large customers he sells directly, while small customers are served by intermediaries. Even when using indirect channels he might use different channels to reach different markets. To a large measure, the use of multiple channels implies that the producer is no more under the control of the intermediaries. The tendency to use multiple channels has been much in evidence in all the economies, particularly at the advanced stages of economic evolution.

1.5.6. Among the dynamics of distribution, the most significant perhaps is the shift in the power position of the channel participants. The triumvirate of the distribution system consists of the manufacturer, the wholesaler, and the retailer. A scarcity economy is characterised by the domination of the wholesaler. The growth of largescale manufacturing presents a very potent threat to the power position of the wholesaler. There is a gradual shifting of power from the wholesaler to the manufacturer, and for an extended period, they share the power position in the marketing channel. However, the distribution system gradually comes under the sole supremacy of the manufacturer who has by now absorbed some of the critical marketing functions. Power is derived from functions, and the extent of power is decided by the extent of marketing functions performed. With the ferment of largescale retailing in the economy, there arises a countervailing power in the distribution structure. Thus, in a mature economy, we find the large manufacturer balancing his power with the largescale retailer.

1.5.7. The pattern of trade is indeed rooted in culture and social structure. Customs and practices in distribution are created by the unique social and economic factors at a certain period in the country's economic history, and are modified by changes which subsequently take place. The basic functions of distribution do not vary among societies, nor does the pattern of evolution in the structure of distribution. Rather universal are the directions of change and their determinants.

CHAPTER II

PROBLEM DEFINITION AND RESEARCH DESIGN

2.0.1. This chapter defines the research problem, develops an analytical model, and discusses the research design. Beginning with a review of the role of marketing channels in a developing economy, the first part of the chapter attempts to derive a set of paradigms that helps to define the research problem in the context of a developing economy. Statement of the problem and the major hypotheses form part of this section. The second part begins with the semantics in channel research, and identifies the four aspects of channel structure. Discussion on the limitations of the existing approaches to marketing analysis, and the development of an alternative analytical model are two significant aspects in this section. The third part is devoted for the research design, and the topics discussed include the selection of industries, the methods of data collection, and the limitations of the study.

2.1.0. Marketing Channels in a Developing Economy

2.1.1. Distribution system is a relatively neglected field of scientific study and investigation in India. In part, this neglect springs from the lopsided perspective of considering the process of distribution as unproductive, in contrast to the actual production of goods. But, in part, the neglect also springs from the practical difficulties of studying the distribution system; for example, the distribution functions and their contributions to the economy are inherently difficult to measure quantitatively, and there is not much data about them. The very large number of independent units engaged in distribution, their complicated interconnections with other aspects of the economy, and the difficulty of obtaining comparable and reliable data from many of these units, make the search for information, the comprehension of the facts, and the interpretation of the facts, complex and arduous.

2.1.2. Although marketing literature suggests that the pace of economic development can be accelerated by placing greater emphasis on the distribution system, development planners often ignore the role of marketing in general, and distribution channels in particular. Distribution has almost totally been neglected in the literature on economic development.

2.1.3. As early as 1953, Holton had pointed out that the economics of development was marked by a general lack of appreciation for the role of distribution. He noted that distribution is considerably more important in the development of less developed areas than is generally recognised: Were the distribution channels in such areas less tortuous and less expensive to navigate, there is little doubt that more goods would flow through them, real per capita income may be increased simply by improving the distribution system and thereby increasing pay rolls and lowering the cost of living[1]. Commenting on Holton's article, Fisher came to the same conclusion.

2.1.4. Economic planners, however, continued to ignore the fact that an improved distribution system is essential to take full advantage of favourable

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[1]Richard H. Holton, "Marketing Structure and Economic Development", Quarterly Journal of Economics, Vol.48, (August 1953) pp.344-61.

production opportunities. And Walter Hoving put it succinctly: "So much of the world is almost insanely trying to develop its production facilities, but owing to ignorance and misunderstanding is neglecting its distribution machinery"[2]. Hibbert recalls that even as late as 1965 it was pointed out that the role of distribution in the economic development of less industrialised areas had almost completely been ignored in the growing body of literature devoted to the field of economic development in developing countries. Even casual mention of distribution was rare; for instance, in the UN publications dealing with development, attention was devoted almost exclusively to the problems of increasing production in basic industries[3].

2.1.5. The lopsided perspective of economists and development planners had been pointed out by some of the leading writers on economics of development.

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[2]Walter Hoving, The Distribution Revolution, (New York, Ives Washburn Inc., 1960) p.149-50.

[3]Edgar P.Hibbert, "Statutory Marketing in a Developing Economy", European Journal of Marketing, Vol.6, (Autumn, 1972) p.157.

"Whether markets pull development or lag behind it, it is evident that much planning in the area of economic development today neglects distribution", wrote Kindleberger[4]. It is a paradox that Rostow who made a pioneering contribution to the study of the development process became an out-spoken critic of this myopic perspective of economic planners:

> "Whether we are conscious of it or not, our ways of thinking about the economy are still coloured by ideas that go back to the classical economists of the nineteenth century and, indeed, back to the eighteenth century world of the physiocrats... In fact, distribution (and services generally) tended to be ignored or regarded, somehow, as an inferior kind of economic activity. Down to the present day it is difficult to get development economists and policy makers to accord to problems of efficiency in distribution the same attention they give automatically

[4]Charles P. Kindleberger, Economic Development, (New York, McGraw Hill Book Company, Inc., 1958) p.107.

to problems of production, investment and finance"[5].

2.1.6. Distribution in developing economies has two strikes against it: It is either ignored, attention shifting to production, finance, and other activities presumed to contribute more towards development, or it is attacked as a parasitic function, not only contributing nothing to the economic system, but draining it of vitality as well. Neglect of distribution stems also from an association of welfare with the possession of physical goods. Distribution essentially involves intangible services. Being intangible, services are harder to quantify than physical goods, and accurate quantitative information is important for planning purposes[6].

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[5]Walt W.Rostow, "The Concept of A National Market and Its Economic Growth Implications", Peter D. Bennett (ed), Marketing and Economic Development, (Chicago, American Marketing Association, 1965) p.19.

[6]Reed Moyer, "The Structure of Markets in Developing Economies", William G. Mollier Jr., and David L. Wileman (eds), Marketing Channels : A Systems Viewpoint, (Homewood, Illinois, Richard D. Irwin Inc., 1971), p.61.

2.1.7. Development planners ignore distribution activities because they are assumed to be passive elements of the economic system. The belief is that distribution is a self-adjusting mechanism that alters itself in response to changes in the rest of the economy; being both a passive and an automatically adjusting mechanism, distribution can be ignored. Further, it gets little attention from development planners because of the relative difficulty of transferring distribution skills from one economy to another, unlike production techniques, which are more easily transmitted from country to country.

2.1.8. The marketing approach to development takes note of the productivity increases which middlemen, marketing institutions, or market itself contribute to economic growth. For, increases in the per capita output of distribution also can provide an economy with increased capital investment, increased per capita income, and a higher standard of living[7]. The potential contribution of distribution to development spans many spheres of a nation's economic life. As outlined by Hirsch, improvement in the method or scope of distribution in

[7]Douglas Felix Lamont, "A Theory of Marketing Development: México", Peter D.Bennett(ed), Marketing and Economic Development, (Chicago, American Marketing Association, 1965), p.44.

any economic system can aid in development, both by leading to a more efficient use of presently existing productive resources and by encouraging their future generation. It can result in an expansion of market size and thereby lead to economies of scale and eventually to mass production. Efficient distribution may also reduce a community's need to keep working capital tied up in storing goods for future consumption, i.e., a reduction in the nonmonetised sector of the economy[8].

2.1.9. Innovations in marketing institutions reduce the marketing risk for manufacturers and they would be encouraged to expand production. On the distribution side, improvements in methods of operation reduce cost of functions and increase profitability, encouraging distributive institutions to expand their scale of operation. Increase in the scale of operations in assembly, transport, warehousing, wholesaling and retailing functions reduces the unit cost of distribution. The greater volume of sales makes viable the acquisition and use of more capital for modernisation and the development of greater managerial

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[8] Leon V. Hirsch., "The Contribution of Marketing to Economic Development - A Generally Neglected Area", W.D. Stevens (ed) The Social Responsibility of Marketing, (Chicago, American Marketing Association, 1961), pp.413-18.

and operating skills. Increased efficiency makes possible lower marketing margins and reduced prices. Greater sales, in turn, influences large-scale production and the producer achieves economy of scale. The result is lower cost of production.

> "The impact upon producers of the higher output at lower prices is usually to increase their higher gross, and often higher net, incomes. The lower prices have to be understood as necessary for the expansion of effective demand"[9].

2.1.10. If efficiency is lacking in the distribution sector, the result is a final product price level so high that the potential market, small enough to begin with, is reduced even further. Reduced cost of production and reduced cost of distribution help to reduce the final price of products. Lower prices create new and bigger markets, pushing the economy to higher levels of production. Increased output generates new employment and creates income growth.

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[9]Charles C.Slater, "Marketing Processes in Developing Latin American Societies", Journal of Marketing, Vol.32 (July 1968), p.53.

2.1.11. Income redistribution as a goal of development can be achieved by lowering the relative prices of necessities such as food, since these necessities absorb a very large share of low income family purchases. In order to provide large quantities of such commodities at lower prices, efficient channels of distribution became necessary. "Gradual and systematic improvements in marketing systems in developing countries tend to help lower food costs, boost purchasing power of wages, and can lead to more equitable income distribution"[10]. The war on poverty is entering a new stage. The problem was seen as one of producing more of essential goods. But production is the first stage in providing necessities; distribution is the second stage. Now, with adequate means of production at hand, the economy is entering a phase where marketing and distribution are the critical elements in the war on poverty and income disparity. Unless increased production is more widely shared among the masses, increased production will be constrained. If a strong case is made for innovations in the distribution of necessities, there will be carry-overs to other aspects of the economy. Lower prices of necessities increases the purchasing power of

[10] Martin Kriesberg, "Marketing Efficiency in Developing Countries," Dov Izraeili, Dafna N. Izraeli and Frank Meissner (eds) Marketing Systems for Developing Countries, (New York, John Wiley & Sons, 1976) p.19.

wages, thereby creating effective demand for other consumer goods.

2.1.12. Thus the twin goals of development - increased level of real income and redistribution of income - can be fostered by reforms in distribution institutions. Income will increase as producers respond to the more certain market opportunities and income redistribution through consumer price reductions for necessities. Innovations in marketing channels will cause a redistribution of income in favour of low income people, and provide sectoral redistribution in favour of rural areas, thus counteracting the natural tendency for concentration of income in the urban sector[11].

2.1.13. Paradigms for Problem Definition

A set of paradigms to analyse the structural dynamics of marketing channels in a developing economy is almost lacking. Here the study looks for a conceptual framework to study the pattern of evolution in the structure of distribution channels at various stages in the development of an economy. This is attempted by analysing and

[10] Charles C.Slater, "Marketing - A Catalyst for Development", Dov. Izraeli, Dafna N. Izraeli and Frank Meissner (eds) Märketing Systems for Developing Countries (New York, John Wiley & Sons, 1976)p.4.

integrating certain hypotheses developed by Stigler McCarthy and Mathews.

2.1.14. Elaborating the concept of division of labour, Stigler[12] developed a theoretical framework for analysing the development of an innovative industry. This has been used by Mallen[13] as a conceptual basis for analysing changes in the structure of marketing channels. Stigler postulates three stages in the life cycle of an innovative firm or industry. In the initial stage the innovating company will be obliged to engage in many activities that preferably would be left to specialists. During this 'integration' stage innovators must reach down towards the market, and perform what might otherwise be middleman activities.

2.1.15. Manufacturing firms often face higher cost for distribution tasks when they attempt to perform them by themselves. The technology and scale economies that enable

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[12] George Stigler, "The Division of Labour is limited by the Extent of the Market", The Journal of Political Economy, Vol.59 (June 1951), pp.185-93.

[13] Bruce Mallen, "Functional Spin-Off: A Key to Anticipating Change in Distribution Structure", Journal of Marketing, Vol.37, (July 1973), pp.18.25.

them to operate at a low cost for production processes are often absent in the performance of distribution tasks. The producer at the initial low volume will have a higher cost for performing distribution functions; the middleman who can combine the volumes of a number of producers benefits from the economies that the performance of this particular function generates at higher volumes. However, when a new market begins to emerge, there may not be enough volume for a middleman to enter the market since there may not be enough producers from whom he can draw supplies to create the large volume required for a profitable operation. The producer, therefore, will not have any middleman to whom he may spin-off a high cost function.

2.1.16. In the second stage, during the industry's growth period, 'disintegration' occurs. With expansion of the industry, with more producers and greater volume, investment in middlemen operations becomes viable. Now the manufacturer can spin-off to marketing institutions the distributive functions. As the volume increases further it is possible that a given spin-off function will in turn be broken down into several subsections, some of which may be spun-off by existing middlemen to even narrower specialists. Thus, several levels ~~and~~

and other types of middlemen may be added to the structural arrangement. The purpose of functional spin-off is to reduce cost. For each round of spin-off, if costs fall, prices fall, so that given an elastic demand curve, volume will increase. An implication of the situation is that the emergence of efficient distributive institutions propels productivity in the manufacturing sector.

2.1.17. The final stage in the evolution of the firm or industry is that of 'reintegration'. As the industry begins to decline, some of the specialists leave the scene because of insufficient volume and the surviving manufacturers must reabsorb some of the distributive functions earlier performed by the specialists. The reintegration need not necessarily be caused by declining volume. As Mallen points out, "if the cost curve does not continue to fall, at a high level of volume a point will be reached at which that producer can retake the function without losing economies"[14].

2.1.18. If the cost of trade functions continually falls with increasing volume, the middleman industry, and perhaps individual middlemen will become bigger and bigger.

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[14] Ibid, p.20

The cost-volume relationship in distributive operations seems to explain the emergence of the mass merchandising institutions in advanced countries. The situation need not necessarily lead to monopoly and exploitation. A manufacturer will tend to distribute directly if a middleman attempts to charge more for his services than the producer would have to pay with direct distribution. At most, he can take a profit that equals the efficiencies that he provides the system, but no more. "The middleman monopolist is more likely to be present at the beginning of a new market situation, where volume does not warrant the entry of competitive middlemen"[15].

2.1.19. The Stigler-Mallen formulation implies that emergence of adequate marketing institutions is a necessary condition for the growth of an industry. Further, it indicates the changing structure of distribution channels at different stages in the evolution of an industry. More significant, perhaps, is the productivity and impetus to growth which can be rendered to the manufacturing sector by distributive institutions.

2.1.20. Economic Evolution and the Changing Structure of Distribution

The changing structure of distribution channels at different stages in the evolution of a firm has been discussed by MrCarthy[16]. He used the now familiar classification of manufacturing enterprises into production oriented firms,market oriented firms; and market oriented integrated firms*. It is assumed that the different types of firms represent different stages in the evolution of a firm or industry. It is further postulated that the different types of firms dominate different stages in the evolution of an economy.

2.1.21. In the first phase, industry consists of production oriented firms. What characterises producers at this stage is their production orientation. The tendency is to produce what is easy or convenient to produce. They tend to produce basic commodities for which they feel there is a ready demand[17]. The typical attitude of manufacturers at this stage is "our business is to make a product not to hawk it". They assume the demand for their product as given and expect some one else to get rid of the product for them. They may not even have their own sales depart-

[16]Jerome E.McCarthy, "Effective Marketing Institutions for Economic Development", R.Clifton Anderson and William P.Dommermuth (eds), Distribution Systems Firms , Functions and Efficiences, (New York, Appleton-Century-Crofts, 1972), p.427.

*McCarthy actually speaks of five types of firms, however, the first two, i.e., self-sufficient firms and self-sufficient firms with occasional surpluses, cannot be treated as manufacturing firms.

[17]Ibid., pp.429-30.

ments. These firms are critically dependent on trade channels to provide all marketing functions. In under-developed economies one major function is financing production because of the scarcity of financial recourses with the firm. In such cases, the middlemen may provide other functions only poorly or grudgingly. Selling comes to be treated more as trading than as aggressive seeking to expand demand. They do relatively little promotion. They are more concerned with buying low and selling high than developing effective channels of distribution. These middlemen are, however, very vital to the development of production-oriented firms.

2.1.22. With general improvement in the economy, competition intensifies, and the competing firms pour forth into the market a profusion of differentiated products which call for aggressive marketing efforts. With such changes in the marketing environment, some of the existing middlemen prove to be much less suitable. They understand their basic function, but often fail to grasp their new role in analysing and meeting customer needs. Firms in the second stage of economic evolution, namely, the market oriented firms, try to develop marketing mixes to satisfy specific target markets rather than to produce what is easy for them to make. However, middlemen required at this stage must be capable of and willing to provide customer services, and should seek customers in order to help solve problems rather than just to offer stocks of goods. Such middlemen should have a long term perspective in establishing relationships with their producers and their customers.

2.1.23. In the case of market oriented integrated firms, the manufacturer absorbs the marketing functions formerly provided by intermediaries. Here, marketing is integrated with manufacturing. The emphasis is on satisfying specific groups of target customers and the firm depends heavily on market research and product and market planning[18]. The primary reason for integration is the inadequate services offered by many existing wholesalers and retailers.

2.1.24. In spite of the limitation of over-simplification, McCarthy's classification of manufacturing firms and his analysis of the differing channel requirements at different stages in the evolution of producing firms inevitably lead to an important conclusion: If effective marketing insti tutions are not available or do not develop at the right

[18] *Ibid.*, p.431.

time, producers may be blocked from evolution to a higher and more productive level. "Clearly, if many firms in an economy are similarly blocked, this will have an impact on the economic development of a whole economy"[19].

2.1.25. In the mid sixties McCarthy cited the Indian case as an economy predominated by production oriented firms. Today, the situation has changed. Except in the case of certain industries, the sellers' market has changed to a buyers' market. It is, however, true that the production orientation has not changed drastically, either among producing firms, or among economic planners. This does not imply that firms have not evolved to the market-oriented stage or the market-oriented integration stage. The manufacturing sector consists of industries and firms that are at different stages in this evolution process. Many firms and industries have evolved to higher levels, and there are indications to believe that much more are on the threshold, waiting for the necessary trade channels to evolve.

2.1.26. <u>For New and Expanding Companies</u>

In an economy where the focus of industrial policy is on the development of small and growing firms,

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[19] <u>Ibid.</u>, p.427.

evolution of efficient distributive institutions become a critical factor; for, the availability of appropriate trade channels is a constraint for the entry of new manufacturering enterprises; it has always been a constraint for the small firms; it is also a constraint for the expansion and diversification of existing firms.

2.1.27. Distribution Structure of a New Firm

A new manufacturing firm entering an established industry normally has a limited line of products, and is characterised by severely constrained financial and personnel resources. The company's primary attention is often focused on the manufacturing problems. The firm will have to rely on external trade channels owing to resource constraints as well as limitations in product mix and volume.

2.1.28. Although newly formed companies generally tend to rely initially on external marketing organisations, availability of intermediaries becomes a serious problem. As Bain points out, marketing barriers to entry by new firms are substantial. One of the major hurdles is the difficulty in penetrating established distribution channels.[20]

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[20]Joe S. Bain, Barriers to New Competition (Cambridge, Mass., Harvard University Press, 1962), Quoted

Marketing barriers to entry by new firms are particularly high in growing industries. As large number of new units start production, competitive rivalry will be intensified. It is unlikely that wholesale and retail distribution facilities will expand in proportion to the increasing volume. Naturally, there will be increased pressure from the side of established manufacturers on existing middlemen with proven capabilities and resources to confine their operations to the expanding product lines and increasing volume of the established producers. This is the phenomenon of pre-emptying the available trade channels by leading manufacturers in the industry.

2.1.29. Mathews, in his 'metamorphosis model' for channel change refers to this issue. If the producer is an innovator and the product has differential advantage, themmanufacturer may have little difficulty in obtaining new distributors. In many instances, however, the manufacturers will find that the leading local distributors already represent other manufacturers and are thus unwilling to carry the potentially competitive line. As a result, the manufacturer will be forced to utilise smaller and possibly less effective distributors. Sometimes the

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by Donald S. Henley, "Marketing and Economic Integration in Developing Countries", Reed Moyer and Stanley C.Hollander (eds), Markets and Marketing in Developing Economies, (Chicago, American Marketing Association, 1968) p.78.

manufacturer may find that adequate distributors are obtainable in certain geographic areas and not in others[21].

2.1.30. Stigler postulated that direct distribution might be necessary for a new innovative firm. The reason suggested is low initial sales volume for the innovative product which makes middlemen operations nonviable. Perhaps, a more important reason would be that a truly innovative product which is a technological break-through might require highly qualified technical expertise for its sales and other services. Traditional distributors might be inadequately equipped for the task. As a result, the firm will be forced to rely entirely on internal channels as long as efficient external channels do not develop.

2.1.31. Distribution Barriers for an Expanding Company

A manufacturer who is trying to increase his output is faced with the need to expand the geographic coverage of his existing channel or to effect a channel shift to reach new segments of the market. It is difficult in many instances, to find channel members capable of serving effectively both the old and new segments. A

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[21]William E.Mathews, "Challenge for Industrial Marketers: Changing Channels of Distribution", Eugene J. Kelly and William Lazer (eds), Managerial Markketing, (Homewood, Illinois, Richard D. Irwin, Inc., 1973) p.407.

channel of distribution initially selected to serve a small group of customers is unlikely to be able to satisfy the expanded market. There will, therefore, be a growing pressure either for an expansion of the existing channel or for the addition of other channels. For instance, a company selling direct to a small group of customers might be faced with the emergence of a large number of extremely small customers who are geographically distant and dispersed. In this case, the expansion of the internal channel might be uneconomical and a channel shift would be necessary to serve this new segment[22].

2.1.32. A small or medium firm which is not a market leader is often constrained in its expansion programme by the low response of its existing channel members to undertake the additional distribution responsibilities. However, direct distribution is not the alternative. Just as it is difficult for a new firm to embark on direct distribution, it is difficult for an expanding firm to shift to internal channels. The first claim on its scarce resources of finance and managerial talent would be for the expansion of production function.

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[22] _Ibid._, pp.410-11.

2.1.33. Efficient and innovative external channels, thus, become a necessary condition for the expansion of manufacturing firms. The absence of such marketing institutions may retard the pace of industrialisation.

2.1.34. Distribution Structure - A Given Environmental Factor ?

One reason that economic development plans have not always lived upto expectations is that marketing institutions are taken for granted[23]. Plans for economic development normally assume that the link between producers and ultimate buyer will be provided more or less automatically as marketing firms spring up in response to profit incentives. Collins and Holton has challenged the proposition that such firms will necessarily appear or, if they do, that they will always provide the kind of marketing services most appropriate for the new production situation[24].

2.1.35. The structure of distribution is assumed to be a given environmental factor. The individual firm may make choice among the various routes or channels that are in the structure. The structure itself, however, is taken

[23]McCarthy, loc. cit.,

[24]N.R.Collins and R.H. Holton, "Programming Changes in Marketing in Planned Economic Development", Kyklos, Vol.16, (

as uncontrollable variable. This unfortunate position is taken not only by planners; often producing firms also treat distribution channel as an uncontrollable variable.

2.1.36. Manufacturers frequently overlook the opportunity to make a break-through by innovating in distribution channels. Though marketing channels are commonly regarded as a variable aspect of marketing mix of the manufacturer, they often receive less attention than consideration of product, price and promotion simply because much of the channel, in the typical case is "out there" where it is difficult to do anything about it, especially in the short run. "Too often channel relationships do not receive due attention since they involve matters that are "outside" the company and, hence are more easily taken for granted than other activities such as marketing research, advertising, or personal selling. These 'internal' functions come up for more frequent review or appraisal since responsibility for them tends to be fixed on the organisational chart or in job descriptions and the cost of them is conspicuously identified on accounting statements"[25].

[25] William R.Davidson, "Innovations in Distribution", Bruce J.Walker and Joel B. Haynes, Marketing Channels and Institutions: Readings on distribution Concepts and Practices, (Columbus, Ohio, Grid Publishing Inc., 1973) p.78.

2.1.37. The dilemma faced by manufacturing firms, particularly small and growing firms, with respect to channels are, to a great extent, real and perplexing. It is beyond the capacity of the typical firm to ensure the cooperation of the right type of channel members who can provide the services required for a developing market. Manufacturers, are, thus, forced to accept the existing channel structure with all its limitations. This is the reason why development planners have to intervene. They have to intervene because effective distribution structure is a necessary condition for industrial and economic development. McCarthy goes to the extent of asserting that "effective marketing institutions are necessary and sufficient condition for economic development"[26].

[26] McCarthy, Op.cit., pp.393-404.

2.1.38. The Problem

Some of the postulates presented in the foregoing discussion help to identify the research problem:

> "The existing structure of distribution is neither adequate nor adaptive to the needs of the expanding manufacturing sector".

2.1.39. The causal factors are that

1) marketing channels are not used for strategy differentiation by manufacturing firms;
2) there are too many intermediaries in the channels;
3) the wholesale and retail institutions remain stagnant without adaptations;
4) and the products drift towards the market without any conscious effort on the part of any of the channel participants to control the entire channel.

2.1.40. Major Hypotheses

The study proposes to test the following hypotheses:

1. Adequate managerial attention is not paid to distribution, although it is a strategic element of the marketing mix.

2. Distribution channels are not used for offering optimal marketing programme for each segment.

3. There are too many intermediaries between the manufacturer and the consumer.

4. Trade margins are not low, considering the trade functions performed by the intermediaries and the cost of these functions.

5. Institutional innovations are rare among intermediaries, and they continue to perform traditionally defined functions, although the sellers' markets are yielding place to buyers' markets.

6. Manufacturers have started absorbing more and more distribution functions, and the power position in the channels are being shifted in favour of the manufacturer.

7. Products drift towards the market, without any conscious effort on the part of anyone to control the entire channel.

8. The few efficient intermediaries available are pre-empted by the large and leading manufacturers, and the relatively smaller firms find that the right type of channel members are not available to them.

9. Consumers are at the credulous end of the distribution system, and manufacturers do not have effective control over the final selling price.

A number of specific hypotheses, either derived from these major hypotheses, or related to these hypotheses, has been set for empirical testing in the ensuing four chapters.

2.2.0. Analytical Approach

2.2.1. Marketing Channels in Search of a Definition

Embedded everywhere in the enormous complex of activities and arrangements that characterise the marketing institutions is an elemental piece of structure, the so-called marketing channel. The trading structure of the marketing institutions canalises the flow of goods from the producer to the consumer, somewhat as the channel of a river guides the flow of water. Hence, such commodity flows have been characterised in a rough sort of way as "marketing channels"[27].

2.2.2. The word 'channel' had its origin in the French word for canal. The origin of the phrase "channels of distribution" could be traced back to the era of mercantilism, almost three centuries ago. This partially accounts for some of its elusive character. Originally, the term expressed the notion of the flow of goods between one country and another. This meaning of the term appears to have persisted until the end of the nineteenth century, when increased attention was focused on the types of institutions which actuated the flow of goods[28].

2.2.3. The cannotation of the physical flow continued until 1922 when Clark added another dimension, the transfer of title. His approach enabled to shift the

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[27]Ralph F.Breyer, Quantitative Systemic Analysis and Control: Study No. I - Channel and Channel Group Costing, (Philadelphia: The Author, 1949),p.13.

[28]David A. Revzan, Wholesaling in Marketing Organisation (New York, John Wiley & Sons Inc., 1961) pp.108-109.

attention away from the physical flow of goods to the movement of ownership[29]. In the next decade, Ralph Breyer added a new dimension. He recognized flows of orders and payments, as well as flows of goods and their titles. He maintained that to qualify as a channel, the vertical sequence of trading concerns must bridge the entire gap between production and consumption[30].

2.2.4. The essential qualification for a participant in a channel of distribution is that he be involved in the transfer of title. Either he takes title himself, as do merchant wholesalers and retailers, or he acts in a sales or buying capacity as agent for a principal[31]. Once the channel intermediaries are established, the facilitating agencies are partially predetermined for that particular structure[32].

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[29] Louis P.Bucklin, A Theory of Distribution Channel Structure, (Berkeley, California, Institute of Business and Economic Research, University of California, 1966) p.2.

[30] Ralph F. Breyer, "Some Observations on 'Structural' formation and the Growth of Marketing Channel", John C. Narver and Roland Savitt (eds), Conceptual Readings in the Marketing Economy, (New York, Holt, Rinehard and Winston Inc., 1971), p.158.

[31] Edwin H.Lewis, Marketing Channels: Structure and Strategy, (New York, McGraw-Hill Book Company, 1968) p.4.

[32] James A.Constantin, Rodney E.Evans and Malcolm L. Morris, Marketing Strategy and Management, (Dallas, Texas, Business Publications Inc., 1976)p.270.

2.2.5. Although the problem of the facilitating agents have been fairly resolved, a major issue in channel definition remains neglected. While defining channels, most authors seem to consider only the indirect channels, blissfully ignoring the integrated channels and the company owned wholesale and retail networks. This is because the channel has been perceived as the 'vehicle for viewing marketing organisation in the external aspects'[33].

2.2.6. In fact, the way channel of distribution is defined today is not significantly different from the way it used to be defined earlier. Converse, for instance, had stated decades back that"the 'trade channel is made up of the middlemen who move goods from producers to consumers" and that "we usually think of the channel as being made up of those merchants who own the goods and those agent middlemen who effect sales"[34].

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[33]Bucklin, loc. cit.

[34]Paul D.Converse, Marvey W. Huegy and Robert V. Mitchell, Elements of Marketing (Englewood Cliffs, Prentice-Hall Inc., 1958) p.119.

In a similar vein, Wroe Alderson defined marketing channels as consisting of "intermediary sellers who intervene between the original source of supply and the ultimate consumer"[35].

2.2.7. However, as Davidson has pointed out, in a broad sense, the channel includes marketing establishments owned by vertically integrated companies, that is, those performing marketing functions on more than one level of distribution. Manufacturer's sales branch is an example. Davidson himself, however, do not emphasise the intraorganisational levels in his formal definition[36]. Perhaps, the lone voice in the right direction is that of the 1960 Definitions Committee of the American Marketing Association. The Committee defined a channel as "the structure of intracompany organisation units and extra-company agents and dealers, wholesale and retail, through which a commodity, product, or service is marketed"[37].

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[35] Wroe Alderson, Marketing Behavior and Executive Action, (Homewood, Illinois, Richard D. Irwin Inc., 1957), p.211.

[36] William R.Davidson, "Channels of Distribution - One Aspect of Marketing Strategy", Bruce J. Walker and Joel B. Haynes (eds), Marketing Channels and Institutions: Readings on Distribution Concepts and Practices, (Columbus, Ohio, Grid Publishing Inc., 1973) p.6.

[37] Committee on Definitions of the American Marketing Association, Marketing Definitions: A Glossary of Marketing Terms, (Chicago, American Marketing Association, 1960).

2.2.8. Much of the confusion about the concept of marketing channels springs from the differing perspectives or view points of different interest groups. The manufacturer may focus on the distributive institutions needed to route the product to the ultimate users. Naturally, the manufacturer might define the channel through intermediaries. Middlemen who take title to the goods, carry substantial inventories, and bear the risk may view the flow of title as the proper delineator of the marketing channel. Consumers may view the channel as a lot of middlemen interposing themselves between the producer and the customers. However, "the researcher observing the marketing channel as it operates in the economic system may describe it in terms of its structural dimensions and efficiency of operation"[38].

2.2.9. For the purpose of the present study, a marketing channel is defined as "the intra-organisational and/or intermediary structure and process for moving products from manufacturers to consumers".

2.2.10. Channel Structure Defined

The next key phrase that demands definition is

[38] Bert Rosenbloom, Marketing Channels: A Management View, (Hinsdale, Illinois, The Dryden Press, 1978), p3.

'channel structure'. More than a definition, the study needs the identification of different aspects of channel structure. The Oxford English Dictionary defines structure as the mutual relation of the constituent parts or elements of a whole as determining its peculiar nature or character. The word structure denotes the arrangement or interrelation of all the parts of a whole. While referring to channel structure, we are using the word in this precise literal sense. With its numerous diverse elements or components, the marketing channel is indeed an immensely complex structure.

2.2.11. However, the concept of the channel structure has not stirred enough academic interest and it has often been vaguely defined in marketing literature. "Authors tend to emphasize a particular dimension of channel structure and then proceed to a detailed discussion without explicitly defining what they mean by channel structure itself."[39] Even the author of 'Marketing Channels: Structure and Strategy'[40] does not make at least a passing

[39] Ibid., p.11

[40] Lewis, op.cit.

reference to the meaning of channel structure. Bert Rosenbloom defines channel structure as "the manner in which a set of distribution tasks has been allocated among the channel members"[41].

2.2.12. According to Glenn Walters, channel structure refers to the manner in which channel members are organised, their status and roles defined[42]. He holds the view that the types of institutions and the number of stages determine the structure of a marketing channel. The essential marketing functions such as buying, selling, transportation and storage must be performed irrespective of the type of channel used. The differences in channel structures, therefore, lie not in the functions performed, but in the types of institutions used, the distribution of functions, and the manner in which the functions are performed by specific instiutions[43]. Necessarily, the distribution of functions differs in channels using different types of institutions. While the emphasis of Rosenbloom's definition is on the tasks or functions, Walters seems to give predominance to the institutional types.

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[41] Rosenbloom, op.cit., p.11.

[42] Glenn Walters, Marketing Channels, (Santa Monica, California, Goodyear Publishing Company Inc., 1977) p.17.

[43] Ibid, pp.148-49.

2.2.13. Aspects of Channel Structure

While defining channel structure, different authors have referred to a few aspects of marketing channels. The two dimensions that have drawn most academic attention are the number of levels and the type of institutions. Most of the early writers recognised these two aspects of channel structure. The first variable relates to the type of intermediaries, such as wholesalers and retailers involved in the vertical structure of the channel. The levels, or stages, in a channel denote the sequence of institutions which vertically connect the producer and the consumer. A channel may be visualised as a chain-link arrangement[44], or internal organisational units. Each type of institution represents a link, stage or level.

2.2.14. A third aspect of channel structure is the number of channels used for a given product or product line. Very little attention has hitherto been bestowed on this dimension; however, it has often been implied. For instance, Balderson refers only to the first two dimensions in his definition of a channel, but the third

[44]David A.Revzan, Op. cit., p.115.

aspect is very much evident: "Marketing channels are one or more institutional configurations for directing and supporting the flows. . ."[45]. 'One or more institutional configurations' invariably refers to the possibility of more than one channel. In the very usage 'marketing channels', the word channel is deliberately used in the plural, indicating a multichannel structure.

2.2.15. Bruce Mallen[46] refers to four dimensions of channel structure, the fourth aspect being 'the number of middlemen at each level'. This refers to the intensity of distribution. Based on the market coverage and channel control objectives, manufacturers follow the policy of limited distribution or general distribution. The more familiar terms are 'exclusive', 'selective' and 'intensive' distribution.

2.2.16. An important aspect that is missing even in Mallen's analysis is the behavioral dimension, or rather the vertical relationships. As the number of intermediaries at each level decides or is decided by, the vertical

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[45] F.E. Balderson, "Design of Marketing Channels", Reavis Cox, Wroe Alderson and Stanley J Shapiro (eds), Theory in Marketing, (Homewood, Illinois, Richard D. Irwin, 1964) p.176.

[46] Mallen, Op.cit., p.19

relationship could be treated as one aspect of the channel structure. The present study thus analyses channel structure in terms of four dimensions:

1. Number of channels;
2. Number of levels;
3. Middlemen types;
4. Number of channel members and vertical relationships.

Together, these four dimensions cover the important aspects of channel structure.

2.2.17. Research Tradition in Marketing and the Limitations of Existing Approaches

The structural evolution in marketing channels in the context of a developing economy is an area that has been bypassed in marketing theory, except for a few hypothetical assertions. The dominant approaches to marketing analysis, viz., the commodity, functional, institutional and managerial approaches, are too limited in scope to offer any methodological framework for a macroeconomic analysis of the evolving structure of marketing channels in a growing economy[47].

2.2.18. The research traditions based on these approaches have a common limitation. The focus of analysis is on the description of the status quo; institutions and functions in relation to various products are often described as they exist at the time of analysis. The distribution system, which is among the most dynamic institutions in a society, is thus reduced to a static

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[47] Peter R. Mount, "Exploring the Commodity Approach in Developing Marketing Theory, "Journal of Marketing, Vol.33, No.2 (April 1969), pp.63-64; David A. Revzan, "The Institutional Approach Revisited", John C. Narver and Ronald Savitt (eds), Conceptual Readings in the Marketing Economy, (New York, Holt, Rinehart and Winston Inc., 1971) p.99; __________, Perspectives for Research in Marketing: Seven Essays, (Berkeley, Institute of Business and Economics Research, 1965) p.11; Edmund D. McGarry, "Some Functions of Marketing Reconsidered", John C. Narver and Ronald Savitt, (eds), Conceptual Readings in the Marketing Economy, (New York, Holt, Rinehart and Winston Inc., 1971) pp.134-35; Richard J. Lewis and Leo G. Erickson, "Marketing Functions and Marketing Systems: A Synthesis", Journal of Marketing, Vol.33, (July 1969), p.12; Eugene J. Kelly and William Lazer, Managerial Marketing, Perspectives and View Points, (Homewood, Illinois, Richard D. Irwin, 1958; Jerome McCarthy, Basic Marketing: A Managerial Approach, (Homewood, Illinois, Richard D. Irwin, 1960).

mechanism. As a result, the adaptive behaviour of marketing channels and their socioeconomic determinants ever remain within the black box. A dynamic conceptual model for channel analysis is, therefore, imperative. Often the analytical perspective is a managerial one. Even before the advent of the managerial approach, the purpose of analysis was to provide the necessary exposure to prospective managers. Keeping the training needs of managers in view, the commodity, institutional and functional approaches were geared to collect information about the process of distribution. Particularly the analytical tools based on managerial approach were framed to provide information for managerial decision making. Apparently, all the four research traditions take a microeconomic perspective.

2.2.19. Comparative Marketing Approach

Nearer to the perspective of the present study is the comparative marketing approach which seeks international comparisons of marketing systems in various countries. The societal implications of the marketing system have been the primary concern of the comparative marketing approach. Comparative marketing probes the fundamentals of marketing phenomena and is concerned with universality[48].

2.2.20. The need for comparison in marketing rests primarily on the realisation that all research is comparative, explicitly or implicitly. The comparative approach to marketing analysis is concerned with the systematic detection, identification, classification, measurement and interpretation of similarities and differences among the marketing systems in different countries. The similarities and differences have to be related to the socioeconomic environment.

> "Comparison, in any case, involves more than locating similarities and differences, or discerning what is universal, related and unique among marketing systems. These distinctions must be interpreted in order to demonstrate the invariable agreement or disagreement among the presence, the absence or the change of a phenomenon and the circumstances where it appears, disappears or changes"[49]

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[48] Robert Bartels, "A Methodological Framework for Comparative Marketing Study", Montrose, S. Sommers, and Jerome B. Kernan (eds), Comparative Marketing Systems, (New York, Appleton-Century-Crofts, 1968), p.4.

[49] J. Boddewyn, "A Construct for Comparative Marketing Research", Montrose S. Sommers and Jerome B.Kernan (eds), Comparative Marketing Systems, (New York, Appleton-Century-Crofts, 1968) p.29-30.

2.2.21. The approach emphasises the consideration of marketing environment because similarities in the marketing systems is assumed to rest on the similarties of the societies where they are found. As Bartels has proposed, meaningful analysis of the marketing systems should attempt to relate the marketing systems to the environmental factors such as nation, society, economy, market, and agencies that control marketing[50].

2.2.22. Even this approach is handicapped by the tendency to treat marketing systems as static systems. Marketing analysts usually try to relate to the American system, the marketing institutions elsewhere, as they see them at the time of analysis. There have, of course, been some studies on the marketing methods and institutions in developing countries, but they are rather descriptions of the obvious[51] ignoring the dynamics of institutional evolution.

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[50] Robert Bartels, "Outline for Comparative Marketing Analysis", Robert Bartels, Comparative Marketing: Wholesaling in Fifteen Countries, (Homewood, Illinois, Richard D. Irwin, Inc., 1963), pp.299-308.

[51] Reavis Cox, "The Search for Universals in Comparative Studies of Domestic Marketing Systems", Montrose, S. Sommers, Jerome B. Kernan (eds), Comparative Marketing Systems, (New York, Appleton-Century-Crofts, 1968) pp.10-28.

2.2.23. Macromarketing Approach

The "marketing is not yet societal syndrome"[52] loomed large in marketing thought and theory during the last decade. The tremendous attention bestowed on macromarketing recently and the fond frequency of reference in marketing discussions to the societal consequences of marketing activities and systems are probably part of the defence. However, the quest for social relevance has ushered in a new trend in marketing theory; this is the tendency for self criticism which is very vital for the evolution of any discipline towards maturity. Kotler and Levy raised the issue that the concept of marketing is too limited[53]. Dowson concedes that crucial social issues do not, as yet, draw the major share of attention and interest within the marketing discipline. "Instead, the far greater share of its interests, energies, and resources are directed towards esoteric perfections of the tools of competitive advantage"[54].

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[52] David J.Luck, "Broadening the Concept of Marketing - Too Far", Journal of Marketing, Vol.33 (July 1969) pp.53-55.

[53] Philip Kotler and Sidney J.Levy, "Broadening the Concept of Marketing", Journal of Marketing, Vol.33, (January 1969), pp.10-15.

[54] Leslie M.Dawson, "Marketing Science in the Age of Aquarius", Journal of Marketing, Vol.35, (july 1971), p.68.

Lazer, therefore, makes an ardent plea for a broader perception and definition of marketing - one that recognises marketing's societal dimensions and perceives of marketing as more than just a technology of the firm[55].

2.2.24. 'Social marketing' was the term which came into vogue during the early years of the debate. It appears that the initial social concern was hardly anything more than a veneer to cover the multitude of sins attributed to marketing. By social marketing Kotler and Zaltman meant "the explicit use of marketing skills to help translate present social action efforts into more effectively designed and communicated programs"[56]. Lazer and Kelley however, proposed that the term signified the use of marketing tools to promote social programs as well as "the social consequences of marketing policies, decisions, and actions"[57].

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[55]William Lazer, "Marketing's Changing Social Relationships", Journal of Marketing, Vol.33, (January 1969), p.9.

[56]Philip Kotler and Gerald Zaltman, "Social Marketing: An Approach to Planned Social Change", Journal of Marketing, Vol.35, (July 1971) p.5.

[57]William Lazer and Eugene J. Kelley, "Social Marketing Perspectives and Viewpoints, (Homewood, Illinois, Richard D. Irwin, 1973) p.4.

2.2.25. The more recent emphasis on 'macromarketing' perhaps indicates the urgent need to study marketing within the context of the entire economic system[58]. The emerging perspective is to analyse the marketing process in its entirety and the aggregate mechanisms of institutions performing it. The task is to study the marketing systems, and the impact and consequences of marketing systems on society, and the impact and consequences of society on marketing systems. The indication is obvious; the emphasis of marketing thought is gradually being directed towards resolving issues of its social relevance.

2.2.26. The macromarketing approach to marketing analysis is related to the comparative marketing approach. The analytical model used here derives its perspective from these two approaches. However, the attempt is not to measure the productivity contribution of distribution to the national economy or to compare the Indian distribution system with that of any other economy. Yet, the pattern of evolution in the structure of distribution in other societies (traced in chapter I) provides a perspective for this analysis.

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[58] Reed Moyer, Macromarketing: A Social Perspective, (New York, John Wiley and Sons, 1972) p.viii.

2.2.27. Analytical Model

Distribution system is not a static mechanism, although the research tradition in marketing has often treated it so. It is a dynamic, changing, growing system, particularly in a developing economy. The structure of distribution channels, therefore, deserves an indepth analysis, taking into account the dynamics of its institutional evolutions and functional adaptations.

2.2.28. Each aspect of the distribution structure most naturally divides itself into four areas, viz., description, development, dynamics and determinants, the four D's of distribution. An attempt to study the distribution system must describe the channel structure (Description); indicate the way it emerges, unfolds and changes (Development); postulate how the system works or functions, that is, the rules of its operation (Dynamics); and identify the conditions that shape it (Determinants).

2.2.29. Analysis of the distribution channel should begin with a description of the channel structure - a delineation of the relatively stable attributes that define the system. Structure implies a set of characteristics that remain as consistent features of the system. To use a familiar geographical metaphor, structure represents the fixtures of the terrain: the mountains and the rivers, the plains and the lakes. Although even the most stable landscape is forever changing, the changes are so slow that we see the same features over a long period of time. To construct a map of the channel structure requires the delineation of the main attributes of the system; dimensions such as the number of channels used, the length of the channel, the type of intermediaries, and the number of intermediaries at each level.

2.2.30. Although the structure remains apparently stable, the various features of the system are continuously evolving, adapting themselves to the pressures of the environment. With modifications in the institutional sequence and changes in their functions, channels are evolving into higher levels of efficiency. Those who are concerned with the performance of the distribution system are bound to analyse the nature and pace of this development as well as the predominant characteristics of the various aspects of the channel at each stage in its progression.

Development could be traced with respect to each of the structural variables.

2.2.31. While description of the structure concerns the stable properties of the system, dynamics deal with the way it functions, the interplay of its forces and the process by which the system interacts with the environment and preserves itself. The dynamics in relation to various aspects of the channel structure are matters of concern for a channel analyst.

2.2.32. The final aspect of thought and research in distribution pertains to the conditions which shape the distribution structure. In analysing determinants of the structure, we are concerned with the influences that shape different channel structures and produce diverse performance levels for different products, companies, industries and economies. Any serious study of the structure of distribution should analyse the factors that determine the number of channels, the length of channels, the types of institutions, and the horizontal structure and vertical relationships.

2.2.33. Besides descriptions of the four aspects of channel structure, the study attempts to analyse the development,dynamics and determinants of each of these structural variables. The analytical model used here thus provides perspectives for analysing sixteen aspects of the structure of marketing channels. Pertaining to all these aspects, specific hypotheses have been set for empirical testing.

2.3.0. Research Design

2.3.1. Selection of Industries

The objectives of the study demand an analysis of the structure of marketing channels of a wide cross section of industries. Particularly significant in this context is the analysis of the distribution systems of industries belonging to categories such as consumer durables, consumer nondurables, semi-industrial products, and industrial goods. All the four categories are represented in this study. Within each group, whereever possible, different types of products with differing marketing and distribution requirements are included.

2.3.2. From the category of consumer nondurables, the industries selected are soaps, pharmaceuticals, packaged food and soft drinks, agricultural inputs, batteries, and lamps. Television and fan represent the category of consumer durables, while tyre, paint and watermeter represent semi-industrial products. Transformers, cables electromechanical components, and chemicals are the industries that represent the industrial goods category. Thus, fifteen industries have been covered by the study. For the purpose of empirical analysis these industries have been grouped into three categories. Consumer durables and semi-industrial products have been treated as one group; this is because the semi-industrial products moving to the consumer market have distribution requirements that are more or less similar to those of consumer durables; further, the number of firms available for study within Kerala is limited. Thus, six of the industries selected belong to the category of consumer nondurables, five to consumer durables and semi-industrial products, and four to industrial goods.

2.3.3. Thirty manufacturing firms were chosen to represent these industires. Whereever possible, more than one firm has been included to represent a particular industry. With the exception of a few firms, all the manufacturing firms included for detailed analysis are relatively large or medium scale companies. In certain cases, an industry is represented by a single firm as more firms are not available within Kerala. Whereever more firms have been included from an industry, firms of different characteristics have been chosen with a view to get a more comprehensive representation of the industry.

2.3.4. The different industries and the firms representing these industries are given in Table 01. The real names of the firms are not disclosed, but rather the firms are represented by their major products. Where a particular company has a wide mix of products, the empirical analysis has been limited to the major products that fall within the industry selected for study. Relevant particulars of the manufacturing firms chosen for detailed analysis are provided in the Table given as Annexure II.

2.3.5. The industries have been selected using statistical judgement. In industry groups where distribution plays a significant role and where the distribution methods and problems are complex, more industries and firms have been included for empirical analysis. Naturally, more attention in the study is bestowed on consumer nondurables; 16 out of the 30 firms analysed fall into this group.

2.3.6. Methods of Data Collection

The study relies entirely on primary data. The data were obtained from three sources:

Table No.01

Industries Selected for Study

S. No.	Selected Industries	No. of firms	Products
1.	Soaps	3	Soaps
2.	Pharmaceuticals	3	Pharmaceuticals
3.	Packaged Food and Soft Drinks	5	Biscuit, Bread, Jams and Syrups & Soft Drinks
4.	Agricultural Inputs and implements	4	Fertilizers, Pesticides, Cattlefeed, Power tillers*
5.	Batteries	1	Batteries
6.	Lamps	1	Electrical bulbs & Tubes
7.	TV and radio	1	TV and radio
8.	Fan	1	Fan
9.	Tyre	1	Tyre
10.	Paint	2	Paint
11.	Watermeter	1	Watermeter
12.	Transformers	2	Transformers
13.	Electromechanical components	1	Relays, Rotary Switches Key Board Switches & Connectors.
14.	Cables	2	Cables
15.	Chemicals	2	Alkalies, Carbon black.

* Although power tiller is included in this category, for detailed analysis, it is included among industrial products.

1. Executives of the manufacturing firms chosen for detailed analysis.
2. Experienced traders in Cochin.
3. Executives of leading firms in the industries selected, firms located outside Kerala.

Data were collected through structured and unstructured interviews, structured interviews for the first source and unstructured interviews for the other two.

2.3.7. The basic data used for hypotheses testing have been drawn from the manufacturing firms chosen for detailed analysis. Executives responsible for marketing and distribution functions were the respondents. In many cases, more than one executive had to be interviewed in the same company. However, opinions regarding distribution operations were sought from a particular respondent in a firm. Factual information was obtained from other sources as well. On an average it took three visits to a firm. An elaborate pretested schedule was used as the research instrument to collect information from the manufacturing firms (Annexure I). In spite of the best efforts of the researcher, data relating to marketing and distribution cost were difficult to obtain partly because such data were not available with most of the firms, and partly because they did not want to reveal certain information.

2.3.8. Data obtained from the manufacturers were supplemented by information from trade sources. Experienced trades operating in the wholesale and retail sectors were interviewed without using any formal schedule. The respondents included stockists, distributors, wholesalers of the traditional type, clearing and forwarding agents, and retails, particularly of the relatively large retail establishments. At least a few from each of these categories were contacted, and the respondents were drawn from traders dealing with different product lines. The questions asked related to the nature of operations of the particular institutional type, its historical evolution, and functional adaptations. Information about the trade practices in different industries, obtained from the manufacturing sources, were counter-checked. Interviews with the traders were conducted at two stages: first at the primary stage of problem definition and research design; the objective was to get an exposure to the nature of operations of the different types of institutions, particularly institutions at the wholesale sector. The second set of interviews was held after completing the survey among manufacturing firms. The respondents contacted were different, and the purpose was clarification of information obtained from the manufacturing firms as well as confirmation of certain assumptions evolved from the survey among manufacturers.

2.3.9. The number of traders interviewed was forty. No research instrument was used to collect information from these sources, as they tend to distrust people who attempt to record the information they reveal about their business operations. Even the most broad-minded among them tend to turn indifferent or defensive, the moment an attempt is made to put in black and white what they reveal. Therefore, diaries were kept by the researcher to record the information obtained from the traders; information were recorded on these diaries after each interview. Although hypotheses testing in this study primarily relies on the data obtained from manufacturing firms, information obtained from the traders have been used for empirical support, particularly in the discussions on institutional structure (Chapter V).

2.3.10. The third source of information was executives of leading manufacturing firms in the concerned industries, located outside Kerala. The respondents in this category were managers and executives of the sales branches of these manufacturers. Since many leading firms have their branch offices or sales branches in Cochin, it was not very difficult to contact them for clarification and confirmation of information regarding trade practices in various industries. The technique used for data collection was unstructured interviews. The number of respondents were 15.

2.3.11. Not many statistical techniques were called for in this study, as the basic data related only to the operations of thirty manufacturing firms and the analysis relied more on factual data than on opinions or perceptions. For the latter reason, scale construction and measurement did not merit serious attention.

2.3.12. <u>Limitations of the Study</u>

The study is limited to manufacturing industries having at least few units located in Kerala, although the issues involved have much wider scope. Many traditional industries which are significant in the context of the Kerala economy have been eliminated from the purview of the study for two reasons: (1) the study is limited to manufacturing industries of the modern type; (2) many of the traditional industries produce mainly for export, and the study concerns itself with domestic distribution channels. Whereever possible, only large and medium scale companies within the selected industries were covered by the study under the assumption that it would be too much to look for elaborate distribution strategies in the small scale units.

2.3.13. Out of thetwo hundred and odd large and medium scale companies in Kerala only thirty units were selected, for analysis. Hardly one-third of the total belong to the selected industries. Even among the one third, some are producing mainly for export; the corporate and marketing headquarters of some others are located outside Kerala. In certain companies, managers were reluctant to divulge important information. Such companies were eliminated.

2.3.14. Although the study is based on certain specific industries, the research does not follow the commodity approach to marketing analysis, thereby limiting its scope to the particular distribution problems of the selected industries. The study concerns itself with broader issues and looks at the distribution structure from a macroeconomic perspective. Moreover, validity of the generalisations based on fifteen industries represented by thirty firms appears questionable, when the issues analysed relate to thousands of companies. However, the results of the study draw from the information obtained from trade sources as well as the experience of some leading firms located outside Kerala. Further, the Kerala based firms are not in anyway unique with respect to their marketing practices, and quite a large number of them operate in the national market, competing effectively with firms located outside Kerala.

2.3.15. In spite of the above methodological limitations, since the study is the first of its kind, the results will be useful in revealing the nature of the problem as it affects manufacturing enterprises at the present stage of development of the economy, and also in focusing attention on the broad lines of change in public policy that are necessary to solve the problems facing them.

2.3.16. <u>The Gap</u>

Discussing the theory building and testing gap in marketing, Enis points out the tendency to separate theory building and theory testing. On the one side, some of the major works done by the discipline's best theorists have been extremely provocative, but remain relatively generalised and abstract, because they have not been translated into specific hypotheses and tested with data. On the other hand, some of the discipline's most significant empirical work, while insightful and rigorous, have been rather specialised and narrow.

> "That is, much of this work begins with specific hypotheses - rather than with the basic concepts from which the hypotheses are derived. Although a theoretical/empirical gap is not uncommon in the development of a discipline, the purpose here is to suggest that perhaps a conscious effort to bridge this gap would be of particular value at the present stage in the development of the marketing discipline. This is what is meant by 'deepening the marketing concept'"[59].

The present study draws heavily from theoretical contributions in setting the hypotheses for empirical testing. Enis offers the rationale.

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[59] Ben M. Enis, "Deepening the Concept of Marketing", <u>Journal of Marketing</u>, Vol.37 (October 1973), p.60.

CHAPTER III

MULTIPLE CHANNEL STRUCTURE

3.0.1 This chapter analyses the 'number of channels dimension' of the structure of marketing channels. The first part of the chapter is devoted for the *description* of the 'combination of channels' used by the manufacturing firms under study. The second part deals with the *development* of the existing combination of channels, i.e., how they evolved into the present state. The third section deals with the *dynamics* of the present channel mix: the way the system works or functions, that is, the interplay of its forces and the process by which the system interacts with the environment. The fourth part discusses the *determinants* of the existing multiple channel structures. In each part certain pertinent hypotheses, derived from theoretical postulates and existing assumptions are being tested empirically.

3.0.2 The following are the hypotheses tested in this chapter:

H.1.1.1 Multiple channels are the usual mode of distribution.

H.1.1.2 The same product is distributed through direct and indirect channels, and the usual pattern of distribution for any company is a combination of both direct and indirect channels.

H.1.2.1 The existing combination of channels is hardly a product of conscious design, but the result of evolution by trial and error.

H.1.2.2 Channel change through channel addition, deletion or replacement is rare.

H.1.3.1 Manufacturers often fit new products to existing channels without searching for alternative channels.

H.1.3.2 Whereever multiple channels are used, the different channels act as complementary rather than competitive channels.

H.1.3.3 Multiple channels are seldom used to offer optimal marketing programme for each segment.

H.1.4.1 There is not enough managerial attention paid to the distribution aspect of marketing.

H.1.4.2 There exists a strategic gap in distribution management, and the inadequate managerial commitment at the administrative and operating levels inhibits strategic adaptations in the distribution structure.

3.1.0 Description

3.1.1.1. Often no single distribution channel can satisfy the needs of a manufacturer, and many firms use several combinations of middlemen (each called a distribution channel) to reach different market segments[1]. Several manufacturers, however, do not seem to realise the significance of the 'combination of channels' they use.

3.1.1.2 Need for Multiple Channels*

A policy of multiple channels is adopted for varying reasons. Some of the following reasons are particularly significant.

1. It may be a device for reaching somewhat different market segments.

2. A firm may want to make direct contact with the market and so decide to open up new retail outlets.

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[1]Douglas J. Dalrymple & Leonard J. Parsons, '*Marketing Management*, (New York, John Wiley & Sons, 1976), pp.402-403.

*Multiple distribution occurs when a company sells the same product line through parallel channels. The term also includes selling two brands of like products - either two manufacturer brands or a manufacturer brand and a distributor brand--through different channels. (Edwin H. Lewis, *Marketing Channels: Structure and Strategy*, (New York, McGraw-Hill Book Company, 1968) p.88.

3. If a producer finds that in distributing to one of his markets a middleman can perform a given distribution function more efficiently than himself, he will spin-off to intermediaries the distribution function in that market. If the majority of producers in a given industry are in a similar position, the use of multiple channels will come to characterise that industry.[2]

4. Manufacturers sometimes use their own sales offices or branches to serve customers concentrated in key market areas while relying on intermediaties to serve customers scattered in more remote areas.

5. Multiple channels may become necessary because of the type of customers the manufacturer sells to. The small customer and the large-volume buyer have different needs and must be served differently.

6. Small value orders are administratively awkward and involve high processing cost per unit of sale. Therefore, manufacturers may spin-off small and unprofitable accounts to distributors or wholesalers.

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[2]Bruce, Mallen, "Functional Spin-off: A Key to Anticipating Change in Distribution Structure", Journal of Marketing, Vol.37, (January 1973) p.22.

7. Some industrial users may find it desirable to buy from the distributors because they can give quick delivery and sometimes offer lower prices; adjustments are easier to negotiate, and the distributor may enable the buyer to save freight costs. Further, he is a good source of trade information. The patronage of the distributor comes mainly from the firm too small to buy direct, or from the large firm for emergency needs and items bought in small amounts, or as a means of reducing inventory.[3]

8. Manufacturer may desire to participate in product differentiation. Differentiated products can be moved through different channels. This operational posture is commonly called dual distribution. The policy allows the manufacturer to participate actively in more than one market with essentially the same product.

9. A channel is determined by the optimal marketing programme for each segment.[4] The manufacturer may find it necessary to use different strategies for different market segments and may decide to distribute the product to each segment via a different channel.

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[3] Ralph S. Alexander, James, S.Cross and Richard M.Hill, Industrial Marketing, (Bombay, D.B.Taraporevala Sons, 1972) p.252.

[4] Robert E. Weigand, "Fit Products and Channels to Your Markets", Harvard Business Review, Vol.55, (Jan-Feb 1977), pp.104-105.

Alternative channels may also become necessary to realise distribution objectives in different geographic areas.

10. The basis for a particular channel may change over time. Given an adequate period of time, the market may develop sufficiently in size to warrant the use of a different channel or the company may change its channel objectives. For example, a company that starts out using a manufacturer's agent either because of limited finance or because the market is small, may change to its own sales force if either of these conditions change.

3.1.13. Often a firm is not in a position to seek an ideal channel. It may not have the ability to conduct the necessary research to determine the ideal channel even if it existed. Furthermore, if such an ideal channel were actually discovered, the company might not possess the finance or the management talent to exploit it. In the final analysis, the marketing manager settles for the selection of an effective channel rather than the ideal channel[5]. Even if the ideal channel concept can be based on a logical construct, the particular 'normative' channel would be relative; it would be relevant only to a certain segment of the market at a given time, not to the vast expanse of a highly segmented market for all times.

[5] Glenn Walters, Marketing Channels, (California, Goodyear Publishing Company Inc., 1977) p.172.

The construct of 'marketing channels' does not refer to a single, optimal channel or the best channel, but to the right combination of channels[6]. There is no such thing as a single channel of distribution that works best for any specific product or company.

3.1.1.4 Multiple channels may, however, exist in theory, not in practice. The study, therefore, attempts to test empirically the following hypothesis:

H.1.1.1 "Multiple channels are the usual mode of distribution".

3.1.1.5 Empirical Evidence

The hypothesis is tested with the help of empirical data collected with reference to different firms in the same industry and with reference to firms falling under different categories of industries. First, the analysis begins with a description of the channels used by particular firms within an industry. Data reveal that the different firms in an industry usually follow a common pattern of distribution and the number of channels used by them does not vary significantly. Different channels are often used to reach different types of customers and different geographic markets. Firms in the same industry use more or less the same type of channel to reach

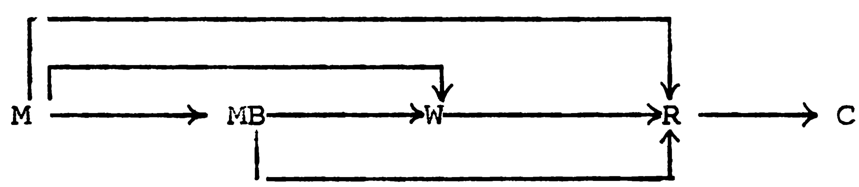
[6]Martin Zober, Marketing Management, New York, John Wiley & Sons, Inc., 1964), pp.120-121.

a particular segment. Multiple channels are much in evidence in all industries.

3.1.1.6 Soaps

The distribution system of the company designated here as Soap I, a manufacturer of a mildly medicated brand enjoying high demand, consists of four channels. The firm as well as its channels are unique.

Soap I



M - Manufacturer
W - Wholesaler
C - Consumer

MB - Manufacturer's Branch
R - Retailer.

As the firm is one of four related small-scale units producing the same brand of soap, the geographic markets for the various units are clearly demarcated. The unit under study has been assigned certain areas in Kerala and Andhra Pradesh. The firm has a branch depot at Hyderabad where most of the output is sold. The company sells direct to wholesalers and retailers in Kerala, while in Hyderabad it supplies to these intermediaries through the sales branch.

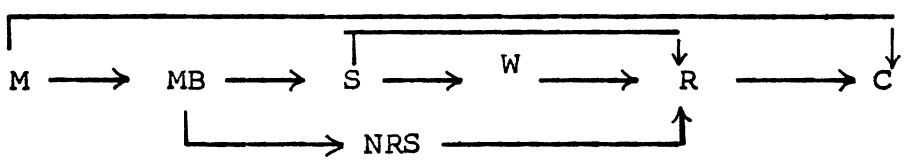
3.1.1.7. Unlike in the above case, the dominant channel for soaps and related lines involves the stockist. The stockist is a merchant middleman who receives supplies, warehouses, and transport goods to the premises of his customers. He supplies to wholesalers as well as retailers. While the stockist supplies directly to relatively large retailers in urban and semi-urban areas where the market is concentrated, the small retailers and retail outlets in the dispersed rural markets are served by the wholesalers. Whereas the stockist delivers goods at the customers' premises, the wholesaler serves those who come to his shop. In most cases, the company salesmen take orders from retailers for the stockist. The wholesaler often has to perform the selling function himself because he does represent the manufacturer, unlike the stockist. Soap II, a public sector corporation, distributes washing soap and toilet soaps through the two channels involving stockists, while it sells a small portion of its output directly to the defence establishments of the government, thus involving three channels in the distribution system.

$$
\begin{tikzcd}
M \arrow[r] \arrow[rrrrr, bend left] & MB \arrow[r] & S \arrow[r] \arrow[rr, bend right] & W \arrow[r] & R \arrow[r] & C
\end{tikzcd}
$$

M - Manufacturer
MB - Manufacturer's Branch
S - Stockist
W - Wholesaler
R - Retailer
C - Consumer

In addition to these three channels, Soap III has a fourth channel where it supplies directly to a type of wholesalers called non-redistribution stockists. Here the company salesman do not get involved in the re-distribution.

<u>Soap III</u>

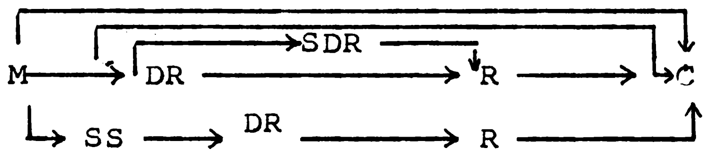


M - Manufacturer
S - Stockist
R - Retailer
MB - Manufacturer's Branch
W - Wholesaler
C - Consumer
NRS- Non-redistribution Stockist.

3.1.1.8 Pharmaceuticals

The pharmaceutical industry moves the bulk of its output through distributors, who supply to medical stores and hospitals, besides selling a small portion to sub distributors who sell to medical stores. A pharmaceutical distributor who often covers an entire district thus initiates three routes for the flow of drugs.

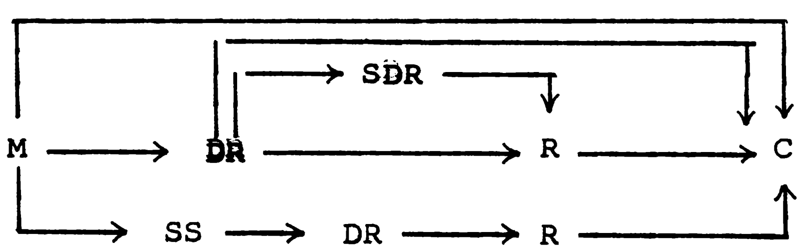
<u>Pharmaceuticals I</u>



M - Manufacturer DR - Distributor
SDR- Sub distributor R - Retailer
C - Consumer SS - Super stockist

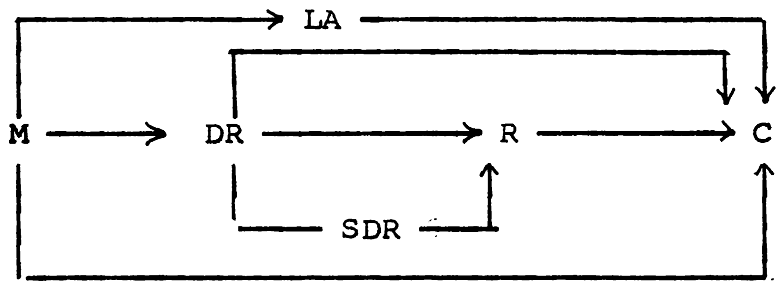
Manufacturers quite often sell a small portion of the output directly to hospitals. In addition to these four channels, two of the firms under study (Pharmaceuticals I and III) use super stockists in certain states where the demand for the company products are low. The super stockists sell to distributors and from there the products flow to retailers as well as to hospitals. These two firms, thus, follow the same pattern of distribution and their distribution systems consist of six channels each. A public sector unit, on the other hand, employs liaison agents in some cities primarily to obtain orders from government hospitals. This firm does not use super-stockists and its distribution system consists of five channels.

Pharmaceuticals III



M - Manufacturer DR - Distributor
SDR - Sub distributor R - Retailer
C - Consumer SS - Super stockist

Pharmaceuticals II

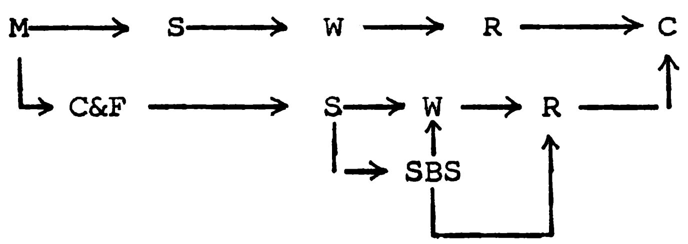


LA	-	Liaison Agent	M	-	Manufacturer
DR	-	Distributor	R	-	Retailer
C	-	Consumer	SDR	-	Subdistributor.

In pharmaceutical distribution primary demand is generated by the medical representatives, except when the product moves through the subdistributors, and orders are taken by the salesforce on behalf of the distributor.

3.1.1.9 Biscuits

The firm manufacturing biscuits employs five different channels. The stockists dominate the distribution of biscuits. With the help of the company salesforce, stockists sell to wholesalers as well as retailers, particularly the general stores and bakeries. To distant geographic markets, the product moves from the factory to the C&F agents who receive, warehouse, and arrange onward transport of the goods to the stockists. From the stockist the product takes the usual course, but in the states of Tamil Nadu and Karnataka, the product moves from the stockist to substockist. As it is uneconomical for the

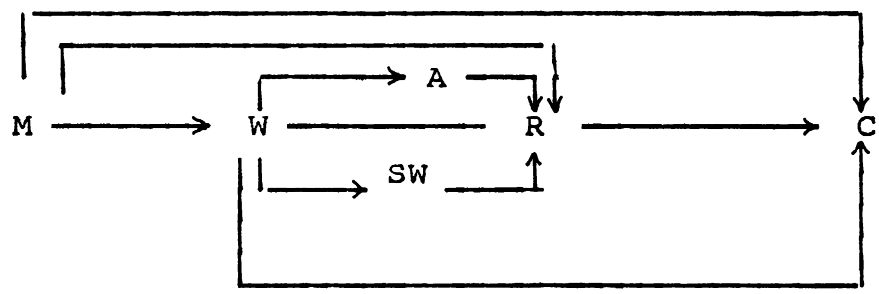


M - Manufacturer		S - Stockist	
W - Wholesaler		R - Retailer	
C - Consumer		C&F - Clearing & Forwarding Agents	
S - Stockist		W - Wholesaler	
R - Retailer		SBS - Substockist.	

stockist to cover the distant and scattered villages, substockists arise within the territory assigned to a stockist to distribute the product to the dispersed rural markets. In certain areas the substockist supplies goods to wholesalers and retailers.

3.1.10 Bread

The local unit of a multidivision public sector corporation manufacturing bread and bun employs the manufacturer - wholesaler - retailer - consumer channel to distribute the bulk of its output. The wholesalers used by the company in fact perform the functions normally done by stockists. Where the wholesalers cannot make direct delivery to retail outlets, agents are used.



M - Manufacturer

W - Wholesaler

C - Consumer

A - Agent

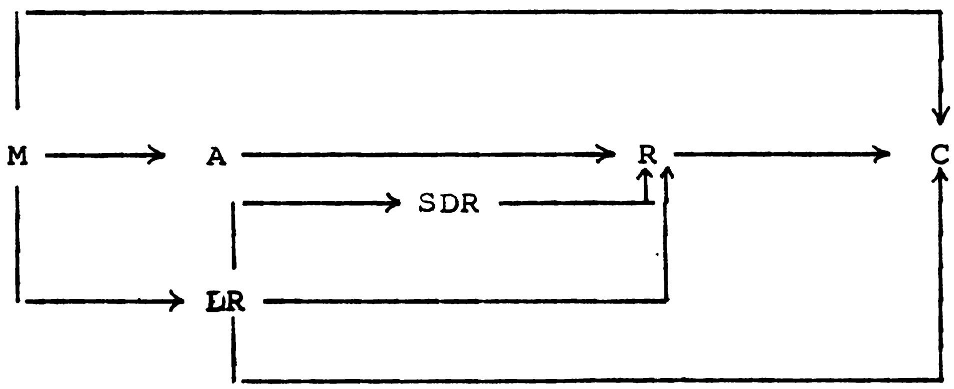
R - Retailer

SW - Semiwholesaler

Agents take a typically small volume, usually on bicycles, to the relatively small retail shops located in the suburbs. The product takes another channel although very rarely, involving semiwholesalers. Some rural retailers who come to urban wholesale markets for their supplies sometimes take bread and sell it in the rural market partly at retail, and sometimes at wholesale to smaller retail shops. The company thus employs six channels.

3.1.11 Jams and Syrups

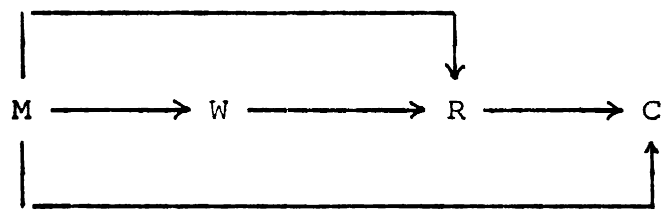
The manufacturer of jams and syrups uses manufacturer's agents in the local market to secure orders from wholesalers, retailers, and institutions. In other states, particularly in cities, the company makes use of the services of distributors in order to sell to retailers. Sometimes, the distributors route the products through subdistributors, thus creating a distribution structure with five channels.



M - Manufacturer A - Agent R - Retailer C - Consumer
DR- Distributor SDR - Subdistributor.

3.1.1.12 Soft Drinks

Three different channels are used for the distribution of soft drinks. The two soft drink bottling units sell direct to retailers in their franchise areas, while in other regions they use wholesalers to sell to retailers. The wholesalers undertake the same functions

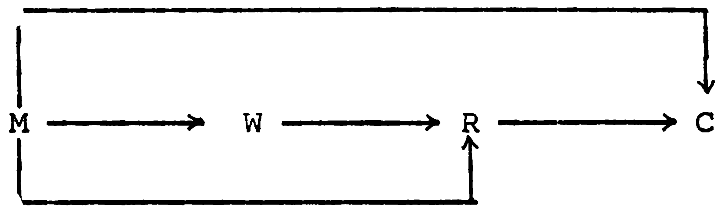


Soft Drinks I

M - Manufacturer W - Wholesaler
R - Retailer C - Consumer

performed by stockists, and orders from the retail trade is often generated by the company salesforce. These units sell direct to bulk consumers, either hotels or those who organise parties on special occasions.

Soft Drinks II

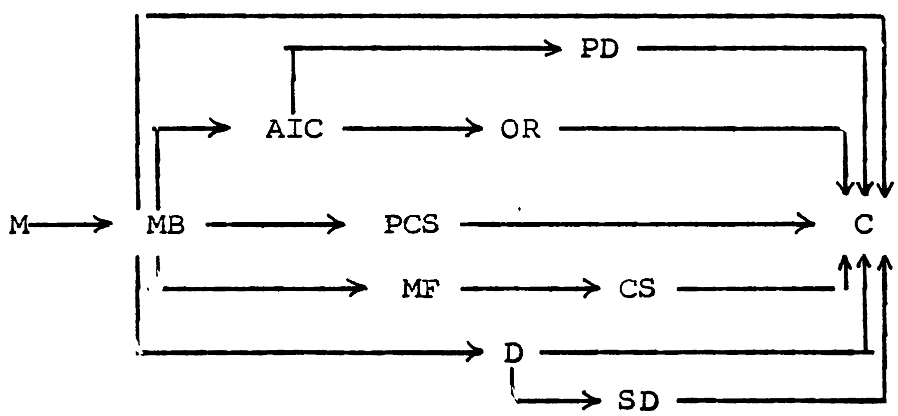


M - Manufacturer W - Wholesaler
R - Retailer C - Consumer.

3.1.1.13 Fertilizers

The fertilizer manufacturer and marketer has a wide network of branch depots and a fairly large sales-force. In the local market, the farmer gets the products mainly from two sources: primary credit societies in the villages and the private dealers. These retail outlets are directly served from the company depots.

Fertilizers

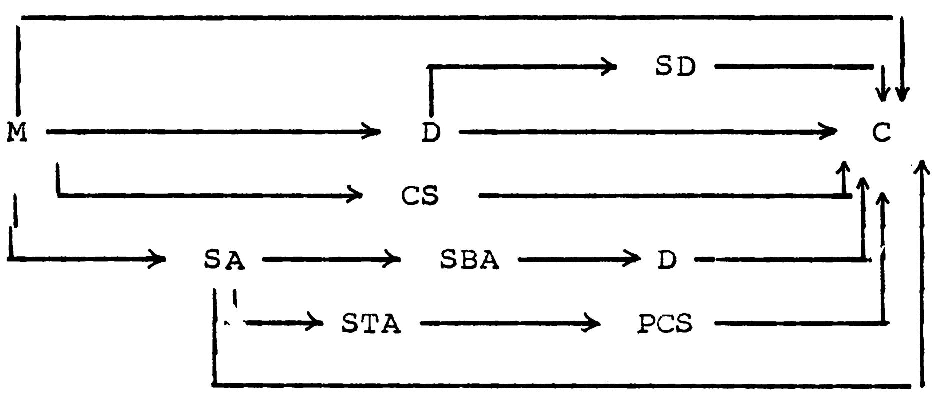


M - Manufacturer MB - Manufacturer's Branch
PCS-Primary Credit society OR- Own Retail Outlets
D - Dealer C - Consumer
MF- Marketing Federation SD - Subdealer
AIC-Agro Industries Corporations
PD -Private Dealers CS - Cooperative societies.

Large plantations are normally supplied directly by the company. The product is distributed through State agencies such as co-operative marketing federations and agro industries corporations, the latter distributing the products through their own outlets or through private dealers organised on a 'cooperative basis' and the former through cooperatives. This is in addition to the network of private dealers. Sometimes the products move from dealers to subdealers. The distribution system thus comprises of seven channels.

3.1.1.14 Pesticides

A manufacturer of pesticides and chemicals employs seven channels for the distribution of pesticides.



M - Manufacturer
D - Dealer
SD - Subdealer
C - Consumer
CS - Consignment stockist
SA- Selling Agent
SBA - Subagent
PCS -Primary cooperative societies
STA - State Agencies.

Pesticides move through dealers to the consumers; at times from the dealers the product passes through subdealers. A selling agent is used for the distribution of a certain pesticide . The selling agent distributes the product through subagents, and State agencies such as apex cooperatives. Subagent routes the product through private dealers, while the apex cooperatives distribute through cooperative outlets. The spraying of pesticides in large plantations is undertaken by the selling agent, thus serving the customers directly. Consignment stockists are used for certain chemicals. For some of its products, the firm has direct distribution as well.

3.1.1.15 Cattlefeed

A cattlefeed unit under the government sponsored milk marketing federation distributes the product mainly to the milk cooperatives (Anand pattern Cooperative Societies) from where the farmers get their supplies. The product is distributed through dealers as well who supply the product to buyers either directly or through subdealers. The distribution system consists of three channels.

$$\begin{tikzcd}
M \arrow[r] \arrow[dr] & APCOS \arrow[r] & & C \\
& D \arrow[r] \arrow[urr, bend right] & SD \arrow[ur] &
\end{tikzcd}$$

M - Manufacturer

C - Consumer

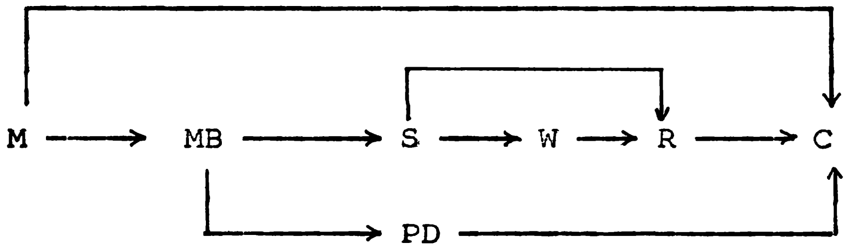
D - Dealer.

APCOS - Anand Pattern Cooperative Society

SD - Subdealer

3.1.1.16 Batteries

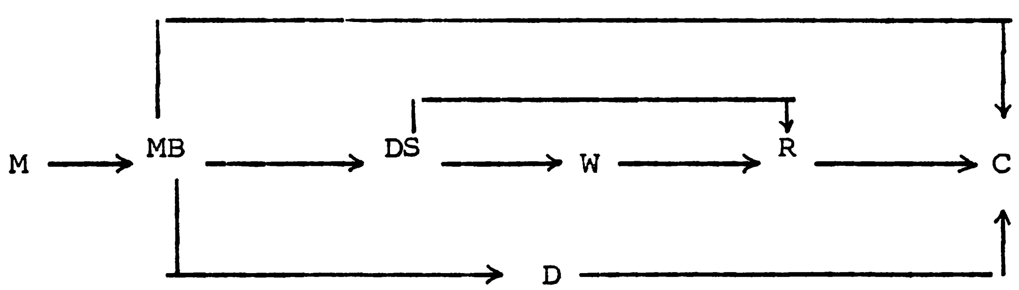
The manufacturer has a broad wholesale network spread over the national market. From the manufacturer's branch the products move to the stockists who supply both to wholesalers and retailers. The company uses a competitive channel where it supplies to wholesalers called 'preferred dealers' directly from the sales branch. Company sells direct from the factory to large buyers such as defence establishments and industrial users. Four different channels are thus involved in the distribution system.



M - Manufacturer
MB - Manufacturer's Branch
S - Stockist
W - Wholesaler
R - Retailer
C - Consumer
PD - Preferred Dealer

3.1.1.17 Lamps and Tubes

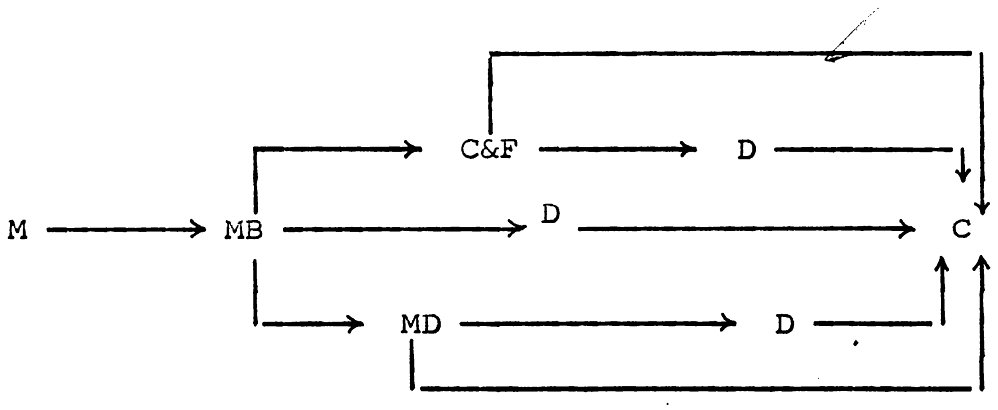
Marketing of lamps and tubes produced by a subsidiary of a large marketing and manufacturing corporation in the country is done by the marketing organisation of the holding company. A number of parallel channels is used to distribute lamps and tubes. The dominant channel involves the district stockists who get the product from the manufacturer's branch and supply both to wholesalers and retailers. Besides these two channels, there is a competitive channel which involves direct dealers who are also dealers for the company's other product lines. The direct dealers supply to institutional customers as well as household users. A fourth channel is created by direct sales from the branch to industrial and institutional customers.



M - Manufacturer
MB - Manufacturer's Branch
R - Retailer
D - Dealer.
DS - District Stockist
W - Wholesaler
C - Consumer

3.1.1.18 TV and Radio

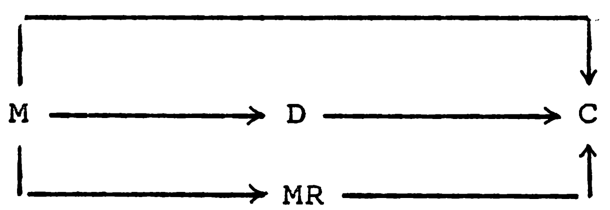
The dominant channel used by the consumer electronics division of a public sector corporation involves supply from the company's branch network to authorised dealers, who perform the retail selling. In certain distant markets where the demand for the company's products is low, few dealers are assigned some wholesale functions such as warehousing, onward transport, and such dealers are designated as main dealers or C & F agents. Five parallel channels are created by this policy.



C & F - Clearing and Forwarding Agents
D - Dealer
M - Manufacturer
C - Consumer
MD - Main Dealer
MB - Manufacturer's Branch.

3.1.1.19 Fan

A small-scale fan unit under a government corporation had technical and marketing collaboration with a leading firm in the industry. As the collaboration was terminated, the small unit had to sell its limited output through the retail outlets owned by the corporation.

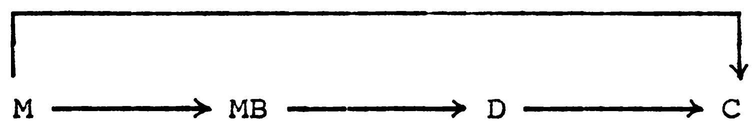


M - Manufacturer
C - Consumer
D - Dealer
MR - Manufacturer's Retail establishment.

Recently, however, the company appointed a network of dealers. To government departments, the firm sells directly, thus adding a third channel.

3.1.1.20 Tyre

The tyre manufacturing unit under study has a network of branches and depots. From the branches the product moves to the replacement market through a network of dealers.

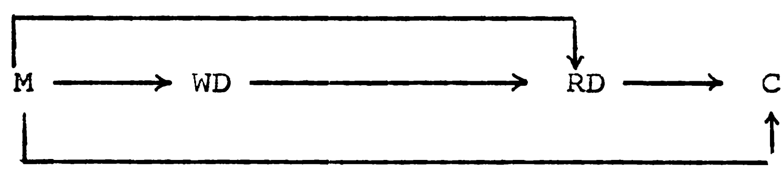


M - Manufacturer MB - Manufacturer's branch
D - Dealer C - Consumer.

The firm makes direct supplies to bulk buyers such as original equipment manufacturers, defence establishments and the State Road Transport undertakings.

3.1.1.21 Paint

The two small scale paint units use three channels each. The dominant channel for the two paint units involves direct supply to retailers. In certain areas wholesalers are also used to supply to retailers. Bulk buyers such as industrial users and institutions are served directly by the company.



Paint I

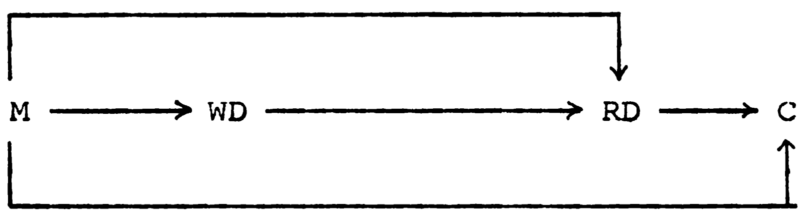
M - Manufacturer

RD- Retail Dealers

WD - Wholesale Dealers

C - Consumer.

Paint II



M - Manufacturer

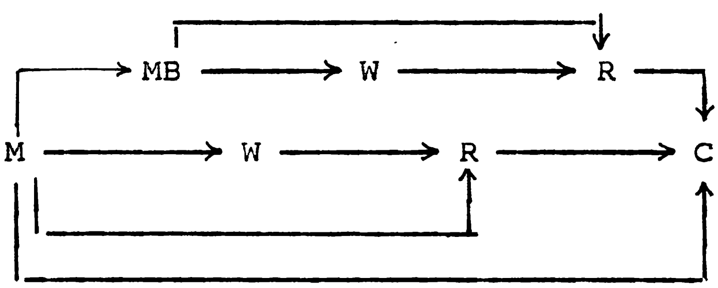
WD - Wholesale Dealers

RD - Retail Dealers

C - Consumers

3.1.1.22 Watermeter

The products manufactured by the unit under study enjoy good brand image and the company policy is to supply directly to any one who would buy above a certain volume. However, the firm has a network of hardware wholesalers who supply to retailers. Company employs its salesforce to do the retail selling. Institutional and government customers are served directly by the company.



M - Manufacturer

R - Retailer

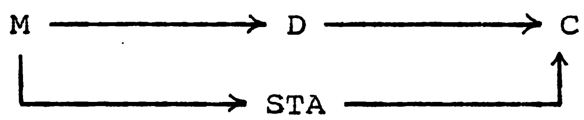
W - Wholesaler

C - Consumer

The company sells directly to retailers also. In certain geographic markets, the wholesalers and retailers are supplied from the company's branch depots; thus the products take five different routes to the market.

3.1.1.23 Power Tiller

The public sector corporation manufacturing power tillers employs two channels of distribution; they distribute the product through private dealers as well as agro-industries corporations in the various states.



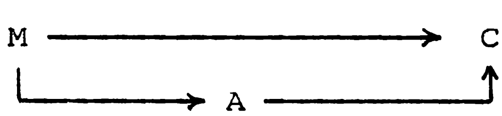
M - Manufacturer D - Dealer

C - Consumer STA - State Agencies.

3.1.1.24 Transformers

Direct channels are the dominant channels used by the two manufacturers under study. While the relatively large unit has sales offices in some places, the sales organisation for the smaller unit consists of a single sales engineer.

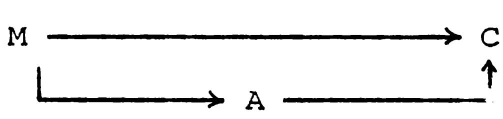
Transformer I



M - Manufacturer C - Consumer

A - Manufacturer's Agents.

Transformer II



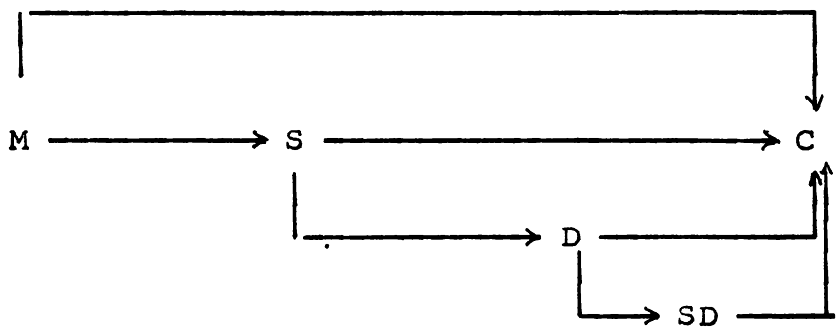
M - Manufacturer C - Consumer

A - Manufacturer's Agent.

Both firms use indirect channels involving manufacturers' agents who perform liaison work on commission basis.

3.1.1.25 Electro-mechanical components

Professional grade electro-mechanical components such as relays, switches, and connectors take direct channels to large volume industrial users. However, the company uses stockists in some important industrial centres to distribute the product to small volume users. From the stockists the product moves to dealers in some market areas where the company has no stockist. Sometimes the product moves from dealers to subdealers on its way to industrial consumers in less industrialised areas.



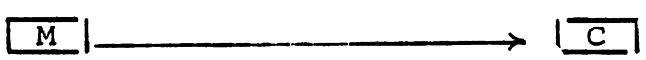
M - Manufacturer
S - Stockists
C - Consumer.

D - Dealer
SD - Subdealer

3.1.1.26 Cables

A manufacturer of power cables and telephone cables sells the entire output directly to the concerned government departments.

Electrical and Telephone Cables I



M - Manufacturers

C - Consumers.

Among the thirty firms surveyed this is the only firm that uses a single channel. Another manufacturer of power cables uses an indirect channel, in addition to the direct channel which is the dominant channel. The indirect channel involves a selling agent with branch network all over the country. In fact the selling agent is a sister concern.

Electrical Cables II

$$\begin{tikzcd} M \arrow[rrr] \arrow[d, no head] & & & C \\ {} \arrow[r] & SA \arrow[r] & BR \arrow[r, no head] & {} \arrow[u] \end{tikzcd}$$

M - Manufacturer　　C - Consumer
SA - Selling Agent　　BR - Branch

3.1.1.27 Chemicals I

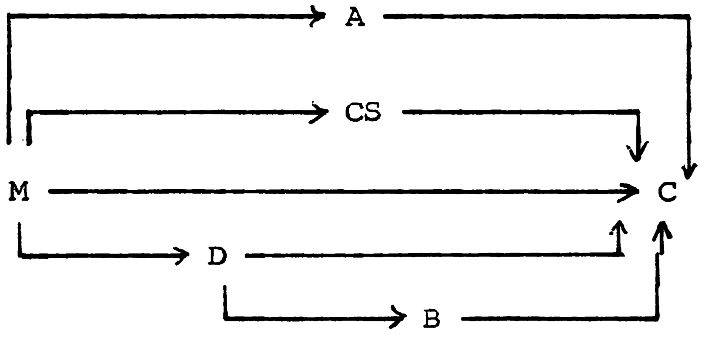
The chemical manufactured by this firm is used by manufacturing units which use rubber as the main raw material, particularly the tyre industry. In addition to direct channel, the company uses an indirect channel involving consignment stockists.

$$\begin{tikzcd} M \arrow[rr] \arrow[d, no head] & & C \\ {} \arrow[r] & CS \arrow[r, no head] & {} \arrow[u] \end{tikzcd}$$

M - Manufacturer　　C - Consumer
CS - Consignment stockist

3.1.1.28 Chemicals II

A government company producing alkalies uses direct channel to large industrial users. The main indirect channel routes the products through dealers to consumers. Often brokers negotiate the transaction between dealers and industrial consumers. For certain products the company employs consignment stockists. A small portion of the company's output move through promotional agents as well.



M - Manufacturer
C - Consumer
B - Broker
A - Agent
D - Dealer
CS - Consignment Stockist

3.1.1.29 Frequency Distribution of Number of Channels

All firms under study, except one, have multiple channel structures and employ two or more channels. Twenty-three firms out of 30 (76.67 percent) have three or more channels. As Table 1.1 shows 16 firms (53.34 percent) use four or more channels. The number of channels range from one to seven. The average number of channels for the firms under study is 3.87. Thus, the empirical evidence more or less validates the hypothesis.

Table 1.1

Number of Channels - Frequency Distribution

No. of firms : 30

Number of Channels	Frequency	Percentage	Cumulative Frequency	Cumulative Percentage
7	2	6.67	-	-
6	3	10.00	5	16.67
5	6	20.00	11	36.67
4	5	16.67	16	53.34
3	7	23.33	23	76.67
2	6	20.00	29	96.67
1	1	3.33	30	100.00

3.1.1.30 As the study is not based on a random selection of samples, there is an element of bias. Few firms have been eliminated from the survey just because they have only single channels; these are firms that supply their entire output to one or few large firms. If they had been included, or if the sample had been selected at random, there would have been some more firms with single channels. This sampling bias, however, does not entirely invalidate the results of the frequency distribution of the number of channels. As the study is concerned more with specific industries and industry groups rather than with individual companies, analysis of the number of channels for industry groups as well as individual industries would be more pertinent.

3.1.1.31 Multiple Channel Structure for Different Classes of Goods

The firms under study can be classified into three major industry groups based on the usual classification of goods: consumer non-durables, consumer durables and semi-industrial products, and industrial goods. The results of the analysis of the frequency distribution of number of channels based on this classification are furnished in Table 1.2. The number of channels are relatively more for consumer non-durables. No firm in this group has less than three channels ,and the five firms in the study with six or more channels belong to this category. Among manufacturers of consumer durables and semi-indus-

Table 1.2

Frequency Distribution of the Number of Channels among various Industry Groups

Number of Channels	Frequency			
	Consumer non-durables	Consumer durables & semi-industrial goods	Industrial Goods	Total
7	2	0	0	2
6	3	0	0	3
5	3	2	1	6
4	4	0	1	5
3	4	3	0	7
2	0	1	5	6
1	0	0	1	1
No. of firms	16	6	8	30

trial products, the number of channels range from two to five. The number of channels are least in the case of industrial goods. Of the eight firms in this category, only two firms have more than two channels.

3.1.1.32. This is indicated by Table 1.3 as well. While manufacturers of consumer non-durables employ the maximum number of channels on an average, industrial goods take the least number of channels (Table 1.3). The 16 firms producing non-durable consumer goods use on an average 4.7 channels, but the eight manufacturers of industrial goods use only 2.5 channels on an average. Between these extremes are producers of consumer durables and semi-industrial products. These firms route their output on an average through 3.5 channels. All the three industry groups support the hypothesis that multiple channels are the norm, except for the sample bias mentioned earlier. If a random sample was selected the average number of channels for industrial goods would have come down, because it was some chemical and engineering firms with single channels that were eliminated. However, since the number of firms in this category included in the survey is more than the number of firms eliminated, and since most of the firms included have multiple channels, it would be erroneous to accept the view that industrial goods take only single channel in each case.

Table 1.3

Average Number of Channels in Different Industry Groups

Industry Group	Number of firms	Average number of channels
1. Consumer non-durables	16	4.7
2. Consumer durables & semi-industrial products	6	3.5
3. Industrial goods	8	2.5
All Firms	30	3.87

3.1.1.33 <u>Number of Channels for Specific Industries</u>

Analysis of the number of channels used in specific industries provide more pertinent information. There are indeed different bases for defining an industry and even when the best logic is applied for grouping firms there would be an element of subjectivity. Here, the 30 firms have been grouped into 15 industries, mostly on the basis of product type, and at times on the basis of end-use relationship. The various industries, the number of firms in each, and the average number of channels are provided in Table 1.4 The results of the analysis reveal that 12 out of the 15 industries have three or more channels on an average. While fan and paint take three channels each, soap takes 3.67, batteries, lamps and electrical components take four each, packaged food and soft drinks take 4.4 and TV and Radio, and watermeter take five channels each. Agricultural inputs and implements take 4.75 channels,,while pharmaceuticals are routed through 5.67 channels. The average number of channels for chemicals is 3.5. Transformers and tyres are the two instances where the number of channels are two or less. Even here the averages indicate the existence of multiple channels. It is true that a number of industries in this study are represented by single firms and,therefore, the average number of channels is nothing but the actual. It has,

Table 1.4

Number of Channels for various Industries

S. No.	Industry	No. of firms	Total No. of channels	Average* No. of channels
1	Soaps	3	11	3.67
2	Pharmaceuticals	3	17	5.67
3	Packaged Food & Soft Drinks	5	22	4.4
4	Agricultural Inputs and implements	4	19	4.75
5	Battery	1	4	4
6	Lamps	1	4	4
7	TV & Radio	1	5	5
8	Fan	1	3	3
9	Tyre	1	2	2
10	Paint	2	6	3
11	Watermeter	1	5	5
12	Transformers	2	4	2
13	Electrical components	1	4	4
14	Cables	2	3	1.5
15	Chemicals	2	7	3.5

* Where only one firm in an industry has been included in the survey, the actual is given.

however, been noted that the different firms in an industry do not vary significantly in terms of the number of channels used.

3.1.1.34. The data pertaining to the description of the number of channels has been analysed from four perspectives: company-wise analysis, industry-wise analysis, analysis based on classification of goods, and the frequency distribution of the number of channels. In all these cases the empirical evidences are in favour of the hypothesis.

3.1.1.35. Despite using three or four different channels, the typical manufacturer hardly ever considers the relevance of even the secondary channel. Manufacturers of consumer goods who supply a relatively small volume directly to institutional or government markets do not include the direct channel while enlisting the various channels. Similarly, industrial goods producers seldom refer to the indirect channels they use, unless specifically asked.

3.1.1.36. Manufacturers differentiate the various channels only to the extent of their direct contact; that too is limited to the first intermediary. Naturally, the number of channels for each company as perceived by the particular company is much less than the number of channels actually used by the company. The number of channels as defined by the firms is reported in Table 1.5. As per this estimate the average number of channels is only 2.5 as against 3.87 which is the average of the actual. In particular,

Table 1.5

Number of Channels - Company Perception vs. Actual

Company	No. of channels according to manufacturers	Actual No. of channels
1. Soap I	2	4
2. Soap II	2	3
3. Soap III	3	4
4. Pharmaceuticals I	3	6
5. Pharmaceuticals II	3	5
6. Pharmaceuticals III	3	6
7. Biscuit	1	5
8. Bread	2	6
9. Jam & Syrups	2	5
10. Soft Drinks I	3	3
11. Soft Drinks II	3	3
12. Fertilizers	4	7
13. Pesticides	3	7
14. Cattlefeed	2	3
15. Batteries	3	4
16. Lamps	3	4
17. TV & Radio	3	5
18. Fan	3	3
19. Tyre	2	2
20. Paint I	3	3
21. Paint II	3	3
22. Watermeter	3	5
23. Power tiller	2	2
24. Transformer I	2	2
25. Transformers II	2	2
26. Electrical components	2	4
27. Cables I	1	1
28. Cables II	2	2
29. Chemicals I	2	2
30. Chemicals II	3	5
Average	2.5	3.87

manufacturers do not seem to consider the significance of the flows that originate independently from the intermediaries, but taking a deviating path from the main channel. The channels involving subdistributors in the pharmaceutical field, substockists in the distribution of food products and dealers who get electromechanical components from the stockists are examples. The efficacy of these channels are as significant as the efficacy of the other channels. These are considered different channels in this study because they represent separate routes the products take to the market with their unique cost and functional effectiveness.

3.1.1.36 Similarly, manufacturers do not differentiate their supply direct from company (either to intermediaries or to end users) with supply from sales branches. Nor do they seem to realize that the distribution through branch organisation involves an additional level and associated functions, and that the branch, in fact, replaces a wholesale middleman, usually of the primary wholesaler type.

3.1.2.0 Direct versus Indirect Distribution

3.1.2.1. The particular method of distribution adopted for a product to a given target market depends very much on the nature and composition of the product, the density of the market, the customer buying pattern, the size of various intermediate markets, and the market coverage of the intermediaries.

3.1.2.2 For many manufacturers, the use of a direct channel is simply not a feasible alternative to the use of middlemen. A market area in which buyers are widely scattered and where purchases are normally made in small quantities, cannot economically support the cost of direct selling. Small manufacturers producing only limited quantities normally do not possess adequate financial resources to maintain branch depots or sales offices. Particularly in the case of new firms, the problem associated with the making of the product may absorb the time and talent of the organisation to the extent that the marketing functions are better left to the intermediaries. Highly specialised operations, with limited width and depth of product mix, characteristic of most manufacturers, require that the full cost of direct selling be borne by a limited number of items. Under these conditions the cost of direct distribution as applied to each unit of sales can be prohibitive.[7]

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[7]William M. Diamond, Distribution Channels for Industrial Goods, (Ohio, Bureau of Business Research Mono-

3.1.2.3 Manufacturer of a full line of products is in a much better position to sell direct to either retailers or consumers than one producing a single item. The width and depth of product mix has a direct effect on the channel of distribution selected because it affects the quantity purchased. Generally, the greater the variety of products offered, the greater the opportunity to use direct channels[8].

3.1.2.4. The nature of the product itself may rule out the feasibility of direct distribution. Of parcitular importance here is the unit value of the items involved. Goods of low unit value are more suited to indirect distribution, for the sales of these products in small quantities require the absorption of high selling costs on individual small orders which may make direct distribution uneconomical. However, products with high unit value are more likely to be sold directly. The relatively fixed cost of selling direct is more than offset by the higher sales realisation associated with the higher unit price.

3.1.2.5. Where the size of the order is large, there are significant savings possible through direct sales to buyers. First, variable costs can be reduced by order size. Large orders generally make possible lower per unit cost of

graph Number 114, Bureau of Business Research College of Commerce and Administration, The Ohio State University, Columbus 1963), pp.32-35.

[8]Walters, op.cit. pp.178.179.

transportation and provide the manufacturer savings in order processing. Besides, the large order takes relatively less management time. Furthermore, some of the advantages of large orders that reduce cost for the seller reduce cost for buyer also, particularly the handling and processing costs. For these reasons, the tendency is to employ direct channels when orders are large and indirect channels when orders are small and frequent.

3.1.2.6. Although many manufacturers might desire to sell direct, at least to retailers, the limits of their own financial resources force them to rely on intermediaries. Selling direct becomes much more feasible when the retailer is able to order large quantities at a single time.

3.1.2.7. Industrial goods manufacturers are much more likely to sell direct to users for different reasons. Frequently, middlemen are not qualified to give the services needed by the customer, both in connection with the sale and after the sale. These include analysis of the customer's needs, product adaptation, installation, post-sale servicing and repair, and training of customer personnel in operating and servicing. Negotiations in industrial selling involve many persons and extend over a long period of time. Although agents may be competent to handle transactions of this complexity, distributors rarely are. The manufacturer may, therefore, be forced to handle the distribution himself. The cost and service considerations, which may call for the direct sale of industrial goods, seldom prevail in consumer goods. The latter are generally distributed much more efficiently through middleman[9].

3.1.2.8 Direct distribution of industrial goods occurs under the following situations:

a. Products are technically complicated and require great deal of explanation, demonstration, and servicing.

b. The products are highly specialised or made to specifications of the buyer, so that in any case there must be direct contact between maker and buyer.

c. Adjustments must be made in quality to meet the needs of individual buyers, making direct contact necessary.

d. The product is a piece of equipment that the maker must install, or help to install, so that direct contact must be made in any case.

e. There is great need for highly specialised technical service.

f. The product must be delivered to the user in bulk or lots, provided its unit value is also high. The product can be sold from factory, and expensive warehouse facilities are not needed.

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[9] Lewis, op. cit., pp.83-84

g. The market is concentrated, so that the requirements are met in areas where the bulk of the volume is located eventhough a minor part of the potential may be scattered outside these areas of concentration.

h. The market is limited to a certain group or several well-identified groups of buyers.

i. The product can be sold in volume large enough to support the cost of such a system.

j. The margin between factory cost and price to the user is wide enough to support a direct distribution system.

k. The manufacturer is well enough financed to be able to establish and maintain a direct sales force and branch warehouse system.

3.1.2.9. A manufacturer's distribution policy relates initially to the degree to which he wishes to exercise control over distribution and the depth to which he wishes to penetrate the market with his own personnel. The greatest degree of market penetration involves direct sale to users. This occurs rather infrequently in convenience goods, but is used by some manufacturers of speciality-type goods whose marketing strategy rests on the appeal of "buying direct" from the manufacturer. Retail stores are operated by some leading manufacturers.

3.1.2.10. Direct selling avoids the manufacturer losing control over the resale of the product. If a firm has adequate financial strength and a broad product line, it may undertake direct selling to assure that its brands receive proper sales support and equitable pricing in the marketplace[10].

3.1.2.11. Manufacturers who sell directly to consumers base their marketing strategy on the speciality product concept. Quality and product uniqueness, completeness of line, and speciality selling services are typically emphasized, although convenience and implied lower costs are often added appeals. In effect, these manufacturers are taking their products out of direct competition with similar products sold through customary retail outlets[11].

3.1.2.12. Direct Sale to Retailers

Consumer goods manufacturers may sell directly to retailers,but ordinarily do so only when the number of retail outlets involved is limited. This is possible where retailers are very large and the manufacturer follows a policy of limited distribution. When distribution is handled by a limited number of stores, the manufacturer tends to work closely with them and may require some minimum level of performance.

3.1.2.13. Whenever the manufacturer displaces the wholesaler, there is a need to provide the sales and warehouse facilities formerly supplied by the wholesaler, or to sup-

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[10] J.Taylor Sims, J.Robert Foster and Arch G.Woodside, Marketing Channels: Systems and Strategies, (New York, Harper & Row Publishers, 1977), p.137.

[11] Lewis, op. cit., p.83.

plement them. The result is the creation of manufacturer's wholesale branches. Actually, manufacturers' field facilities can take several forms. Some are sales offices only. Some are warehouse facilities only. Many are combinations of the two[12]. Such combinations have been referred to as sales branches in this study.

3.1.2.14. It is generally assumed that while consumer goods are distributed through intermediaries, industrial goods are sold direct to users, and that the method of distribution is largely determined by the characteristics of the product. More recently, however, emphasis has been shifted from product characteristics to the nature of market and the customer buying habits. Naturally, the usual tendency to associate consumer goods with indirect channels and industrial goods with direct channels has been called into question. The study, therefore, sets the following hypothesis:

H.1.1.2 "The same product is distributed through direct and indirect channels, and the usual pattern of distribution for any company is a combination of both direct and indirect channels".

3.1.2.15 <u>Empirical Analysis</u>

In spite of the wide variations in the nature of products and the size and strength of the manufacturers,

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[12] *Ibid.*, pp.84-85.

direct distribution is used quite extensively across various categories of products and firms. Of the 30 firms selected for study 25 firms use direct channels to customers. As summarised in Table 1.6, 13 manufacturers of consumer nondurables out of a total of 16, employ direct channels to consumers. Five of the six producers of durable consumer goods and semi-industrial products supply direct to users. Except the producer of power tillers, all manufacturers of industrial goods sell direct to customers. On the whole, over 83 percent of the companies employ direct channels.

3.1.2.16. Among the five firms which do not use direct channels, four are manufacturers of consumer goods. This is not, however, sufficient evidence to reject the hypothesis. While there are four firms which do not distribute directly, there are 14 firms in the same category which use direct channels besides indirect channels. Combinations of direct and indirect channels are much in evidence, as 24 of the 30 firms considered use both direct and indirect channels. And since the channel combinations are spread among the various classes of goods, the evidence is more in support of the hypothesis.

3.1.2.17. Review of the channel structures of specific industries also indicates the extensive use of direct channels irrespective of the nature of the product and the market power of the manufacturer. As reported in

Table 1.6

Direct and Indirect Channels for Consumer versus Industrial Goods

Industry Groups	No. of Companies under study	No. of firms with direct channels	No. of firms with indirect channels	No. of firms with combinations of direct and indirect channels
Consumer non-durables	16	13	16	13
Consumer durables and semi-industrial products	6	5	6	5
Industrial goods	8	7	7	6
Total	30	25	27	24

Table 1.7, among the 15 industries from which firms have been drawn for the study, only one industry, represented by one firm, does not resort to direct distribution. The other four firms that do not employ direct channels are spread among different industries, one in soap, another in packaged food, and the remaining two in agricultural inputs. Even in these industries, firms that exclusively depend on indirect channels are rather exceptions.

3.1.2.18. Now the question arises: Why few firms in a particular industry do not use direct channel, unlike other firms in the industry? The indication of the survey is that the type of distribution is by and large determined by the type of target market the manufacturer intends to serve. As reported in Table 1.8 the target markets served by the direct channel are industrial, institutional or government markets. All manufacturers of consumer non-durables having direct distribution invariably use direct channels to supply to institutional or government markets. The five firms in the category of consumer durables and semi-industrial products who employ direct channels use them mainly to route their output to the institutional and government markets. But a unit producing fan uses the retail outlets of the parent corporation to sell the product to household or individual consumers. This unique instance of direct sales to household consumers is exceptional and accidental. In the fields of industrial goods, direct

Table 1.7

Direct Channels in Different Industries

S. No.	Specific Industries	No. of firms under study	Firms with direct channels
1.	Soap	3	2
2.	Pharmaceuticals	3	3
3.	Packaged food and Soft Drinks	5	4
4.	Agricultural Inputs	4	2
5.	Batteries	1	1
6.	Lamps	1	1
7.	TV & Radio	1	0
8.	Fan	1	1
9.	Paint	2	2
10.	Tyre	1	1
11.	Watermeter	1	1
12.	Transformers	2	2
13.	Electrical components	1	1
14.	Cables	2	2
15.	Chemicals	2	2

Table 1.8

Direct Channels and the Type of Customers

Industry Group	No. of firms in the group with direct channels.	Type of Market		
		Individual or household consumer	Institutional or government market	Industrial market
Consumer non-durables	13	-	13	-
Consumer durables & semi-industrial goods	5	1	5	4
Industrial goods	7	-	4	5
Total	25	1	22	9

channels are meant to serve both industrial clientele as well as institutions or government departments.

3.1.2.19. The data available, thus, indicate that except for the freak phenomenon of the small unit selling ceiling fans direct to household consumers, all firms that employ direct channels use them to serve bulk buyers such as industrial undertakings, government organisations, and other institutional customers. Direct channel to large volume buyers appears to be the norm despite differences in product characteristics as well as sizes and strengths of the manufacturing units. The consumer goods manufacturers under study who depend entirely on indirect channels do not employ direct distribution because they seldom serve market segments with bulk buyers, whether the product is biscuit, soap, cattlefeed, or TV.

3.1.2.20. Another important dimension of the type of channel used is the degree of importance of the different types of channels across various categories of industries. A review of the percentage share of the value of sales through direct channels provides obvious indications (Table 1.9). In the field of consumer non-durables, among the 13 firms using direct channels, five firms sell less than ten percent of their output through direct channels, while six firms sell between 10 and 19 percent and two firms more than fifty percent directly. On the contrary, all

Table 1.9

Percentage share of Sales Through Direct Channels

Industry Group	No. of firms with direct channels	Percentage share of sales value through Direct Channels			
		Less than 10%	10 to 19 percent	20 to 50 percent	More than 50%
Consumer Non-durables	13	5	6	-	2
Consumer durables & semi-industrial goods	5	-	2	1	2
Industrial Goods	7	-	-	-	7
Total	25	5	8	1	11

manufacturers of industrial products using direct channels route more than fifty percent of their output through direct channels.

3.1.2.21. The extent of direct sales to retailers is another significant aspect. Retailers are involved in the distribution channels of a fairly large number of firms under survey. The practice of direct sales to retailers is found quite extensive. Of the 22 companies, distributing through retailers, 14 firms supply directly to them and such firms are widely distributed among different industries across the various categories of consumer goods. (Table 1.10). It should, however, be noted that while in the advanced economies direct sales are made mostly to large scale retail outlets, here direct sales to retailers means direct distribution to tiny retail outlets. Not even the few leading national marketers who come under the study follow the definite policy of direct distribution to the few relatively large retail outlets available, although steps in this direction have been taken recently by few leading firms in the country.

3.1.2.22 The phenomenon of direct sales to small scale retailers can, however, be explained. Some of the firms serving retailers directly do so with the help of a few salesmen in their small local markets, as their respective products enjoy good demand. The firms selling soap, bread,

Table 1.10

Direct Sales to Retailers

S. No.	Products	No. of firms in the group	Number of firms selling direct to Retailers
1.	Soap	3	1
2.	Pharmaceuticals	3	-
3.	Biscuit	1	-
4.	Bread	1	1
5.	Jams & Syrups	1	-
6.	Soft Drinks	2	2
7.	Fertilizers	1	1
8.	Pesticides	1	1
9.	Cattlefeed	1	1
10.	Batteries	1	-
11.	Lamps	1	1
12.	Fan	1	1
13.	TV & Radio	1	1
14.	Tyre	1	1
15.	Watermeters	1	1
	Total	22	14

soft drinks, and watermeter are examples. Another set of firms following this policy has well established networks of sales branches which have taken over some of the wholesale functions. The manufacturers selling fertilizers, lamps, TV and radio, and tyre belong to this group. The manufacturer of cattlefeed supplies directly to milk cooperatives, but the apex cooperative gets involved in the transaction and payment. Strictly speaking, it cannot be treated as direct sales to retailers. The relatively small firms for whom wholesale intermediaries are not available in certain areas are forced to resort to direct sales to retailers in these areas, as in the case of the two paint units. Only two firms do not fall into any of these groups: one is a producer of pesticides who seldom differentiates its dealers as predominantly wholesalers or retailers but supplies directly to all; the other is the small unit producing fan whose output is limited and market local.

3.1.2.23. Another feature of direct selling to retailers is that the share of sales through this channel is relatively very small compared to channels involving wholesalers. In fact, this short channel is not the dominant channel for any of the firms using it, except for the manufacturer of TV and Radio. Evidently, the role currently assigned to the channel involving direct sales to retailers appears to be of little significance in the overall distribution scene.

3.1.2.24. Thus, the results of the field survey lead to the following observations: Combinations of both direct and indirect channels are used quite extensively for both industrial and consumer products. However, direct channels are evidently dominant in the distribution of industrial goods while indirect channels dominate the distribution of consumer goods. Direct channels often lead to relatively large volume customers. Further, little significance is attached to the channel involving direct sales to retailers.

3.2.0. DEVELOPMENT

3.2.1.0 Channel Design

3.2.1.1 While tracing the evolution of the existing multichannel structures, it is pertinent to consider how the channel combinations came into existence. Were they brought to existence by conscious design or by a process of evolution through trial and error over a long span of time? Marketing literature reflects a design orientation.

3.2.1.2 "Channel design refers to those decisions involving the development of new marketing channels where none had existed before, or the modification of existing channels"[13]. This definition presents channel design as a desision problem which the marketer faces similar to the other decision areas of the marketing mix. In its broad sense, channel design includes setting up new channels as well as modifying the existing channel structure. The term design implies that the marketer is consciously and actively allocating the distribution tasks in an attempt to develop an efficient channel structure. Design is not used to refer to channel structures which have simply evolved. In short, design means that management has taken an active role in the development of the channel.

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[13] Bert Rosenbloom, Marketing Channels: A Management View, (Hinsdale, Illinois, The Dryden Press, 1978) p.105.

3.2.1.3 Channel design is the planning process which takes place when a firm decides either to market a new product or service or to modify existing arrangements[14]. In a broad perspective, manufacturers, wholesalers, and retailers, all face channel design decisions. For retailers, however, channel design is viewed from the opposite perspective from that of manufacturers. They look "up the channel" in an attempt to secure suppliers rather than "down the channel" towards the market, as is the case for manufacturers. Wholesale intermediaries face channel design decisions from both perspectives. The present study takes the perspective of a manufacturer surveying the channel towards the market.

3.2.1.4 Channel strategy and structure form an integral part of the firm's marketing mix strategy. The functional role of the distribution system is to provide the structure within which the rest of the marketing plan is carried out. Designing the channel structure, particularly the channel mix, differs fundamentally from the designing of basic company organisation since the former is essentially a strategic plan of an operational rather than of a permanent character.

3.2.1.5 Although channel arrangements tend to be long lived, and previous channel decisions tend to become fixed

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[14] Donald J. Bowersox, et.al., Management In Marketing Channels, (Tokyo, McGraw-Hill International Book Company, 1980) p.191.

features of the company's marketing system, the situation is not necessarily ideal. It is true that a company cannot upset its existing channel arrangements each time it considers a new marketing programme. However, what is significant is the compatibility between the marketing strategy and the channel structure. The best channel arrangements are those that are developed in accordance with the rest of the marketing mix and as part of an integrated marketing plan. "Existing trade channels are not a prerequisite or restrictive factor in the design of marketing strategy"[15]. If the overall marketing strategy dictates the modification of the distribution system by addition or deletion of individual channels, or perhaps even calls for a sweeping reorganisation of the entire distribution system, the need to do so is inevitable.

3.2.1.6 Channel design for an ongoing firm may take many different forms based upon events that lead to a review. First the objective may be to replace an existing channel. Second, the objective may be to modify the existing channel by replacing one or more members. Third, the purpose may be to develop a multiple channel structure[16].

3.2.1.7 Channel mix design at the manufacturer's level begins with a clear statement of objectives and strategy.

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[15] Martin L.Bell, Marketing Concepts and Strategy, (London, Macmillan, 1966) p.456.

[16] A.L.McDonald, Jr., "Do Your Distribution Channels Need Reshaping?", Business Horizons, Vol.7, (Summer 1964) pp.29-38.

Channel objectives--the targets that are set for the system--are derived from the corporate and marketing objectives. Channel objectives specified in operational terms normally include expected sales and profitability by period, desired market coverage, required sales and service support, and expected return on investment. Channel strategy comprises of decisions regarding number of channels, intensity of distribution, plans for gaining desired intermediaries in each geographic area, and finally, the implementation of these decisions.

3.2.1.8 Specific channel objectives pertinent to multichannel design include the following:

1. Growth in sales by achieving distribution in new geographic markets. It relates to distribution to new customers, to market segments not previously served.

2. Maintenance or improvement of market share in the present market by the addition of new channels. This increases the flow of goods to the existing market. The present channels either operating close to capacity, or lacking the incentive to increase their efforts on behalf of the manufacturer, cannot handle an increased load.

3. Achievement of a predetermined pattern of distribution. While a new firm, or a firm introducing

a new product, has the critical need to develop a specific pattern of distribution, other firms may desire to streamline its basic channel structure in an effort to achieve efficiency.

3.2.1.9 Once objectives and strategies are spelt out, further steps in channel design involve :

1. Consideration of alternative channels for each market segment.
2. Evaluation of alternative channels for different markets.
3. Selection of the best combination of channels for the firm.
4. Generation of alternatives with regard to specific channel members.
5. Evaluation and selection of individual members.

Firms that consciously design their channel structures obviously need to monitor their distribution systems on a continuous basis by measurement and evaluation of channel arrangements when necessary.

3.2.1.10 Channel decisions for a manufacturer are frequently complex and based on many factors, both internal and external. The internal factors include the product line, the nature of the market, the capabilities of the manufacturer, competitive practices, and legal restraints. Consumer buying habits and factors related to middlemen are environmental variables which are frequently of relevance in the analysis of alternative channel structures.

3.2.1.11 It is appropriate to appraise here the extent to which channels have been designed by the companies under study. Although the literature commonly reflects a design orientation, available empirical evidences do not seem to support the assumption. The study, therefore, sets the following hypothesis:

H.1.2.1 "The existing combination of channels is hardly a product of conscious design, but the result of evolution by trial and error".

3.2.1.12 Empirical Analysis

To test the hypothesis, executives were asked during the survey to explain whether their existing channel structures were the results of conscious design or the products of trial and error over a long span of time. The responses indicate that for one third of the companies, their existing distribution structure are the results of trial and error (Table 1.11).

3.2.1.13 Only one third of the companies claim that their distribution systems have been designed consciously. Among 20 out of the 30 firms, the existing marketing channels are the result of evolution by trial and error. The claim regarding conscious design of the channels comes mostlyfrom manufacturers of industrial products. Of the eight units included in this category, five hold that their present distribution systems had been designed deliberately.

Table 1.11

Channel Design - Executive Response:

How did the present distribution system come into existence?

Industry Group	No. of Respondents.	Response Frequency: By conscious design	Response Frequency: By Trial and Error
Consumer Non-durables	16	4	12
Consumer durables and semi-industrial products	6	1	5
Industrial goods	8	5	3
Total	30	10	20

Among manufacturers of consumer durables and semi-industrial products, only one firm makes such a claim, while in the category of consumer nondurables four firms do so. In these categories, the claim regarding channel design come from the manufacturers of television and lamps and tubes, one of the leading soap manufacturers and the two soft drinks bottling units. All the five firms enjoy considerable market power.

3.2.1.14 How was the channel structure determined originally. Fairly large number of respondents had no idea about how the channel structure was originally determined, although most of the companies under study had been established after the mid 1960's. Based on the responses of others, one gathers the impression that most of the companies had adopted either the channels commonly used in the industry or the channel arrangements of successful competitors.

3.2.1.15. Even those who claimed that their channel structures have been deliberately designed were not able to explain the procedure adopted by their companies for channel design. Of these ten units, the channel combinations in seven companies have remained unchanged. Others described their channel structures as products of conscious design on the ground that a channel was either added or replaced in recent times after serious deliberations. With respect to channel design no formal procedure seems to prevail among the firms under study; nor do the respondents seem to have the conceptual clarity necessary to evolve any formal system.

3.2.1.16 Available evidence in the study thus indicates that for most of the firms the distribution systems were not designed but evolved over time in respect to problems in the market place. Current practices reveal a lack of planning in channel design. In spite of the need for deliberate channel design, there appears to be a generally casual approach to the selection and development of efficient distribution channels. Comparatively few firms seem to have given much explicit consideration to possible alternative means of placing their output in the hands of the final consumers.

3.2.2.0 Channel Change

3.2.2.1 Distribution structure has both a long term and a short term aspect to it. When we refer to the structure of distribution we are in fact referring to the sum of existing distribution channels, the total of which is by no means constant and unchanging. In the short term, the producer usually accepts the distribution structure in any given market exactly as he finds it. In the long term, producers may be able to change the pattern of distribution by setting up and developing new channels.[17]

3.2.2.2 Marketing is eminently concerned with change. Indeed, marketing has been visualised as a business function which seeks continually to instil change into the business system in an attempt to maximise buyer and seller alternatives. However, not all marketing institutions can or will accept this overall tendency towards change. Many devote their managerial efforts towards achieving stability in one or more of the marketing dimensions in which they are involved. In a broad sense, marketing history is concerned with the continuing struggle between pressures making for change, versus the pressures attempting to initiate or achieve relative stability[18].

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[17] H.J.Kuhlmeijer, Managerial Marketing, (Leiden, H.E. Stenfert Kroese B.B., 1975) p.156.

[18] David A.Revzan, "The Institutional Approach Revisited", John C.Narver, Ronald Savitt (eds), Conceptual Readings in the Marketing Economy, (New York, Holt, Rinehart and Winston, Inc., 1971) p.94

3.2.2.3. Marketing channels and institutions must adapt continuously to their environment in order to avoid "economic obsolescence". Periodically, however, a firm's channel structure is threatened by major changes in marketing practices. It has been argued that this type of competition, usually called innovative competition, is a prerequisite for economic growth[19]. Marketing channels are not static behaviour systems. They are dynamic, ever-changing ones, and are in a state of constant evolution. Change leads to opportunity[20].

3.2.2.4. Changes in the combination of channels result from the effort of manufacturer to add, delete, or substitute channels so as to reach certain segments of the market more efficiently and economically. Such shifts occur when a firm believes that there is a better channel to serve the target market at lower cost. If the innovation results in accomplishing the distribution task more efficiently, the change becomes an established feature of the company's distribution structure. For a time there may be instability in channels as new avenues are tried. As long as

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[19]Bert C.McCammon, "Alternative Explanations of Institutional Change and Channel Evolution", Bruce J. Walker and Joel B.Haynes (eds), Marketing Channels and Institutions: Readings on Distribution Concepts and Practices (Columbus, Ohio, Grid Publishing Inc., 1973) p.79.

[20]James A Constantin, Rodney E.Evans and Malcolm L.Morris, Marketing Strategy and Management, (Dallas, Texas, Business Publications, Inc., 1976) p.271.

alternative methods continue to be available and marketers are willing to bear the risk of attempting to effect change, only those patterns will survive which stand the test of time; and the final test is overall channel efficiency.

3.2.2.5 The marketing channel has ever been described and discussed as an everchanging system. Change in channels of distribution can occur in at least three ways. First existing participants may be forced to change their methods of operation; second, entirely new institutions with different methods of operation may enter the channel. Third, entirely new channels may be added or existing channels may be deleted or replaced by new ones. The relevant channel change in the context of 'number of channels' is the process of addition, deletion or replacement of an entire channel or channels.

3.2.2.6 It is logical to conceptualise that channel structure develops in response to business growth. As the company and the product evolves to higher levels of maturity, the pressures for channel change make themselves manifest. Distribution systems not only vary across market segments, but also change overtime. A channel that works well when a firm is small is apt to be inefficient when it grows large and has the resources to undertake some of the distribution functions with its own employees. Changes in customer needs, transportation methods and such other environmental variables can cause existing distribution methods to become obsolete.

3.2.2.7. In most situations not all channel alternatives are known when structural arrangements are negotiated. Consequently, decisions may later prove to be less than adequate and pressure for change may develop. Even if the best channel is selected at a particular point in time, unanticipated changes may require future reconsideration. Manufacturers obviously route a new product which is related to the existing lines through the existing channels. The dynamics of the market place may, in some industries, result in frequent reappraisal of channels and the introduction of new channels. Changes in customer buying patterns, attempts to reach different groups of customers, the need to offer new services, changes in promotional requirements, and stronger pressure on prices, all tend to create situations in which new channels are explored.

3.2.2.8. Changing market locations resulting from the expansion of geographical boundaries of existing markets or from the opening up of new but distant markets might indicate modifications in channel structure. Bucklin's 'distance and lot size model' of channel design reminds that changes in market geography may require changes in channel structure[21].

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[21] Louis P.Bucklin, Competition and Evolution in the Distributive Trades, (Englewood Cliffs, New Jersey: Prentice-Hall, 1972) pp.18-20.

3.2.2.9. Some firms lack the managerial skills necessary to perform distribution tasks. When this is the case, manufacturers seek the services of intermediaries which may range through full function wholesalers, manufacturer's representatives, selling agents, brokers, or others. Over a period of time, as the firm's management gains experience it may be feasible to change the structure to reduce the amount of reliance on intermediaries. Distribution objectives are extensions of organisation's marketing objectives, and channel strategy is the basic plan to achieve channel objectives. Changes in marketing objectives and channel strategy, therefore, force a revision in the channel structure.

3.2.2.10. The common situations which force a company to revise its channel combination can be enlisted:

1. The introduction of a new product or product line for which the existing channels for other products are not suitable.
2. When an existing product is aimed at a new target market.
3. When greater financial resources become available.
4. When more marketing experience and knowledge are gained.
5. When there is a change in the power position of the company vis-a-vis other channel members.
6. When a major change is made in some other component of the marketing mix.

7. When existing intermediaries have changed their policies so as to inhibit the attainment of a firm's distribution objectives.

8. When the availability of particular kinds of intermediaries changes.

9. When new geographical marketing areas (territories) are opened up.

10. When major environmental changes occur. (They may be in the economic, sociocultural, competitive, legal or technological spheres).

11. When channel conflict or other behavioural problems become so intense that it is not possible to resolve it without changing the channel.

12. When regular periodic reviews and evaluations undertaken by a firm point to the need for changes in the existing channel and possibly the need for new channels.

The above list of conditions, though by no means comprehensive, does offer an overview of some of the more common situations which necessitate channel change.

3.2.2.11. Channel Change and Growth of the Industry

The changing structure of distribution channels in response to different stages in the evolution of an industry has been highlighted in the Stingler-Mallen proposition. Elaborating the concept of division of labour, Stigler[22]

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[22]George J.Stigler, "The Division of Labour is limited by the extent of the Market", The Journal of Political Economy, Vol. 59, (June 1951) pp.185-93.

developed a theoretical framework for analysing the development of an innovative industry. This has been used by Mallen[23] as a conceptual basis for analysing the changing structure of marketing channels. The basic proposition in Stigler-Mallen formulation is that manufacturing firms during the growth stage of the industry 'sub contract' certain distribution functions to intermediaries when they can perform these functions more effectively and economically.

3.2.2.12 Stigler postulates three stages in the life cycle of an industry. In the initial stage of the industry's development, an innovating company will be obliged to engage in many activities that preferably would be left to specialists. When a new market begins to emerge there may not be enough volume for a middleman to enter the market. There are not sufficient producers from whom the middleman can draw supplies to create the large volume required for a profitable operation. The producer, therefore, must reach down towards the market with direct distribution, often performing what might otherwise be middlemen activities.

3.2.2.13. In the second stage, with expansion of the industry, with more producers and greater volume, specialists arise to take over functions which become

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[23] Mallen, Op. cit., pp.18-25.

quantitatively important enough to justify specialist operation. Now, investment in middlemen activities becomes viable. As the volume increases further it is possible that a given spin-off function will, in turn, be broken down into several subfunctions, some of which may be spun off by existing middlemen to even narrower specialists. Thus several levels and types of middlemen may be added to the structural arrangement.

3.2.2.14 In the final stage, as the industry begins to decline, some of the specialists leave the scene because of insufficient volume and the surviving manufacturers must reabsorb some of the activities earlier performed by the middlemen. This kind of vertical reintegration need not necessarily be caused by declining volume. As Mallen points out, "if the cost curve does not continue to fall, at a high level of volume a point will be reached at which the producer can retake the function without losing economies."[24]

3.2.2.15 The Stigler-Mallen proposition thus postulates a cyclical revision in channel structure. The pattern of evolution is direct distribution during the initial stage of the industry, indirect distribution during the growth stage, and integrated distribution once again in the declining stage.

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[24] Ibid, p.20

3.2.2.16 Growth of the Firm and Channel Alterations

The need for structural adaptations has been explained in the metamorphosis model, proposed by Mathews[25]. The metamorphosis model takes the view that growth is not a smooth, continuous process, but is marked by abrupt and discrete changes in the conditions for organisational persistence and in the structures appropriate to these conditions. Mathews proposed a model based on four phases in the growth of the firm—establishment, take-off, growth, and maturity.

3.2.2.17 A product which involves at its introductory stage, new technology or new application and extensive education of the customers, may require a specific channel of distribution. However, when the educational task is complete, that channel may no longer be attractive or desirable and other channels may be in a better position to provide the manufacturer's needed services. These products, as they mature from their introductory stages, may experience pressures for channel shift or at least channel relationship modifications. A channel shift is, however, relatively unlikely to occur unless the product is the only one in a product line sold through the channel. Hence, the

[25] William E. Mathews, "Challenge for Industrial Marketers: Changing Channels of Distribution", Eugene J. Kelly and William Lazer (eds), Managerial Marketing, (Homewood, Illinois, Richard D. Irwin Inc., 1973), p.405.

manufacturer might rather choose to modify the channel relationships.

3.2.2.18. During the take-off stage, when the manufacturer may still have only a minor position in the industry, the pressures for channel change are relatively limited. As the market power of the manufacturer is rather weak, it is in no position to implement change or modification in the distribution channels. The producer tends to be primarily concerned with the general functioning of the channel rather than with specific problems associated with channel performance and efficiency[26].

3.2.2.19. The growth phase is, however, marked by increasing pressures for channel change. Besides the growth of the firm, changes in the product itself and in the nature of the customers broaden the pressures for structural adaptations in the distribution system. As the market develops, as a result of the distributor's efforts to a large measure, certain bulk buyers begin to emerge, and a small number of them begin to account for a high percentage of manufacturer's total sales. Naturally, pressures develop to bypass the distributor in favour of direct sales to the large customers. The result is the replacement of existing indirect channel by a direct channel.

3.2.2.20 In certain circumstances, however, the broadening of the product line may have a major impact on the

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[26] _Ibid._, pp.408-409

channel of distribution. For example, a company may have been restricted to a specific channel because of its limited product line. The addition of new products may give the manufacturer a full line, and thus enable him to shift to a new channel. Similarly, as a result of broadening the product line, total sales of all products in a specific area may become sufficiently large to justify a direct sales effort. As modification of the existing channel is conceptually simpler than the establishment of a new channel, manufacturers tend to incorporate new products into the existing channels. This in itself contains the seeds of pressure for channel change. The situation is basically unstable if the channel selected does not satisfy the needs and requirements of the product in question[27].

3.2.2.21. Maturity phase is often marked by increased competition leading to reduced selling prices and margins. With limited flexibility in pricing, management normally experiences a profit squeeze as input costs increase. In order to reduce cost, the company seeks less expensive channels, provided such channels are available.

3.2.2.22. Drastic changes in the channel structure are not resorted to at the fourth phase. The existing channels had already undergone considerable changes during the earlier phases and is now best adapted to fit the

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[27] Ibid., p.409

market environment. The involvement and commitment of the existing channel participants are at a high level. The present channels accout for a relatively large share of the sales volume and management is naturally reluctant to upset the status quo. The existing channels may have considerable power and may resist any channel change. Obviously, channel shift is relatively rare during the maturity stage. The alternative means of improving channel efficiency where external channels are used is elimination of the weak intermediaries. However, as a result of the continual upgrading process during the first three phases, the weaker members have already been weeded out, and the channel members who remain represent the best available to the manufacturer. For these reasons channel changes or modifications are less common during this phase[28].

3.2.2.23 While the Stigler-Mallen proposition is essentially based on innovative industries, the metamorphosis model adapted by Mathews primarily relates to industrial goods. However, the basic assumptions underlying these models have been occasionally used for analysing marketing channels in a broader perspective, in the absence of better models.

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[28] Ibid., pp.411-12.

3.2.2.24. Essentially, both the models emphasise the need for structural adaptations in marketing channels in response to stages of evolution of the firm or industry. However, the nature of channels at various stages are conceived differently in the two models. At the introductory stage, for instance, Stigler-Mallen hypothesis assumes direct channels as the volume is insufficient for middlemen operations. The metamorphosis model however, envisages indirect channels during the introductory and take-off stages, as the volume will not justify the establishment of a branch network or sales force.

3.2.2.25. During the growth stage, both the models identify indirect distribution as the ideal channel arrangement, and this stage is characterised by significant channel shifts and modifications according to the metamorphosis hypothesis. Particularly significant is the need for addition and replacement of channels. In the maturity stage Mathews envisages no dramatic changes in the channels except relationship modifications among channel participants, while Stigler postulates the need for channel integration at the final decline stage.

3.2.2.26 Besides emphasising the need for adaptations in channel structure in response to changes in the firm and its market environment, these dynamic models underline the changes in the type of channels i.e., from direct to indirect or vice-versa, during the growth stage.

3.2.2.27. Although the dynamics of the market place and the evolution of the firm often demand dramatic changes in the distribution policies and channel structures, marketing channels are relatively slow in responding to changes in the environment, either internal or external. The study therefore, tests the following hypothesis:

H.1.2.2. "Channel change through channel addition, deletion, or replacement is rare".

3.2.2.28. Empirical Results:

A historical study of the distribution systems of the companies under study was undertaken in order to verify the hypothesis. Twentyseven out of the 30 companies have been in existence for more than four years and only these firms have been considered for the analysis. While tracing channel changes, the entire life span of the organisation hitherto has been considered in each case, except for two old firms where the early histories of distribution are not easy to trace. Most of the other firms were established in the 1960's and after.

3.2.2.29 Eighteen instances of channel changes have occurred in 1 companies (Table 1.12). While channel additions have taken place in eight firms, certain channels

Table 1.12

Channel Change

Relevant* Companies - 27
Average span of existence of a company - 20 years.

Details of channel changes	Frequency
Companies where channel changes have occurred:	15
Instances of channel change	18
Instances of channel addition	10
Instances of channel deletion	0
Instances of channel replacement	8

* Companies in existence for more than four years.

have been replaced in seven cases. There is no single case where a channel was deleted without adding a substitute.

3.2.2.30. Channel changes resulting from the establishment of manufacturers' sales branches were not adequately traced because the very establishment of a network of sales branches is the result of a long process of evolution. It often starts with the establishment of sales office; a depot is added later. Also, this process can be reverse. Only the combination of the two becomes a sales branch. Further, the establishment of sales offices, depots or sales branches does not occur simultaneously in all geographic territories. Often the branches are established one by one. As a result, the precise purpose of its establishment and the stage of development of the company when it was established cannot be clearly identified. Hence channel change involving the establishment of sales branches has not been analysed.

3.2.2.31. <u>Addition of New Channels</u>

Manufacturer of a mildly medicated soap was selling direct to retailers in the initial stage. The wholesaler channel was added at the take-off stage. Another national marketer of soaps and hair oil added a new channel by appointing non-redistribution stockists to supplement the efforts of the dominant channel involving regular stockists. (Details in Table 1.13). A pharmaceutical company which had a virtual monopoly of the government market was forced to add indirect channel when the monopoly position was lost. The other two pharmaceutical firms, introduced new channels by appointing super-stockists to enter new geographical markets. The manufacturer of bread added a new channel to its distribution system when it started direct supply to retailers in the urban local market where demand had increased. This has in fact replaced the wholesaler channel in the local market. The firm producing pesticides and chemicals added a new channel involving dealers for one of its products which had been sold direct earlier. In the highly competitive field of batteries, the firm under study added a new channel by selling direct to 'preferred dealers', in order to supplement the efforts of the channel involving stockists. With a view to penetrate new geographic markets, the TV and Radio manufacturer is now experimenting with a new channel by transforming some of their dealers as 'main dealers' and assigning them certain wholesale functions. The small firm producing fan and selling its limited output through direct channel has recently appointed a network of dealers, thus adding a new channel. In almost all these cases,

Table 1.13

Channel Change by Addition of New Channel

S. No.	Product/ Company	Change in Agency	Channel Added	Stage of Company's Growth	Reasons for Change
1.	Soap I	Wholesaler added	M--W--R--C	Take-off	Better coverage of existing market and to enter distant markets.
2.	Soap III	Non-redistribution stockist added	M--MB--NRS--R--C	Maturity	More intensive penetration of existing market.
3.	Pharmaceuticals I	Super-stockist added	M--SS--DR--R--C	Growth	Enter a new geographic market.
4.	Pharmaceuticals II	Distributors added	M--DR-R--C	Growth	Enter new markets.
5.	Pharmaceuticals III	Super-stockist added	M--SS--DR--R--C	Growth	Enter new geographic market.
6.	Bread	Wholesaler eliminated	M--R--C	Maturity	Increased demand enabled direct sales to retailers in the urban local markets.
7.	Pesticide	Dealer (for one product) added	M---D---C	Growth	Better coverage of the market for a relatively new product.
8.	Battery	Preferred Dealer added	M--MB--PD--R--C	Maturity	More intensive penetration of existing market.

Table 1.13 contd..

S. No.	Product/ Company	Change in Agency	Channel Added	Stage of Company's Growth	Reasons for Change
9.	TV & Radio	Main Dealer added	M--MB--MD--D--C	Growth	Better coverage of new geographic market
10.	Fan	Dealer added	M---D---C	Take-off	Better geographic coverage of the market.

Abbr: M - Manufacturer; R - Retailer; C - Consumer; D - Dealer; W - Wholesaler; MB - Manufacturers' Sales Branch; MD - Main Dealer; PD - Preferred Dealer.; DR - Distributor; SS - Super-Stockist; NRS- Non-Redistribution Stockist the purpose of channel addition is either to enter a new market or to achieve intensive penetration of the existing market (Table 1.13).

3.2.2.32. Replacement of Channels

In most of the companies where channel replacements have been reported, the changes were effected either by eliminating a primary wholesaler or by replacing a passive type of intermediary by a more active intermediary. The only exceptions are the small pharmaceutical company which introduced a wholesaler channel deleting a direct channel to retailers and the public sector pharmaceutical firm that severed its distribution arrangement with another leading manufacturer in the industry which acted as its selling agent (Table 1.14). The fertilizer unit under study eliminated selling agents and started distributing direct to dealers through its branch network during the growth stage of the company. The pesticide manufacturer eliminated the sole selling agents from their dominant channel and started direct distribution to dealers. The manufacturer of batteries initially sold through distributors operating an entire state or districts,but subsequently established direct contact with stockists through sales branches. Selling agents had been used to distribute power tillers for many years, but the manufacturer later replaced the channel by selling directly to state agencies and private dealers. The manufacturers of

Table 1.14

Channel Change by Replacing Channels

S. No.	Product/Company	Channel Replacement		Change effected	Stage of Growth of Company	Reasons for change
		Channels Deleted	New Channels			
1.	Pharmaceuticals II	M-SA-DR-R-C	M-----C	The whole channel was replaced by direct channel	Take-off	Development of a local government market.
2.	Pharmaceuticals III	M--R--C	M--W--R--C	Wholesaler added	Take-off	Better coverage of existing market and going to new geographic markets.
3.	Fertilizer	M--PA--D--C	M--MB--D--C	Private Agent replaced by Company wholesale branch network	Growth	Better coverage of market. Eliminate malpractices by agents.
4.	Pesticide	M-SSA-D--C	M---D---C	Sole selling agents eliminated	Growth	Legal issue in using sole selling agents; better coverage of market.
5.	Battery	M-SLDR-W-W-R-C	M-MB-S-W-R-C	State level distributors eliminated	Take-off	More active selling efforts and better market coverage.

Table 1.14 contd..

S. No.	Product/Company	Channel Replacement: Channels deleted	Channel Replacement: New Channels	Change effected	Stage of growth of Company	Reasons for Change
6.	Power Tiller	M--SA--D--C	M--D--C M--STA--C	Selling Agent eliminated	Growth	More active selling efforts.
7.	Transformer I	M-SSA-C	M--A--C	Sole selling agent replaced by Agents	Growth	More active selling; Reduce cost of distribution.
8.	Chemical	M--A--C	M--D--C	Agents were replaced by Dealers	Maturity	Active selling in a competitive market.

Abbrs
M - Manufacturer
SA- Selling Agent
SSA-Sole Selling Agent
D - Dealer
STA-State Agencies.
SLDR - State Level Distributor
PA - Private wholesale Agent
DR - Distributor
W - Wholesaler
A - Agent
R - Retailer
C - Consumer
MB - Manufacturers' Branch

transformers replaced its channel involving sole selling agents by creating a new channel involving agents as well as by strengthening its direct channel. The large chemical firm effected a channel shift by replacing a channel involving agents by a channel involving dealers. In most of these cases, the purpose of channel change was to replace inefficient, supply-oriented channels suited for sellers' markets, by new channels capable of aggressive selling efforts needed in a competitive market (For details see Table 1.14).

3.2.2.33. The companies under review had been in existence over an average time span of 20 years. Twentyseven companies, with an average history of 20 years have recorded only 18 instances of channel change. These changes occurred in 15 companies. Among the remaining 12 firms, the present channel combinations have remained unchanged without any addition, deletion or replacement of any channel, ever since their distribution systems came into existence.

3.2.2.34. Survey results thus indicate that changes in the distribution system have indeed taken place, but only among 15 companies. Even among these firms, change in each case has occurred only once in 20 years approximately.

3.2.2.35. The temporal context of the review renders special significance to these findings. The last twenty-five years have witnessed dramatic changes in the Indian market environment. The sellers' market has yielded place to buyers' market in most industries, particularly since the mid 1960's. Production capacity has been enhanced to such an extent that the level of utilization remains very low. Competition for consumers has become intense although the market has been growing. Pressures on manufacturers to seek out new markets, away from the urban captive market, are much in evidence. Such a dynamic environment naturally demands frequent review and revision of the channel mix. However, the rate of change reported in the study leaves much to be desired. The results of the field survey thus support the hypothesis.

3.2.2.36. Stages of Growth and Channel Change

The empirical evidence indicates that the instances of channel change, limited as they are, are spread over the take-off, growth, and maturity stages of the firms, and not strictly confined to the growth stage as postulated in the metamorphosis model. Of the 18 instances of change, five occurred during the take-off phase, nine at the growth phase, and four at the maturity phase. (Table 1.15) Two channel additions and three replacements occurred at the take-off stages, and geographic extension of the

Table No.1.15

Channel Change and Stage in Company's Evolution

Type of Change	Stage in the Evolution of the Company				Total
	Introduction	Take-Off	Growth	Maturity	
Addition	Nil	2	5	3	10
Replacement	Nil	3	4	1	8
Total	Nil	5	9	4	18

market was the explicit objective of change in four of these cases. During the growth phase, five additions and four replacements occurred. Here the purpose of channel additions was to enter new markets (Table 1.15). Channel replacements in two cases were prompted by the need for more effective selling efforts by intermediaries; one firm had to eliminate sole selling agent because of legal constraints; and the public sector fertilizer corporation decided to eliminate private wholesale middlemen because of perceived malpractices. During maturity phase, three firms added new channels while one effected replacement. More intensive coverage of the existing market was the primary objective of change in all these cases, and infact, two new channels were competitive channels. While channel additions are more at growth and maturity phases, channel replecements occurred more at the take-off and growth stages. The pace of change is indeed more at the growth phase, followed by take-off and maturity respectively (Table 1.15).

3.2.2.37 Intensive penetration of the existing market and entry into new geographic regions are the two dominant objectives of channel change. Channel additions at the take-off and grwoth stages had been prompted by the desire for geographic extension of the market. The pressure for replacement seemed to have sprung from the need for intermediaries who can take more active selling efforts. Reducing the cost of distribution does not figure out as the major objective of channel change in any of these cases.

3.2.2.38. The metamorphosis model envisages limited extent of channel change at the take-off and maturity stages, while it predicts substantial change at the growth phase. It is indeed difficult to draw a line of demarcation between the various stages; particularly so in the case of take-off and growth. In fact, 'take-off' implies the 'early growth' phase. Taken together, the take-off and growth stages account for most of the changes recorded in the field study. The metamorphosis model assumes a relatively mature and stable market environment. The dynamics of a developing market indeed demand a corresponding measure of dynamism in the channel structure. However, the results of the field survey indicate the relative stability, or rather the stagnation, in the distribution structure. The stray instances of channel change among the relatively mature firms over a span of two decades, therefore, do not in any way underscore the relevance of the metamorphosis model.

3.2.2.39. Shift from Direct to Indirect Channels

Another dimension of channel shift is the change from direct channels to indirect or vice versa. A cyclical movement of distribution from direct to indirect and back to integrated channels is the main theme of the Stigler-Mallen proposition. The metamorphosis model, on the other hand, postulates a change from indirect to direct channels as the firm grows. Except in one case, the field survey does not indicate any such change, either from direct to indirect or the reverse.

3.3.0 Dynamics

3.3.1.0 Channels for New Products

3.3.1.1 Entrenched traditional factors such as conventions usually govern the initial choice of a channel. For a given product line, manufacturers tend to follow the established pattern of distribution, giving little or no deliberation to channel choice or comparison of alternatives. The channel strategies being followed by competing marketers in the same industry is usually accepted. It is apparently logical to follow the patterns developed by competitors because these industry practices will, over a period, have resulted in a particular set of customer buying patterns and expectations.

3.3.1.2 Customer buying patterns are the most important consideration in choosing a marketing channel. Products should be made available to customers when and where they expect to find them. If a manufacturer is not able to gain distribution through the types of outlet from which the consumer expects to buy, then consumers will not have access to the manufacturer's product in the kinds of store from which they are accustomed to buy similar or related merchandise. Buyers are conditioned to look at certain outlets as the place to buy certain things. The kind of retail outlet that the consumer feels is appropriate for the purchase of a particular kind of product is conditioned by the amount of habitual buying that has been done before. Manufacturers obviously route a new product which is related to the existing lines through the existing channels.

3.3.1.3. There is however, a tendency for competitive products to be sold through the same type of channels, and a similar tendency holds for related noncompetitive products in the same general field. Consumers expect to buy related items at the same source. From time to time, however, some firms break away from established channels and experiment with new outlets. On balance, while the existing channel practices of competitors need to be noted, and probably met in most cases, manufacturers have to be particularly alert to new channel opportunities. Firms which are willing to take reasonable risk and to experiment with new kinds of outlets in a controlled manner may secure a competitive advantage over rivals, at least temporarily, in the form of wider distribution. However, distribution through new channels may antagonize existing channel participants. If their products are in substantial demand by consumers, retailers may be expected to carry the line[29].

[29] Edwin H.Lewis, op.cit., pp.118-119.

3.3.1.4 When a new firm tries to enter a market or when an established firm introduces a new product, the market power of the manufacturer is relatively weak. The degree of freedom a specific firm will have in choosing a channel depends upon relative market power, financial strength, and availability of desired channel partners. In the case of the manufacturer, market power is derived from customer brand preference. If customers are inclined to demand a particular brand, retailers, and consequently, wholesalers will be anxious to participate in marketing new products because of potential benefits. On the other hand, a small manufacturer of a new product may find it difficult to attract potential channel partners because the manufacturer cannot offer market power as an incentive in channel negotiation[30]. Hence the right channel may not be available initially.

3.3.1.5. For a new firm or for a firm introducing a new product, the prime concern is the availability of a channel. At the introduction stage of a new product, the volume may not be sufficient to attract new type of channels. Naturally, the producer looks for the existing channels for similar or related products.

3.3.1.6 The tendency for accepting the traditional channel is more pronounced if the industry is in the

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[30]Donald Bowersox, op.cit., p.194.

introductory or growth stage when the task is to cater to the core market because the 'fringe' market is yet to develop. During this period the concern of the marketer is rather the general functioning of the channel than the efficiency of the channel or strategy differentiation in terms of different market segments.

3.3.1.7. In general, there is a tendency on the part of marketing management to view the distribution structure of an industry as a given environmental factory. Particularly when a new product is to be marketed, there is hardly any search for new and alternative distribution channels for the product in question. This tendency is augmented by the fact that not all possible alternatives would be known; nor would all the known alternatives be available when the initial channel decision is made.

3.3.1.8. The study, therefore, attempts to verify empirically the following hypothesis:

H.1.3.1 "Manufacturers often fit new products to existing channels without searching for alternative channels."

3.3.1.9. Information about the choice of channels for the last product introduced was sought from multiproduct companies which had introduced at least one new product during the last three years (Table 1.16). Of the 17 relevant firms, 15 had chosen their existing channels

Table No.1.16

Marketing Channels for New Products

Number of responding firms - 30

Details	Frequency
Of the 30 respondents, the number of respondents who introduced at least one new product during the last three years	17
While introducing the task product, companies which used existing channels for the new products	15
Companies which used new channels to distribute the new products	2

to distribute the new products, while the remaining two had adopted new channels for the simple reason that the products and the markets were new.

3.3.1.10. More significant is the fact that only three of the 17 companies had seriously considered alternative channels (Table 1.17). Of the three, two finally adopted new channels. But for the three, the remaining firms hardly ever had any serious deliberations with regard to alternative channels for new products.

3.3.1.11. It is, therefore, not surprising to see most of the respondents report that they do not perceive any need for channel change (Table 1.18). As many as 25 of the 30 respondents feel that there is hardly any scope for improving their channel structures. Only five firms perceived the need for channel change. Among them, three respondents feel that addition of new channels would improve their distribution systems. One feels the need for deletion of an existing channel and another prefers to replace an existing channel.

3.3.1.12. The findings of the survey indicate three pertinent facts:

1. Most of the companies do not seem to realize the scope for improving their distribution structure by addition, deletion or replacement of channels.

Table No.1.17

Search for Alternative Channels while Introducing a new product

Relevant respondents - 17

While introducing the last product	Frequency	Percentage
Companies which did not consider alternative channels	14	82.35
Companies which seriously considered alternative channels	3	17.60
Companies which adopted new channels	2	11.76

Table No.1.18

Perception About Improving Distribution System by Channel Ghange

Respondents : 30

Executive perception about channel change by Addition, Deletion or Replacement of Channels		Frequency
1.	Do not need change	25
2.	Need change	5
3.	Need change by addition of channels	3
4.	Need change by Deletion of channels	1
5.	Need change by Replacement of channels	1

2. While introducing new products, there is hardly any search for new channels unless the products and the markets are drastically different from the existing ones.

3. Obviously, manufacturers often fit new products to existing channels without any formal or deliberate search for alternative channels.

3.3.1.13. On the whole, the introduction of a new product appears to have little impact on existing channels if the new product is only slightly different from existing products. However, if the new product is so dissimilar that it requires an entirely new market, new channels are added.

3.3.1.14. Those who readily follow the conventional patterns of distribution, without ever searching for possible alternatives, often consider the existing pattern as the "given environmental factor". In marketing theory and practice, there has, of course, been a continual emphasis on the 'given' factors of a marketing situation. These should not be confused with entrenched traditional factors such as conventions governing distribution profit margins and methods of distribution. An analysis of the real 'given' factors, those concerned with the socio-economic forces, might suggest that the correct policy to be followed is a break from the traditional practice which was better suited to other socio-economic conditions.

3.3.1.15. There are many successful cases of the non-conformist policy where, merely by being different from the traditional, a manufacturer has acquired a special segment. The dynamic manufacturer when responding to changes in the basic structure of the market will not only gain because of his better analytical basis for decision making, but also because of the divergence between his price and that of his competitors who continue with the traditional policy with its built-in distributor margins[31].

3.3.1.16. Most sellers are concerned with building stable, dependable channels. Manufacturers, and perhaps wholesale middlemen, incur an investment in establishing and strengthening their channels. As the parties learn to work together, they become more effective in moving goods and more efficient in doing the tasks assigned. It is sometimes said that the channel, and particularly the transactions within the channel, become routinized. Routinization may follow negotiation, as when subsequent orders are placed by an intermediary following negotiation of the original contract, or as industrial buyers continue to purchase raw materials and supplies once the exact nature of the goods and services desired has been agreed upon. Channel costs will be lowest when stable relations

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[31] B.G.S. James, Integrated Marketing, (London, B.T. Batsford Ltd., 1967), p.241.

have been created among the parties in a channel and as many functions as possible have been reduced to routine. Whenever transactions are to be negotiated, costs rise[32].

3.3.1.17. There is considerable resistance to change in channels of distribution and, as a result, many inefficient channels can and do persist for long periods of time. Resistance is not surprising; most innovations create chaos for a period of time. Before the innovation, relationships among the participants are well established, objectives of each are known, and necessary functions are performed. Innovation upsets these relationships and creates uncertainty for the participating institutions. The status quo is, therefore, the preferred state of affairs for all concerned.

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[32] Edwin H. Lewis, <u>op.cit</u>., p.124.

3.3.2.0 Complementary and Competitive Multiple Channels

3.3.2.1 The issue of multiple channels does not arise for certain companies. Where companies sell direct to users, the problem of more than one type of channel is not significant. However, a manufacturer who finds it necessary to distribute through a wide variety of retail outlets or whose retail trade structure is undergoing considerable change, may be faced with the problem of developing and managing a multiple distribution network. Companies selling diversified product lines to two or more distant market segments often develop multiple channel structures. What determines the multiple channel structure is the markets the company wants to serve.

3.3.2.2. Multiple channels can be either complementary (non-competitive) or competitive. Complementary channels are created when a company sells multiple products to two or more unrelated market segments through parallel channels. Few intermediaries are happy with a manufacturer's decision to use multiple competitive channels. However, intermediaries' attitudes and reactions are not the only considerations in developing 'dual distribution'. Manufacturers are guided by the advantages to be gained in increasing sales, increased market share and increased profits through the use of competitive multiple channels[33].

[33]Bell, op.cit., p.467

3.3.2.3. The use of competitive multiple channels, however, depends on the basic management philosophy. It is only logical to assume that manufacturers who do not follow a dynamic, consumer oriented approach to marketing are not likely to estrange their existing channels by the use of complementary channels. Only a company, wedded to the marketing concept, would attempt to offer better alternatives to consumers in terms of price and retail outlets and to achieve channel efficiency through competition among channels. Historically, the growth of innovative retail institutions and the shift in channel power towards the manufacturer have been the two factors that enabled the development of competitive multiple channels in advanced economies. These two developments made possible direct sales to retailers, thus adding a second major indirect channel, while the wholesaler was used to reach relatively smaller retailers. Since large scale retailing institutions are almost non-existent here and since the adoption of the marketing concept is apparently not widespread, the practice of competitive multiple channels is not likely to be widespread. Hence the study sets the following hypothesis:

H.3.3.2 "Whereever multiple channels are used, the different channels act as complementary rather than competitive channels".

3.3.2.4 Empirical Results

The field study results reported already in description of the number of channels, indicate that different types of customers are, by and large, served by different channels. Although multiple channels are extensively used, products flow to different geographic areas or different customer groups via a different route. Large institutional and industrial customers are served by direct channels, while the small volume requirements are met by distribution through intermediaries.

3.3.2.5. Different Channels for Unrelated Products

It has been observed that different categories of products from the same manufacturers are moved via different channels. For example, the manufacturer of fertilizers and chemicals uses entirely different channels to sell the two different lines. Similarly, the manufacturer of pesticides and chemicals employs direct channel to sell almost the entire chemical output while various types of intermediaries move the pesticides to different markets. In the same way, the producer of soap and vanaspathi, movesthe products via different routes to the ultimate consumers. One of the food processing firms uses for its soft drink a channel different from its channels for jams and syrups. The producer of consumer electronics has a separate channel for stabilizers as against TV, radio and watches. In the industrial products field, the manufacturer of electrical components uses different product lines. Similarly, different alkalies from the chemical firm flow to different industrial customers via different routes. Evidences are that from multi-product firms, unrelated products moving to different end users take different channels.

3.3.2.6. Complementary Channels for Related Products

Related products or product lines are, however, distributed, by and large, through the same channels. Along the channels for washing soaps and toilet soaps move hair oil from the company. Prescription drugs, pesticides, fertilizers, paints, soft drinks, biscuits, bread and bun, and batteries -- different products in each of these categories beat a common path to the market. Lamps and tubes used to take the same course along with batteries when the two manufacturing companies were under the same management. From one manufacturer, even watches move along the same channels with TVs and radios.

3.3.2.7 The field survey reveals that among the 29 firms using multiple channels, 22 companies employ complementary multiple channels only, while the remaining seven firms use competitive multiple channels also (Table 1.19). Among the industrial goods manufacturers who employ both direct and indirect channels, there is, more or less,

Table No. 1.19

Complementary vs. Competitive Channels

Factors	Frequency
1. Companies with Multiple Channels	29
2. Companies with Competitive Channels	7
3. Companies with Complementary Channels	22

a clear demarcation as to the type of customers each channel is supposed to cater to. There is hardly any competition for consumers between these channels. Therefore, the channels used by industrial goods manufacturers are by and large complementary. Two indirect channels serve the same type of customers with respect to the distribution of power tillers and this is perhaps an exception. Other firms selling only to industrial or institutional customers employ one indirect channel each obviously to supplement the efforts of the direct and the dominant channel.

3.3.2.8. Manufacturers operating in the consumer market often use more than one indirect channel. More than two third of the firms in this group employ two or more indirect channels (Table 1.20). Of the 17 firms employing two or more indirect channels (based on first links, for, the manufacturers equate the number of channels with the number of first links in their channel structure), 11 firms use only complementary channels while the remaining six firms employ competing channels, in a rather broad sense. Of the 11 companies with complementary channels, nine use them to reach different geographic areas while two employ them to serve different customer segments. The fertilizer marketer uses both complementary and competitive channels (Table 1.20).

Table No. 1.20

Complementary and Competitive Multiple Channels

Company	* No. of indirect channels	Complementary Multiple channels		Competitive Multiple Channels (For same geographic market and same customer segments)
		For different segments	For different geographic areas	
Soap I	2	-	-	x
Soap II	1	NA	NA	NA
Soap III	2	-	-	x
Pharmaceuticals I	2	-	x	-
Pharmaceuticals II	1	NA	NA	NA
Pharmaceuticals III	2	-	x	-
Biscuit	1	NA	NA	NA
Bread	2	-	x	-
Jams & Syrups	2	-	x	-
Soft Drink I	2	-	x	-
Soft Drink II	2	-	x	-
Fertilizers	4	-	x	x
Pesticides	2	x	-	-
Cattlefeed	2	x	-	-
Battery	2	-	-	x
Lamps & Tubes	2	-	-	x
TV & Radio	2	-	-	x

Table No. 1.20 contd..

Company	* No. of indirect channels	Complementary Multiple Channels		Competitive Multiple Channels (For same geographic market and same customer segments)
		For different segments	For different geographic areas	
Fan	1	NA	NA	NA
Tyre	1	NA	NA	NA
Paint I	2	-	x	-
Paint II	2	-	x	-
Watermeter	2	-	-	x
Total No.	-	2	10	6

* Based on First Links

Total number of firms - 22.

Firms with two or more channels - 17.

x indicates existence of the phenomenon.

NA - not applicable.

3.3.2.9. Competitive Channels

Competitive channels are those involved in distributing the same product of a company to the same type of customers in the same geographical area. Industries where competitive channels are used are soap, fertilizers, battery, lamps and tubes, watermeter, and power tiller (Table 1.21). In the soap industry the two firms that employ competitive channels are dominant firms in some sense. One is the manufacturer of a single brand of mildly medicated soap, enjoying high brand image and good demand. The firm sells directly to retailers in the same area where it sells to wholesalers, as it does not have any stockistship arrangement. In fact the company policy is to sell direct to any one who would take more than a prescribed volume. The other firm is a leading national marketer of soap and hair oil, having a fairly wide product mix. Although its dominant channel involves stockists, it uses a competing channel involving non-redistribution stockists. While the company salesmen perform the retail selling on behalf of the regular stockists, the non-redistribution stockist has to perform the selling function entirely by himself like a typical wholesaler. The purpose of the competing channel is a more intensive coverage of the market.

Table No.1.21

Use of Competitive Channels

Industry/ Company	Competitive Channels
1. Soap I	M → W → R → C M → R
2. Soap II	M → MB → S → W → R → C MB → NRS → R
3. Fertilizer	M → MB → PCS → C MB → C → C
4. Battery	M → MB → S → W → R → C MB → PD → R
5. Lamps & Tubes	M → MB → DS → W → R → C MB → DD → C
6. Watermeter	M → W → R M → R
7. Power Tiller	M → STA → C M → D → C

M - Manufacturer
C - Consumer
R - Retailer
MB - Manufacturer's Branch
W - Wholesaler
S - Stockist
D - Dealers.

NRS - Non Redistribution Stockist
PCS - Primary credit societies
PD - Preferred Dealers
DD - Direct Dealers
DS - District Stockist
STA - State Agencies

3.3.2.10. The fertilizer unit under study sells through private dealers, in addition to their dominant channel involving primary credit societies. The manufacturer of batteries sells directly to wholesalers and calls them 'preferred dealers' although its dominant channel involves stockists. Lamps and tubes, marketed by a leading firm in the industry, take two routes to the same market through direct dealers as well as district stockists. A popular brand of watermeter is supplied directly to hardware retailers as well as wholesalers, as the company policy is to sell to any one who would buy above a certain number. Power tiller is distributed both by state agencies and private dealers. It is to be noted that competitive multiple channels are employed by manufacturers who enjoy market power derived from their popular brands, except perhaps in the cases of manufacturers of agricultural inputs which are routed through state agencies as well as private dealers. Of the two producers of agricultural inputs, one firm is definitely disenchanted with the performance of the state agencies. The purpose of employing multiple channels in all cases appears to be the intensive coverage of the market.

3.3.2.11. Price competition, usually associated with multiple channels, is not much in evidence. Similarly, competition between direct and indirect channels is also rare. The volume of sales through the competing channel added, is considerably less compared to that of the dominant channel. In advanced economies, it is the development of large scale retail institutions that created the need for direct sales to them and thus gave the impetus for the emergence of competitive channels for consumer goods, but this is not the case in India. True that in certain cases direct sales to retailers create competing channels. Of the seven cases of competitive multiple channels reported in the study, four firms created competing channels by selling direct to retailers, but the retail institutions involved are not large-scale institutions. In the cases of the single brand soap manufacturer and the producer of watermeter, the company policy is to sell to anyone who buys in bulk because the products enjoy high brand image. The fertilizer manufacturer uses small private dealers in order to supplement the sales through rural credit societies although the two institutions are competitive in character. The fourth company using competitive channels is the manufacturer of lamps and tubes who supplies to direct dealers, in addition to distribution through district stockists because these dealers are dealers for other products of the company.

3.3.2.12. On the whole, it is evident from the survey results that the use of competitive multiple channels is not very extensive.

3.3.2.13. Mixed Views on Multiple Channels

In economies where multiple channels have been extensively used, there have been certain criticisms about the practice. Traders have often opposed 'dual distribution' by manufacturers. Although 'multi-marketing' has been a common phenomenon, little academic attention has been given to the problems and conflicts that must be reconciled when business growth brings diversity.

3.3.2.14. The social benefits of multi-marketing have not been adequately explained. The views of most business people are profoundly affected by whether they benefit from a particular practice. Some look upon multi-marketing as "the free enterprise system working at its best". Middlemen,on the other hand, declare it to be "unjust enrichment by confiscation of markets that rightfully belong to others"[34].

3.3.2.15. Two important allegations are commonly levelled at multi-marketers, particularly when they send their products through both captive and independent outlets to reach the market. The first is the practice of discrimination during periods of supply shortages. This generally works to the disadvantage of the independent dealer vis-a-vis the integrated outlet. When shortages arise, the wholly owned outlets get favoured

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[34] Robert E.Weigand, op.cit., p.96

treatment while the independents have to go begging. Selling through both wholly owned and independent outlets also raises a second issue: the "price squeeze". This occurs when the middleman's gross margin is reduced because his selling price does not change in direct proportion to his buying cost. When a supplier raises prices, if there is no opportunity for the wholesaler or retailer to pass the higher prices along to his customers, the middleman's margin is squeezed. However, in India captive and independent outlets are seldom used to cater to the demands of the same type of customers.

3.3.2.16. Problems arise when manufacturers sell directly to large retail organisations. These firms possess substantial power to buy larger quantities in a single purchase, which enables them to negotiate attractive prices, liberal return privileges, and other favourable treatment. In contrast, the smaller retailer is not in a position to press for such favourable treatment in his dealings with the manufacturer. The dual policy puts the small trader at a disadvantage. As large scale retail institutions are almost non-existent, the above issues do not arise now in India.

3.3.2.17. Opinions about either the fairness or the efficiency of such multi-marketing practices depend on where the critic is positioned in the channel. On the one hand, suppliers may argue that multichannel selling is essential because no single type of reseller is either administratively or technically prepared to deal with the diverse problems brought by selling to different markets. On the other hand, any single group of middlemen may eye the rich markets that have been foreclosed to them.[35]

3.3.2.18. When multiple channels are used, manufacturers try to ensure that a particular type of intermediary sells only to a specified group of customers. This creates dissatisfaction among his resellers. The courts have been increasingly reluctant to allow a supplier to dictate to whom sales will be made once he has relinquished ownership.

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[35] Ibid., p.98

3.3.3.0 Channels for Strategy Differentiation

3.3.3.1 The natural segmentation of the market may make desirable the use of multiple channels. For example, a manufacturer may make several products and sell to different markets, each with different types of service outlets, or he may market the same product to one group of buyers who are content to purchase a standard grade and to another who wants special quality variations or demand very rigid tolerances with much technical service. Thus, the producer may find it desirable to reach the first through distributors and to market direct to the second[36].

3.3.3.2 Manufacturers may segment their market according to the differences in the average purchasing rate or differences in customer responsiveness to price or to promotional appeals. Consumers who would tend to respond to a prestige price as opposed to a bargain price or who would, similarly, react to status as opposed to economy advertising appeals can be expected to patronize particular retail outlets. These different kinds of retailers would, in turn, be served by alternative channels of distribution. Quality variations of the same product may be sold to different socio-economic groups through different channels of distribution[37]. The manufacturer's

[36]Ralph S.Alexander, op.cit., p.266.
[37]J.Taylor Sims, op.cit., p.141.

objective would be to establish a channel system that would yield the optimal marketing programme in each market segment, resulting in the generation of the maximum potential profit.

3.3.3.3. The Indian market is indeed a highly segmented national market with diverse cultural, subcultural, ethnic, linguistic, religious, and caste groups. The segregation of markets is augmented by transportation and communication problems. A mass market has been fast developing in the country since the mid 1960's, and the characteristics of segmented markets are much in evidence in certain industries - characteristics such as multiple brands and the 'brand war'.

3.3.3.4. Although many manufacturers in India follow the strategy of product differentiation and market segmentation, the distribution channels seldom appear to reflect this segmentation strategy. Despite the fact that multiple channels are in vogue, it appears that in distributing to the consumer market, different channels are not meant to offer optional marketing programme to different segments. The precise hypothesis for empirical testing is as follows:

H.1.3.3 "Marketing channels are seldom used to offer optimal marketing programme for each segment".

3.3.3.5. As indicated in Table 1.22, of the 25 firms using direct channels, only a small fan producer sells directly to individual or household consumers. This is rather an exception. As the marketing agents for the company refused to continue distribution on behalf of the firm, the retail outlets established under the same corporation to sell other products of related firms came to be used to sell fan also. All other firms use direct channels to sell to institutional or industrial organisations or government departments.

3.3.3.6. Out of a total of 22 firms operating in the consumer market covered in the present study, 16 firms employ two or more indirect channels. Now the question arises: are these indirect channels meant for different segments within the consumer market? The various indirect channels lead to three different destinations: different geographical areas, different market segments within the same geographical areas, and the same segments within the same geographic area. As Table 1.22 indicates 10 manufacturers direct their products to different geographical areas through different channels. Six other manufacturers use the intermediary channels to route their output to more or less the same segments within a given market area. In other words, these are competing channels. Of the 16 firms

Table No.1.22

Direct Channels and Target Markets

No. of Firms with Direct Channels : 25

Industry/ Company	Direct Channels lead to: Consumer market	Direct Channels lead to: Industry/Institutional*market.
1. Soap II		x
2. Soap III		x
3. Pharmaceuticals I		x
4. Pharmaceuticals II		x
5. Pharmaceuticals III		x
6. Bread		x
7. Jams & Syrups		x
8. Soft Drink I		x
9. Soft Drink II		x
10. Fertilzers		x
11. Pesticides		x
12. Battery		x
13. Lamps & Tubes		x
14. Fan	x	-
15. Tyre		x
16. Paint I		x
17. Paint II		x
18. Watermeter		x
19. Transformer I		x
20. Transformer II		x
21. Electrical Components		x
22. Cables I		x
23. Cables II		x
24. Chemicals I		x
25. Chemicals II		x
Total	1	24

* Including government market.

having two or more intermediary channels, only two firms use different channels to serve different customer segments within the given market area.

3.3.3.7. As Table No.1.23 further shows, whereever two or more indirect channels are used, the various channels are not significantly different in terms of customer benefits. Of the 10 firms using different channels to different geographic areas, two use primary wholesalers (super stockists) in certain distant geographic areas while in their dominant channels serving the main market areas, they sell directly to distributors or stockists (secondary wholesalers). The ultimate consumer in the different areas get the product in the same type of retail outlets, namely, the medical stores, although the company has certain advantages in using the super stockist in the distant market - advantages such as avoiding the costly task of maintaining a branch office and depot in areas where the demand is not sufficient to justify the cost. A bread manufacturer sells directly to retailers in the local urban market while it uses wholesalers in other areas. The jams and syrups producing firm uses manufacturer's agents in Kerala while it uses merchant wholesalers in other geographic areas. The two soft drink bottling plants distribute directly to retailers in their franchise areas while they sell through wholesalers in other areas assigned to them by the franchiser.

Table No.1.23

Indirect Channels and Strategy Differentiation - Consumer Goods

Companies with more than one Indirect channels (Based on first links)	Indirect channels to sell to:			First level intermediaries used		
	Different market segments within the same area.	Different geographic areas.	Same geographic areas & market segments.	Primary whole-salers.	Secondary whole-salers.	Retailers
1. Soap I	-	-	x	-	x	x
2. Soap III	-	-	x	-	x	-
3. Pharmaceuticals I	-	x	-	x	x	-
4. Pharmaceuticals III	-	x	-	x	x	-
5. Bread	-	x	-	-	x	x
6. Jams & Syrups	-	x	-	-	x	x
7. Soft Drink I	-	x	-	-	x	x
8. Soft Drink II	-	x	-	-	x	x
9. Fertilizers	-	x	x	-	x	x
10. Pesticides	x	-	-	x	x	x
11. Cattlefeed	x	-	-	-	-	-
12. Battery	-	-	x	-	x	-
13. Lamps & Tubes	-	-	x	-	x	x
14. TV & Radio	-	x	-	-	x	x
15. Paint I	-	x	-	-	x	x
16. Paint II	-	x	-	-	x	x
17. Watermeter	-	-	x	-	x	x

The fertilizer manufacturer who supplies directly to rural credit societies and private dealers in Kerala sells to state level wholesale agencies in other states. The two smallscale paint units which do not often get adequate wholesale intermediaries sell direct to retail dealers in areas where they do not get the support of wholesalers. The TV and radio manufacturer has appointed a few main dealers in certain areas and these main dealers are supposed to develop the market and supply the products to other retail dealers.

3.3.3.8. In all these cases the individual or household buyers get the products in more or less the same type of retail outlets, whereas the manufacturing company has certain advantages in using the different methods of distribution in different areas.

3.3.3.9. The study further shows that diverse channels for a given consumer product do not normally lead to different types of retail outlets which may probably direct the flow of goods to different customer segments. A fairly large number of units manufacturing consumer nondurables sells a relatively small portion of their output directly to retailers, while the bulk of the output moves through wholesale intermediaries. Consumer durables are, however, sold directly most often, although a small portion of the output finds a path through the wholesalers.

Irrespective of these diverse routes, the product flows finally converge at the retail level. Whether sold directly or through wholesalers, the type of retail outlets where the consumers finally buy the products are, by and large, the same. In the case of non-durables, it is the small general store. Durables are offered at the spaciality stores. For manufacturers of consumer non-durables, the choice of types of retail institutions are apparently limited, but that does not seem to be the case with manufacturers of consumer durables.

3.3.3.10. On the whole, the patterns of distribution that emerge from the study indicate that direct channels lead to large volume customers in all product categories. In marketing consumer goods, direct channels lead to industrial or institutional markets, while indirect channels have consumer markets as their destination. Marketing channels for industrial goods under study vary not in terms of the differing technological requirements of customers, but merely on the basis of their volume requirements.

3.3.3.11. It is, therefore, fairly evident that while different channels are used to serve different type of customers in terms of the volume of purchase, and different geographic markets, segments within the consumer market in a given area are seldom served by different channels. Products do not flow to different segments through unique channels as part of a comprehensive marketing strategy aimed at offering optimal marketing programme for each segment.

3.4.0 DETERMINANTS

3.4.0.1 Structure is derived from strategy; but this is apparently not so with respect to distribution systems. The present day business enterprise operates in a dynamic environment. "It is precisely because of the rapid pace of change in the world that marketing has become so preeminent. The reason is obvious: marketing is uniquely on the firing line where the impact of change is greatest for the business firm. Marketing is where the customer is, and it is the customer who in the end decides the fate of a business" -- wrote Levitt[38]. The increasing recognition of the need for strategic adaptation to the changing milieu has been fairly evident in the areas of product mix, pricing, and promotion. However, managerial awareness about the need for strategic adaptations in distribution mix is hardly evident. Even when a firm adopts a dynamic marketing strategy in response to changes in the environment, distribution structure remains by and large the same.

3.4.0.2. The analysis based on empirical study corroborates the assumption that relative stability rather than strategic adaptations has come to characterize the distribution scene. The description, development and

[38] Theodore Levitt, Innovations in Marketing, (New York, McGraw-Hill Book Company, 1962) p.13.

dynamics of the number of channels dimension have led to the following conclusions:

1. Firms take a casual approach to channel design, and the combinations of channels that exist today are the results of evolution by trial and error.

2. The distribution system remains relatively static, with hardly any change by addition, deletion or replacement of channels.

3. Manufacturers often fit new products to existing channels without any serious search for channel alternatives.

4. Different channels are not primarily meant to offer optimal marketing programme for each segment.

3.4.0.3. The following are some of the determinants of the above situations:

a. Absence of proper segmentation strategy limits the scope for using multiple channels.

b. Lack of innovations at the retail level reduces the number of channel alternatives.

c. Distribution system is seldom treated as a variable aspect of the marketing mix.

d. There is not enough managerial attention paid to the distribution aspect of marketing.

e. Inadequate managerial commitment at the administrative and operating levels inhibits strategic adaptations in the distribution structure.

3.4.0.4. The first assumption relating multiple channel strategy and market segmentation involves factors beyond the scope of this study and, therefore, it is not analysed here. The second determinant, i.e., innovations in retailing is elaborately discussed in Chapter V. In order to test the other assumptions, the following hypotheses have been set for analysis:

H.1.4.1. "There is not enough managerial attention paid to the distribution aspect of marketing."

H.1.4.2. "There exists a strategic gap in distribution management, and the inadequate managerial commitment at the administrative and operating levels inhibits strategic adaptations in the distribution structure."

3.4.1.1. A Given Environmental Factor

The formulation of channel strategy represents only one part of the overall marketing posture of an enterprise.

However, the channel strategy is fundamental because it provides the structure of institutions through which the marketing plan must be orchestrated[39]. But too often marketing decisions are fitted into the existing structure created by the long established distribution system.

3.4.1.2. The structure of distribution for a product type is composed of the various channels in use at a given time to connect all manufacturers with all ultimate consumers or all industrial users. The structure of distribution is often assumed to be a given environmental factor. The individual firms, therefore, attempt to make choices among the various channels that are in the structure. While marketing channels are conceptually regarded as a variable aspect of marketing mix of the manufacturer, they often receive less attention than consideration of product, price and promotion, simply because much of the channel, in the typical case, is "out there" where it is difficult to do much of anything about it, especially in the short run. It is often ignored that the spatial and temporal availability of a product offering has a great deal to do with the profitable exploitation of opportunity. This is essentially the role of the distribution channel, and one too often neglected as higher priority is accorded to more highly variable matters[40].

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[39] Donald J.Bowersox, et.al., Op.cit., p.12

[40] William R.Davidson, "Innovations in Distribution",

3.4.1.3. Too often channel combinations and relationship among participants do not receive due attention since they involve matters that are "outside" the company and, hence, are more easily taken for granted than other activities such as marketing research, advertising or personal selling. These "internal" functions come up for more frequent review and appraisal since responsibility for them tends to be fixed on the organisational chart or in job descriptions, and the cost of them conspicuously identified on accounting statements[41].

3.4.1.4. To the extent that distribution structure is treated as a given environmental factor not amenable to manipulations by managerial action, it loses its character as a variable element in the marketing mix. Apparently it remains a relatively fixed feature of the marketing environment. Scope for strategy differentiation in the area of marketing channels, therefore, appears limited. Manufacturers obviously tend to bestow less attention to this aspect of the marketing mix. If ever the pressure for channel mix design or change occurs, it occurs less frequently compared to other marketing decisions, at the most once in few years. Consequently, such responsibilities seldom find a place in the job descriptions of marketing executives. These factors

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40 contd..

Bruce J.Walker and Joel B.Haynes, Marketing Channels and Institutions: Readings on Distribution Concepts and Practices, (Columbus, Ohio, Grid Publishing Inc., 1973) pp.71-72.

[41] Ibid., p.78.

naturally lead to the situation expressed in the following hypothesis: "There is not enough managerial attention paid to the distribution aspect of marketing".

3.4.1.5. The first problem encountered by the researcher in conducting the survey was lack of clarity among the respondents regarding the concept of distribution channels. It was necessary to explain the concept of distribution channels to the marketing executives who were the respondents. In fact, most of the basic terms and concepts had to be explained to the respondents. The flesh and blood versions of the text book character called "channel manager" often mistook 'distribution channels' for physical distribution. The 'number of channels' concept was quite alien to most of them who were actually managing multiple channel structures, even to those who had formal qualifications in management. Evidently, most of the terms and concepts used in academic discussion of the distribution system are quite alien to those who manage the marketing channels. Practising managers tend to reduce the whole range of channel responsibilities to 'sales' and 'physical distribution', more precisely transportation in the latter. They do not seem to be familiar with the other, more strategic decision areas in distribution management. They may not be aware of these, as they have never been assigned such tasks. More important perhaps would be the fact that they have seldom come across anyone in the organisation even at the top level, taking such decisions.

3.4.1.6. The perception of marketing executives with respect to distribution channels thus appears to be limited to the day-to-day operations of sales negotiation, transportation and warehousing functions. The indications are that distribution functions for the typical firm are restricted to these routine operations and that managerial attention is limited to such operating decisions.

3.4.1.7. Specific questions were asked to ascertain the titles of managers who head the distribution channels. The titles of managers responsible for channel decisions are classified and presented in Table 1.24. According to the information provided in Table 1.24, in 12 companies executives with marketing titles head the distribution channels. Functionaries with sales titles responsible for channel management exist in nine firms. Only one firm has a 'Chief Distribution Manager'. The remaining eight companies assign distribution responsibilities to functionaries with other titles. It is significant to note that the company with the chief distribution manager assigns hardly anything more than physical distribution to him.

Table No.1.24

Is there a Distribution Manager?

Position with	Frequency	Percentage
Marketing Title	12	40
Sales Title	9	30
Distribution Title	1	3.3
Others	8	26.7
Total	30	100.0

3.4.1.8. According to Table 1.25, primary responsibility for channel management is assigned to 14 different positions. The titles range from 'chief executive' to 'branch manager'. The marketing titles include General Manager (Marketing), Deputy General Manager (Marketing), Marketing Manager and Divisional Manager (Marketing) with the respective frequencies of one, two eight and one. Sales positions such as General Manager (Sales), Senior Manager (Sales), Sales Manager, and Sales Officer are entrusted with distribution tasks in nine companies, the sales manager being the most frequent among them. In four relatively smaller firms, the chief executives themselves look after the distribution functions. Often the designations include partner, general manager, etc.

3.4.1.9. The logic of entrusting distribution tasks to marketing executives is obvious. However, the rationale for fixing distribution responsibilities to sales executives are apparently curious. It is to be recalled here that where the company employs a salesforce and operates branch offices, industrial, institutional and often retail selling are performed by the manufacturer's salesforce. The operational part of the distribution function is thus entrusted to the salesforce, and in the absence of the recognition of strategic

Table No.1.25

Who Heads the Distribution Channels?

Title	Number of companies with each title
1. General Manager (Marketing)	1
2. Deputy General Manager (Marketing)	2
3. Marketing Manager	8
4. Divisional Marketing Manager	1
5. General Manager (Sales)	1
6. Senior Manager (Sales)	1
7. Sales Manager	5
8. Sales Officer	1
9. Works Manager	1
10. Chief Executive	4
11. Partner	1
12. General Manager	1
13. Chief Distribution Manager	1
14. Branch Manager	1

decisions in distribution, the sales managers legitimately come to head the distribution systems. In fact, except in the case of large manufacturers, the sales and marketing titles have hardly any difference, as more or less the same functions have been assigned to both the categories.

3.4.1.10. Further probing was done in the survey to ascertain whether there were senior managers exclusively managing the distribution system, although they might not be heading the function. But for the firm with the Chief Distribution Manager, in all other companies the responsibility for distribution was part of the package of marketing responsibilities assigned to the concerned positions.

3.4.1.11. In spite of, or because of, the importance of distribution, a 'channel manager' is nowhere in sight, nor a'distribution manager' in anything outside a purely physical distribution sense. Available evidence suggests that the position of the channel manager exists only in concept, not yet in fact. Instead, channel management responsibilities are dispersed among various other positions.

3.4.1.12. Taken alone, this observation does not lead to the conclusion that relatively little managerial attention is devoted to the distribution function. However, when considered along with the earlier findings suggesting a casual approach to the design and change in distribution system, the indications are obvious, and the hypothesis (H.1.4.1) receives enough support.

3.4.2.1. Strategic Gap

The 'number of channels' issue is necessarily related to the strategic dimension of managing the distribution system. An analysis of the extent of managerial attention needed for efficient distribution management calls for a clear distinction, as well as proper understanding, of the interrelations among strategic, administrative and operating decisions. Strategic decisions involve activities pertaining to the identification of corporate mission and the establishment of organisational goals, strategies, and plans. Administrative management relates to actions concerning the internal management of capital, facilities, manpower, and organisational structure. Operating management pertains to the day-to-day decisions involving internal resource allocation, scheduling, and the control operations[42].

3.4.2.2 "When the environment is placid, tranquil, and unchanging, administrative and operating efficiencies are admittedly the principal determinants of

[42] Taylor Sims, Op. cit., p.337.

corporate success. In an era of future shock (accelerating change), however, strategic considerations become increasingly important, because strategy is the primary vehicle by which companies anticipate and capitalize on change. In short, because of the volatility of the environment in which distribution companies operate, strategic planning has emerged as a central corporate concern and as a primary responsibility of senior management"[43]. Any attempt to anticipate or to adapt to change requires a continuous analysis of the environment to detect emerging marketing opportunities or potential competitive threats. The environmental monitoring is followed, in order, by strategic management, which precedes administrative management and operating management.

3.4.2.3. It is significant to note that administrative and operating decisions have a purely facilitating role with respect to achieving the implementation of strategic decisions. "This means that given a different set of strategy decisions by two different firms, even in the same market environment, their individual administrative and operating decisions would likely differ sig nificantly"[44]. The implication is that channel struc

[43] Bert C.McCammon, "Future Shock and Practice of Mana ment", Philip Levine (ed.) Attitude Resear Bridges the Atlantic, (Chicago, American Marketing Association, 1975), p.74.

[44] Taylor Sims, op. cit., p.338.

as well as administrative and operating decisions necessarily vary across firms even in the same industry, as they follow different strategies. Further, with changes in the strategic orientation of a firm, corresponding changes are required in the channel structure.

3.4.2.4. Total performance of the channel is a function of the link between the environment and strategic management. This linkage is called 'strategic fit', or the desirable degree to which the missions, goals, and plans of the distribution system fit the realities of the environment. However, there is often a lack of strategic fit or a gap between the responses of the system and what is required in order to adapt to environmental changes. This shortfall between the level of actions exerted and the level required has been designated as a 'strategic gap'[45]. The shortfall in the link is caused by difficulties in environmental scaning, organisational inflexibility, insufficient environmental support, resource inapplicability, oversimplification of environmental complexity and ignoring change signals[46]. Information about the environment is received at various levels in the organisation and no particular functionary is in a position to put together the market and competitive intelligence besides information about the needs

[45]Douglas C.Basil and Curtis W.Cook, The Management of Change, (London, McGraw-Hill Book Company (UK) Ltd., 1974) p.133.

[46]Taylor Sims, Op.cit., pp.340-342.

and attitudes of channel participants. The haphazard and intermittent flow of information in the absence of a sophisticated information system makes environmental scanning difficult.

3.4.2.5. The extent and variety of environmental changes associated with the transformations in a developing economy, particularly the evolution of a sellers' market into a buyers' market, present marketers a set of often traumatic challenges to the survival and well-being of their organisations. One predictable consequence of the accelerating social and economic change and growing complexity is the inability of many manufacturing firms to adapt to their new environment. Survival and sustained growth demand new and imaginative approaches for managing channel responses to environmental change. The need for strategic adaptations among the companies under review is fairly evident.

3.4.2.6. Competition and Capacity Utilization

Most of the companies are operating under very competitive environment. Competition is rated as high by 20 firms and as moderate by six other firms. (Table 1.26). Demand has been rated low by 14 firms and moderate by eight firms. The most striking feature of all is perhaps the very low level of capacity utilisation among the

Table No.1.26

Competition, Demand, and Capacity Utilization

Level / Factors	High	Moderate	Low
Competition in the industry	20	6	4
Demand for company products	8	8	14
*Capacity utilization by the Company	8	6	16

* High - Capacity utilization above 85%

Moderate - Capacity utilization between 70%and 85%

Low - Capacity utilization less than 70%.

companies under study. Only eight firms reach a capacity utilization of 85 percent. Capacity utilization among 16 firms is below 70 percent. In most of the companies, demand has been identified as the major constraint for capacity utilization. More pertinent is the fact that one third of the companies under study has been incurring losses.

3.4.2.7 It is indeed true that an efficient system of distribution does not offer any panacea for all the maladies of a corporation. What is significant is that the distribution system is not recognised as a potential area for strategy differentiation. The strategy for survival and growth demands that firms should attempt to gain competitive advantage in the market to find a niche for itself which enables to use its particular strengths to satisfy customer demands better than its competitors. The whole range of resources and all of its major functional activities contribute to creating differential advantage.

3.4.2.8. As one of the major controllable variables of the marketing mix, it is no less important for the firm to seek differential advantage in its channel design, as to seek it in its product, pricing, and promotional strategies. In fact, there are times when channel design strategy comprises the principal basis for gaining differential advantage[47]. However, the findings of the study have already indicated that this is not the case. Many forces that create strategic gap are indeed at work in most of the firms. Most pertinent among them, perhaps, is the fact that responsibilities pertaining to strategic adaptations in distribution system are not clearly assigned to any one in the organisation.

3.4.2.9. Changes in marketing strategies are indeed brought by changes in the environment, and by virtue of their proximity to the environment, managers at the administrative and operating levels often initiate actions for decisions leading to change. Compared to other elements in the marketing mix, there is relatively less delegation of channel decisions to administrative or operating levels, as decisions pertaining to channel design or change are of strategic nature. Obviously, there will be less enthusiasm among middle level managers to initiate or implement channel change decisions. The very fact that managerial responsibilities associated with strategic adaptations in channels are neither specified clearly nor assigned to anyone at the middle level management constrains the very scope for strategic

[47]Bert Rosenbloom, Op.cit., pp.106-107.

adaptations in this vital area of marketing.

3.4.2.10. While responding to the question "who is responsible for channel change decisions?", many executives seemed to lack clarity about the centre of responsibility. Such decisions are indeed products of joint deliberations. The typical first reaction was: "We do not change our channels". Further probing indicated the involvement of more than one decision maker in the channel change decisions in certain cases. However, the centre of ultimate authority was pin-pointed in each case and the result is furnished in Table 1.27.

3.4.2.11. The 'Board of Directors' is directly involved in channel change decisions in 15 out of 28 companies considered. In nine firms the chief executives take the decision. Only in four companies the middle level managers have the discretion to change the channel structure. The data apparently indicate the strategic nature of channel change decisions as either the Board or the Chief Executive is involved in the decision in most companies. Table 1.27 explains who takes the final decision if ever proposals for channel change are considered, but nothing about the frequency of such decisions.

3.4.2.12. Another aspect to be considered is the extent of participation by middle level managers in the decision

Table No.1.27

Who decides Channel Change ?

Responding firms - 28

Decision makers	No. of Companies	Percentage.
Number of companies where the Board takes the final decision	15	53.6
Number of companies where the Chief Executive, but not the Board takes the final decision	9	32.1
Number of companies where the middle managers have the discretion to take the final decision	4	14.3

process. Table 1.28 indicates that in many firms middle level managers are consulted while considering the addition, deletion or replacement of channels. In 57 percent of the firms marketing and sales executives are involved in the decision making process. However, as noted already, only in few firms the decision making is delegated to them.

3.4.2.13. Invariably, channel change decisions, if ever such changes are considered, rest with the policy making levels in the organisational hierarchy. It is to be recalled that as a matter of policy most of the firms do not favour changes in the channel structure. Tradition and stability are more akin to the value system in trade than change. As channel changes are likely to engender conflicts and estrange the intermediaries, it is only natural that management at all levels tend to play safe. Consequently even when forced by environmental pressures, the tendency is to resist the temptation for channel mix revisions. However, if the forces of change are constantly at work, the issue might come up for consideration, and it comes up before the Board or the top management, in most cases.

3.4.2.14. In the first instance, the composition of the Board and its structure of decision making, under-

Table No.1.28

Participants in Channel Change Decisions

Companies considered : 28

Decision Participants	*Frequency	Percentage
Number of companies where the Board is involved	15	53.6
Number of companies where the chief executive is involved	14	50
Number of companies where middle level managers are involved	16	57.1

*The total is more than 28 as there are more than one participant in the decision process in many firms.

score the efficacy of the decision process. There is hardly any functional board in any of the companies under consideration and the marketing exposure and expertise of the members pose a serious constraint. The normal procedure of the board appears to be the ratification of the proposals that originate at the middle level management. Usually the conservatism of the Board becomes conspicuous when proposals for serious changes come up for deliberations and decisions, much to the discontentment of the administrative and operating levels in management.

3.4.2.15. Normally pressures for changes in the marketing mix come from the administrative and operating levels. Such pressures are more frequent with respect to changes in pricing, promotion, and product mix, since these elements of the marketing mix are generally deemed more variable and, therefore, more amenable to managerial control. Moreover, for these functional aspects, managerial responsibilities are clearly specified and assigned, and operating results are frequently evaluated. There is, therefore, greater role, more delegation of authority and more discretion for alternatives to the middle level managers. But this is not so when it comes to channel change decisions. Responsibility for channel efficiency is not often specified in their job descriptions, nor are they evaluated on the basis of a channel audit. Further, the impact of change in channels are usually more pervasive, (perhaps among all product lines), more durable, and more evident; consequently, the risk is also more. As a result, managers tend to bypass an unnecessary risk which is not obligatory on their part. Naturally, proposals for channel change are less likely to originate at the middle level management. Decisions pertaining to channel design and change are indeed strategic decisions, but these decision problems seldom come up for serious considerations before the Board. If at all they come, the incompetence of a non-functional Board to have conviction about the strategic role of the distribution system and to foresee the consequences of the change, along with the predisposition of the Board to maintain tradition and stability in channels, may lead to the rejection of the proposals for change.

3.4.2.16. The decision process is not drastically different when the chief executives are entrusted with the tasks of channel design or channel change decisions. The lack of managerial enthusiasm for strategic decisions in distribution reduces the frequency and quality of such decisions.

3.4.2.17. Assuming that the Board or the chief executive, on the other hand, is very enthusiastic about the strategic decisions pertaining to distribution system, will it change the extent of channel adaptations? There is hardly any system for environmental scanning in any of the companies under consideration. Further, most of the decision makers are far removed from the realities of channel environment and, therefore, the information requirements are relatively more. None of the companies seems to have any adequate information system which can meet the challenge. The haphazard and intermittent flow of information about the market and the competitive environment as well as about the needs and attitudes of channel participants is received by different functionaries at different levels. In the absence of a single functionary exclusively accountable for channel performance, no one takes the trouble to collect and process the data, or to provide the information to decision makers. This information gap leads either to postponement of decisions or to a reduction in the quality of the decision. Thus, the frequency and quality of strategic decisions in distribution management is limited to the extent of participation by middle level managers in such decisions.

3.4.2.18. Even in the exceptional cases where the discretion for strategic decisions in distribution extents to the level of middle management, chances are that drastic changes are seldom sought. Most executives tend to think of their jobs in terms of the every day needs and problems that demand immediate attention, much to the neglect of the strategic decision problems. They tend to be primarily concerned with the general functioning of the existing channels rather than the uncertain opportunities offered by alternative channels. Fear of inter-channel conflicts are uppermost in the minds of executives at the operating levels and they seek stability in channels than change. In particular, if the existing channel mix has been quite successful, complacency sets in, and commitment to the existing channels is protected at all costs.

3.4.2.19. In addition to the reasons noted earlier for the low level of managerial involvement in channel decisions, managerial inertia, inability to predict the outcomes of decisions for change, tendencies to avoid risk and resist change - all tend to safeguard the status quo in distribution system. Managers in charge of distribution often act as passive respondents to change, rather than as active agents of the environment, and they shy away from exercising the powers vested in them to alter the competitive environment by achieving a differential advantage through channel innovations.

3.4.2.20. Channel mix decisions are indeed policy decisions taken at the highest levels. But these decision areas lanquish for want of managerial commitment at the administrative and operating levels. As a result of inadequate managerial commitment to strategic decisions in distribution, stability rather than strategic adaptations comes to characterise the distribution scene.

CHAPTER IV

CHANNEL LENGTH

4.0.1. The number of levels and intermediaries between the manufacturer and the consumer forms the basic theme of this chapter. The first part, devoted to description, analyses the number of levels in the dominant as well as longest channels. Development looks for additions and deletions in the number of links. The 'dynamics' discusses issues such as redundant intermediaries, cost reduction by reducing the number of links, elimination of intermediaries and functional absorption at adjacent levels, and unnecessary repetition of functions in longer channels. The last part pursues the significant determinants of the length of channels, and the factors probed include customer buying pattern, economic distance, market density, strength of the manufacturer, and product characteristics.

4.0.2. The following are the hypotheses set for empirical analysis in this chapter.

H.2.1.1. There exist multilevel channels in the distribution systems of the manufacturing firms under study, but the number of levels are not as many as reported in the marketing literature.

H.2.1.2. There exists multistage wholesale structure in the distribution systems of the companies under study.

H.2.2.1. There have been additions as well as eliminations of levels in the marketing channels of the manufacturing firms under study.

H.2.3.1. In the distribution channels, there exist redundant intermediaries who can be eliminated.

H.2.3.2. Cost of distribution can be reduced by reducing the number of levels in the channel structure.

H.2.3.3. Even when certain intermediaries are eliminated, their functions are absorbed at the adjacent levels.

H.2.3.4. More levels in the channels do not necessarily lead to unnecessary repetition of functions.

H.2.4.1. Customer size and their buying habits decide the length of channels.

H.2.4.2. Physical and economic distance necessitate longer channels.

H.2.4.3. Channel length is inversely related to market density.

H.2.4.4. Size and financial strength of the manufacturer as well as the brand image of the products determine the length of channels.

H.2.4.5. Product characteristics are significant determinants of channel length.

4.1.0 DESCRIPTION

4.1.0.1 The issue involving the length of the marketing channels concerns analysing the number of institutional levels through which, or to which, the product is sold on its way to the final buyer. The essential qualification for a participant in a channel of distribution, according to Edwin Lewis, is that he be involved in the transfer of title. Either he takes title himself, as do merchant wholesalers and retailers, or he acts in a sales or buying capacity as agent for a principal. Among the latter are brokers, commission houses, manufacturers' agents, and so on. The central function of all these institutions is buying and/or selling. They may or may not perform additional services such as storage, financing, technical service, risk bearing, etc. However, unless an organization is directly concerned with transferring title, it is not a part of the trade channel. A very large number of facilitating agencies whose services are of an auxiliary nature are not included in the channel of distribution[1]. Once the key intermediaries are established the facilitating agencies are partially predetermined for the particular channel.

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[1]Edwin H.Lewis, Marketing Channels: Structure and Strategy, (New York, McGraw-Hill Book Company, 1968) pp3-4.

4.1.0.2 A stage or level in the marketing channel can be defined as any group of business firms, or separate operations within the manufacturer's internal organization for distribution, that performs similar functions or operations in the process of distribution[2]. Manufacturers often find it desirable to use multi-level channels of distribution. Every distribution system is in fact multilevel. Even the producers who supply directly to end users must have some unit in the organisation that establishes and maintains contact with customers. The need for these levels arises not only from the requirements of efficient product flow, but also from such factors as established trade customs and practices.

4.1.0.3. Discrepancy of Assortment

The assortment of goods produced at the factory often differs from the assortment required by the consumer. Goods are grouped together at the manufacturing stage because they employ common raw materials or the same production process. Goods at the wholesale level or levels are often grouped together based on the inventory requirements of the retail customers.

[2] Glenn Walters, Marketing Channels, (Santa Monica, California, Good Year Publishing Company, Inc. 1977) p.161.

Retailers restrict their inventory offering to certain categories of goods that are related to each other on the basis of being purchased at the same time or being consumed together. The basis by which goods can be grouped together varies according to the particular stage in the distribution process. The result is the difference in the assortment of goods brought together for manufacturing purposes compared to the assortment of goods required by the consumer which the retailer brings in his store. This phenomenon has been described as the "discrepancy of assortment"[3]. When this discrepancy exists between levels in the distribution channel, intermediaries are required to break down the bulk shipments from the factory into small quantities used as a part of the build up of the retailers merchandise assortment. The most convenient association of goods changes at each stage in the flow of merchandise from producer to consumer as a result of sorting. Goods are received from numerous suppliers and delivered to numerous customers. The essence of this operation is to transform the diversified supplies received into outgoing assortment on their way to the customers. The need for intermediate sorting brings to existence intermediaries.

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[3]Wroe Alderson, Marketing Behaviour and Executive Action, (Homewood, Illinois, Richard D. Irwin Inc., 1957) pp.215-17.

4.1.0.4. Functional Spin-Off and the Emergence of Successive levels in the Channel.

The need for economic specialisation provides an insight into the reason why a number of separate enterprise levels appear in the marketing channel. Distribution activities may often be performed more efficiently by channel intermediaries, who enjoy economies of scale by undertaking channel functions for several manufacturers simultaneously. Manufacturing firms utilise intermediaries because the latter can perform specific functions in a given location at a lower cost per unit than can the former. Middlemen are sources of external economies to their clientele. Such economies are possible because intermediaries, by aggregating user requirements, can perform the designated function(s) at an optimum scale, or alternatively, intermediaries, by aggregating user requirements, can more fully utilise existing facilities[4].

4.1.0.5. The tendency to maximise productivity in economic activity leads to specialisation in marketing as it does in production. Whether applied to a production or distribution situation, or within one firm

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[4] Bert C.McCammon, "Alternative Explanations of Institutional Change and Channel Evolution", Bruce J. Walker and Joel B.Haynes (eds.), Marketing Channels and Institutions: Readings on Distribution Concepts and Practices, (Columbus, Ohio, Grid Publishing Inc., 1973) p.81.

or among several firms, the principle of efficiency through specialisation is fundamentally the same. The only difference in the application of the specialisation and division of labour concept as applied to production versus distribution is that, in general, the production tasks are allocated intraorganisationally while the distribution tasks are allocated interorganisationally[5].

4.1.0.6. Producing and manufacturing firms often face high average costs of distribution tasks when they attempt to perform them by themselves. The technology and scale economies that enable them to operate at a low average cost for production processes are often absent in the performance of distribution tasks. Elaborating the concept of division of labour, Stigler[6] developed a theoretical framework for analysing the development of an innovative industry. Producing firms 'subcontract' certain distribution functions to intermediaries who can perform these functions more effectively and economically. Stigler's approach to identifying the reasons why firms 'subcontract' some functions is to break down the average

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[5] Bert Rosenbloom, Marketing Channels: A Management View, (Hinsdale, Illinois, The Dryden Press, 1978), p.7.

[6] George J.Stigler, "The Division of Labour is Limited by the Extent of the Market", The Journal of Political Economy, Vol.59, (June, 1951) pp.185-93.

total cost curve of the firm by functions such as promotion, risk taking, negotiation, and information gathering, rather than by the normal classification of expenses such as salaries and interest. Each of these functions has its own cost curve. The average cost curves for some functions will increase with increasing volume, whereas others will decrease with increasing volume.

4.1.0.7. It is economical for the producing firm to spin-off to marketing specialists those distributive functions which have a decreasing cost curve as volume increases. As a firm enters or creates a new market, it typically produces a small volume for that market. A manufacturer with low volume will have a high average cost for performing a function with a decreasing cost curve. The middleman specialist who combines the volumes of a number of producers, however, benefits from the economies that the performance of this particular function generates at higher volumes. If the middleman passes on all or some of the lower costs, the producer's total average cost will decline as a result of this spin-off of the distributive function. "In effect, the middleman has generated the basic raison d'etre for his own existence by providing external economies to producer firms[7]. Based on this analysis, Mallen

[7] Bruce Mallen, "Functional Spin-off: A Key to Anticipating Change in Distribution Channels", *Journal of Marketing*, Vol.37, (July 1973),p.20.

postulates short direct channels at the initial stage of the industry, longer indirect channels during the growth stage, and integrated channels at the declining phase.

4.1.0.8. The 'Shortest Route' Paradigm

Marketing has a three fold mission, according to Wroe Alderson: to find the shortest route to market for existing products, to bring new products to market and to bring more people more fully into the market economy[8]. The issue of channel length directly concerns the first mission. Very often the concept of the 'shortest route to the market' is associated with the number of levels in the channel. The prevailing tendency is to associate the length of the route with the number of levels in the channel. The implications is that there is an inverse relationship between length of the channel and channel efficiency. Reducing the number of levels in the channel has, therefore, been hailed as a major social and business objective. The real test of determining the shortest path to market is finding the most efficient way to match the supply of products available and consumer needs. This is accomplished, when the typical consumer purchase is small, through an intricate system of sorting and resorting,

[8]Wroe Alderson, "The Mission of Marketing", John R. Wish and Stephen H. Jamble (eds), Marketing and Social Issues: An Action Reader, (New York, John Wiley & Sons, Inc., 1971) p.49.

with num~~b~~erous transactions in between[9].

4.1.1.0 Hypothesis and Empirical Testing

4.1.1.1 There is a widely held belief that there are relatively more number of levels in the structure of distribution channels of Indian companies. However, the few empirical studies that have touched upon the issue give conflicting results. Too many links in the channels of distribution in India have become a legend largely through the work of Hirsch[10]. He noted five levels of intermediaries between the manufacturer and the consumer in the distribution systems for manufactured goods in India. (Manufacturer - Selling Agents - Brokers - Large Wholesalers - Sub wholesalers - Retailers - Consumers). This has been quoted extensively and has been exaggerated subsequently.

4.1.1.2. A study by Dixit[11] in fact enlists seven levels of intermediaries in between the manufacturer and the consumer in the typical channel of the art silk industry in South Gujarat. (Manufacturer - Broker - Middleman merchant - Commission Agent - Wholesaler - Broker -

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[9] Ibid., p.50.

[10] Leon V.Hirsch, "Wholesaling in India", Robert Bartels (ed) Comparative Marketing - Wholesaling in Fifteen Countries, (Homewood, Illinois, Richard D. Irwin Inc., 1963) p.136.

[11] N.R. Dixit, "Study of Channels of Distribution used by Small and Medium Scale Textile Manufacturing Units in South Gujarat," Indian Journal of Marketing, Vol. 9, (November 1978) pp.13-14.

Semiwholesaler - Retailer - Consumer). The study further notes that the distribution cost in the art silk industry forms about 70 percent of the final retail price that the consumer pays. The author concludes that at least three of these levels have become redundant (the two brokers and the semiwholesaler) and that the existing channel is to be streamlined, modified or replaced[12]. The peculiar circumstances of the industry severely curtails the scope for generalisation based on the striking results of the study.

4.1.1.3. A study by Kacker on the marketing practices of Indian subsidiaries of American transnational corporations has touched upon the issue of channel length in the Indian distribution system. It has been found that the channels used by American firms are not in all cases longer in India than in the United States and that even where they are longer, the difference do not go beyond one or two levels.[13] This sounds a little surprising in view of the earlier assumptions about the excessive number of levels in the Indian distribution sector.

4.1.1.4. The assumptions perpetuated by Hirsch that fewer middlemen could carry on substantially all present

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[12]Ibid., p.19.

[13]Madhav Kacker, Marketing Adaptations of US Business Firms in India, (New Delhi, Sterling Publi-lishers, 1974) p.93.

distributive activities in India seems to prevail. To quote him, "it has been held that too many stages of wholesale distribution intervene between the producer and the retailer and that some should be eliminated. The present system supposedly leads to unnecessary waste and to higher costs for both producer and consumer"[14].

4.1.1.5. The typical length of channel structure is unique to an economy and is largely a product of its socioeconomic factors. Comparing the channel length in India with that of the United States serves little purpose, although it is frequently suggested. Further, a comparative marketing analysis is beyond the scope of this study.

4.1.1.6. It is indeed difficult to test the hypothesis that the channel length is more in India. The question arises: compared to which country? Obviously, no particular country offers a 'normative' model for channel length. The assumption that the American economy with its relatively shorter channels offers the ideal model is arbitrary. The Japanese economy with its comparatively more number of levels in the distribution channels offers a model of a channel structure that is at least as efficient as the American distribution system, given the socio-economic structure of that country.

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[14]Hirsch, op.cit., p.154.

4.1.1.7. Rapid changes in the Indian economy and the gradual evolution of a mass market seem to have forced a revision in the marketing practices of many manufacturing firms. These are indeed developments that occurred after the early observations in marketing literature about the Indian distribution system. Assuming that the pattern of evolution in distribution structure found in other economies, (as traced in Chapter I of this study) holds good for all societies, it is only logical to postulate that the number of levels in the channel structure has come down here. Sheer observation of the distribution practices of some of the leading firms in the country seems to support the idea. The present study has already found that indirect channels are widely used by manufacturers of both industrial and consumer goods. Indirect channels are often multilevel channels.

4.1.1.8. Although direct distribution to retailers has already become a common feature of distribution in some advanced countries, it appears that wholesale intermediaries are still widely used in India. Obviously there are at least two intermediate levels between the factory and the consumer for consumer goods, and at least one intermediary in the indirect channels for industrial goods.

4.1.1.9. These assumptions lead to the following hypothesis:

H.2.1.1. "There exists multilevel channels in distribution systems of the manufacturing firms under study, but the number of levels are not as many as reported in the marketing literature".

It is indeed the multilevel wholesaling that increases the number of intermediate levels in the channel structure. The notion of multistage wholesaling is obviously related to the above hypothesis and offers another testable hypothesis:

H.2.1.2. "There exists multistage wholesale structure in the distribution systems of the companies under study".

4.1.1.10. Survey Results

As most of the firms use multiple channels, analysis of the length of channels calls for an assessment of the number of levels in each of these channels. However, the purpose of the study, in terms of the hypothesis to be tested, will be better served by limiting the analysis to the longest channel and the dominant channel based on sales volume in each company. Dominant channels are sometimes called main channels or primary channels. In certain cases the longest channel is also the dominant channel. The number of levels in the two categories of channels have been analysed separately. Although the manufacturer and the consumer have to be included in the channel as two levels, since they are common denominators, only the intermediate levels have been considered in the computations.

4.1.1.11. Consumer Nondurables

In the soap industry, the dominant channel is the manufacturers' sales branch - stockist - wholesaler - retailer channel, thus involving four levels in between the manufacturer and the consumer, with three intermediaries and the manufacturer's wholesale branch. In this industry, the dominant channel is also the longest channel. While two of the three units covered in this study follow this pattern, a relatively small unit offering a premium brand in limited geographic areas does not use the stockist, thus reducing a level.

4.1.1.12. The three pharmaceutical firms under study are relatively smaller units and their dominant channels involve only two intermediare levels - the distributors and the retailers. Since two of the three units use super-stockists to sell to distributors in distant and dispersed markets, their longest channels are characterised by three levels. The relatively large units in the industry often establish sales branches and thus seldom need superstockists. Their dominant channels, therefore, involve three levels. Though rare, subdistributors sometimes interpose themselves between the distributor and the medical store, adding one more level and thus forming a longer channel compared to the dominant channel. Since subdistributors seek only those brands that are very popular in a particular area, in the distant, dispersed and relatively new markets where super-stockists are used, subdistributors seldom enter the distribution channels. However, in the major markets they add another link in the channel. Among the three units under study, the longer channel is marked either by the super-stockist or the subdistributor, but the intermediate links are only three. In one of the firms where the super-stockist is not used, the longest channel is the one involving the substockist.

4.1.1.13. The dominant channel for biscuits involves two wholesale intermediaries as well as retailers. The firm under study, however, uses a longer channel with four wholesale stages - C & F Agents, distributors, subdistributors, and wholesalers - thus forming a channel with five intermediaries including the retailer. This is the unique instance in the study where a company uses a channel with five levels in between the manufacturer and the consumer. In the distribution of bread, the dominant channel has only two levels, wholesalers and retailers. The product, however, takes a longer route when the agents or semi-wholesalers sometimes act between the wholesalers and retailers. For jams and syrups, the dominant channel involves two intermediaries - the manufacturers' agents and the retailers. In distant markets where the company uses distributors instead of agents, the product at times passes through subdistributors to the retailers, thus creating a longer channel with three levels. The dominant channel for soft drinks has two intermediaries - the wholesaler and the retailer. This is also the longest channel as the other channels involve direct sales to retailers or bulk users.

4.1.1.14. The fertilizer unit under study has a well developed network of sales branches and depots. The longest channel used by the firm has only two intermediate levels with the state agencies such as cooperative marketing federations and agro-industries corporations at the wholesale level, and the private and cooperative dealers at the retail level, thus creating a channel structure with three levels. The bulk of the output, however, moves directly from the sales branches to private and cooperative retail dealers, thus forming a dominant channel with two levels. The dominant channel for the pesticide lines of the firm under study, involves direct sales to dealers who sell to end users, and has only one intermediate level. However, certain products move through longer channels, One product moves through selling agent who supplies to subagents and state agencies at the wholesale level, who in turn supply to retail dealers, thus forming a channel with three intermediaries. Cattlefeed is primarily sold through milk cooperative societies. The dominant channel involves only one level. However, the product passes through a longer channel involving two intermediate levels of dealers and subdealers. The dominant channels, for batteries have four levels involving the manufacturers' sales branch, stockist, wholesaler and retailer. This is also the longest channel used by the firm. The manufacturer of lamps and tubes has a wide network of sales branches from where the products flow to the consumers through district stockists, wholesalers and retailers. This channel with four levels is at the same time the dominant and the longest channel.

4.1.1.15. Facts pertaining to the number of levels and intermediaries in the dominant channels of consumer nondurables have been summarised in Table 2.1. The average number of levels in the dominant channels of the 16 firms considered in this category is 2.5. The average number of intermediaries used in the dominant channels is 2.13. In seven of the 16 firms, the dominant channels are also the longest channels. Six of the 16 firms have internal wholesale branches which add to the number of levels. Soaps, batteries, lamps and biscuits are the products that move through relatively more number of levels. It is pertinent to note that the dominant channels account for a relatively large share of the sales volume in each company and that the economic efficiency of this channel is of maximum social concern. It has also been noted that the relative share of sales through the longest channels is often small. Facts reported in Table 2.2 indicate that the longest channels used by the manufacturers of consumer nondurables have an average of 3.19 levels. These channels involve an average number of 2.8 intermediaries including retailers. The longest channel found in the survey has five intermediate levels and is used by the manufacturer of biscuits. This is followed by the channels for soaps, batteries and lamps which have four levels each including the manufacturers' wholesale branches.

Table No.2.1

Number of Levels and Intermediaries in the Dominant Channels - Consumer Nondurables

Company	Number of Levels	No. of Inter-mediaries	Levels of Internal Wholesale Branch
1. Soap I	3	2	1
2. Soap II	4	3	1
3. Soap III	4	3	1
4. Pharmaceuticals I	2	2	0
5. Pharmaceuticals II	2	2	0
6. Pharmaceuticals III	2	2	0
7. Biscuit	3	3	0
8. Bread	2	2	0
9. Jams & Syrups	2	2	0
10. Soft Drink I	2	2	0
11. Soft Drink II	2	2	0
12. Fertilizers	2	1	1
13. Pesticides	1	1	0
14. Cattlefeed	1	1	0
15. Batteries	4	3	1
16. Lamps	4	3	1
Average	2.5	2.13	0.38

Table No.2.2

Number of Levels and Intermediaries in the Longest Channels* - Consumer Nondurables

Company	Number of Levels	No. of Inter-mediaries	Levels in Internal Wholesale Organisat-ion
1. Soap I	3	2	1
2. Soap II	4	3	1
3. Soap III	4	3	1
4. Pharmaceuticals I	3	3	0
5. Pharmaceuticals II	3	3	0
6. Pharmaceuticals III	3	3	0
7. Biscuit	5	5	0
8. Bread	3	3	0
9. Jams & Syrups	3	3	0
10. Soft Drink I	2	2	0
11. Soft Drink II	2	2	0
12. Fertilizers	3	2	1
13. Pesticides	3	3	0
14. Cattlefeed	2	2	0
15. Batteries	4	3	1
16. Lamps	4	3	1
Average	3.19	2.8	0.38

*In five companies, the dominant channels are the longest channels.

4.1.1.16. <u>Consumer Durables and Semi-industrial Products</u>

The product lines involved in this category are fan, TV and Radio, tyres paints and watermeter. Six firms have been included in this category. The dominant channel for TV and Radio has two levels involving distribution from company sales branch to dealers. The firm, however, uses main dealers or C & F agents between the sales branch and the dealers in certain geographic markets, thus adding one more level. The small scale fan unit has been selling the bulk of its output through the retail outlets owned by the parent corporation. It has introduced recently an indirect channel, where the company supplies directly to retail dealers. In both cases the company has only one intermediate level between the factory and the consumer.

4.1.1.17. For tyre, the dominant channel is also the longest channel and the intermediate levels are the company sales branch and the dealer. The dominant mode of distribution for the two small scale paint units is direct supply to retail dealers. In the longest channel the company uses wholesale intermediaries. Although the leading paint manufacturers operate through sales branches, the small firms under study do not have the internal wholesale organisation. Thus, the dominant channel has only one intermediate level while the longest channel has two levels.

4.1.1.18. Obviously, the length of channels among the firms in this group is much less compared to the channels of consumer nondurables. The average number of intermediaries used by the manufacturers of consumer durables and semi-industrial products in their dominant channels is one. (Table 2.3.) When the wholesale or retail levels in the internal organisations are also added, the average length of the dominant channels increases to 1.5 levels. As indicated in Table 2.3, the longest channels used by firms in this group have an average length of 2.16 levels, but the number of intermediaries used are only 1.67 on the average, including both wholesale and retail intermediaries.

4.1.1.19. Industrial goods

Eight firms have been included in this category and the product lines involved are transformers, electro-mechanical components, power cables, chemicals and power tillers. The intermediaries involved in the channels are wholesale intermediaries. As shown in Table 2.4, except for power tillers, there are no intermediate levels in the dominant channels for any of the companies. The supply is direct from the factory to the customer and no factory has a network of sales branches although some of them employ salesforce. In the case of

Table No.2.3

Number of Levels and Intermediaries - Consumer Durables and Semi-industrial Products

Firms	Dominant Channels		Longest Channels		Levels in Internal Organisation.
	No. of Levels	No. of Intermediaries	No. of levels	No. of Intermediaries	
TV & radio	2	1	3	2	1
Fan	1	0	1	1	1
Tyre	2	1	2	1	1
Paint I	1	1	2	2	0
Paint II	1	1	2	2	0
Watermeter	2	2	3	2	0
Average	1.5	1.0	2.16	1.67	0.5

Table No.2.4

Number of Levels and Intermediaries - Industrial Goods

Company	Dominant Channels No. of Levels	Dominant Channels No. of Intermediaries	Longest Channels No. of Levels	Longest Channels No. of Intermediaries	Internal Wholesale Branch
1. Transformers I	0	0	1	1	0
2. Transformers II	0	0	1	1	0
3. Electromechanical components	0	0	3	3	0
4. Cables I	0	0	0	0	0
5. Cables II	0	0	2*	1	0
6. Chemicals I	0	0	1	1	0
7. Chemicals II	0	0	2	2	0
8. Power tillers	1	1	1	1	0
Average	0.13	0.13	1.38	1.25	0

* The selling agent and the agent's sales branches are treated as two levels.

power tillers, the intermediaries used are either private dealers, or state agencies such as agro-industries corporations, and the latter is more dominant.

4.1.1.20. In the category of longest channels, all firms use intermediaries, except a producer of telephone and power cables who employs only direct distribution from factory to consumers. The two manufacturers of transformers use manufacturers' agents to negotiate with distant customers. The indirect channels for electro-mechanical components sometimes involve stockists, dealers and subdealers. One of the two producers of power cables employs a selling agent with branch network. The indirect channel for carbon black involves consignment stockists. Another manufacturer of chemicals uses a channel involving dealers and brokers between the producer and industrial buyer. As Table 2.5 indicates, the average number of intermediaries used in the longest channels is 1.25 and the average number of levels is 1.38. The difference between the two is on account of an additional level in the channel for power cables represented by the branch network of the selling agent.

4.1.1.21. Industry Groups

There are significant differences in the length of channels in the various industry groups. The

Table No.2.5

Average Number of Levels and Intermediaries in the Channels for Different Industry Groups

Industry Group	Dominant Channel		Longest Channel	
	Average No. of Levels	Average No. of Interme-diaries	Average No. of Levels	Average No. of Interme-diaries.
1. Consumer Nondurables	2.5	2.13	3.19	2.8
2. Consumer Dur-ables and Semi-indust-rial goods	1.5	1	2.16	1.67
3. Industrial Goods	0.13	0.13	1.38	1.25
Average for all Companies	1.67	1.37	2.5	2.17

results of the analysis so far has been summarised in Table 2.5.. It is fairly evident that channel length is relatively more for consumer durables and least for industrial products. For instance, in the dominant channels, the average number of intermediaries for consumer nondurables is 2.13 and for consumer durables and semi-industrial products, it is one; for industrial goods it is 0.13. The number of levels on an average for these groups is 2.5, 1.5 and 0.13 respectively.

~~4.1.1.21~~. Further analysis of the longest channels, however, shows that all firms producing consumer non-durables have multilevel channels (Table 2.6) Manufacturers of consumer durables and semi-industrial products also have multilevel channels, except in the unique case of a small scale fan unit, selling its limited output in the local market without involving any wholesale level in its channel structure. It is evident that the firms without multistage channels are in the group of industrial goods manufacturers.

4.1.1.22. Based on Averages

Judged by the averages (Table 2.5), multi-level channels do exist among the firms. Taken together, the average number of intermediaries as well as levels are more than two in the longest channels and they are more than one in the dominant channels. Considering the

Table No.2.6

Frequency Distribution of Number of Levels in the Longest Channels - Different Industry Groups

No. of Firms : 30.

Number of Levels in the longest channels.	Frequency			
	Consumer Nondurables.	Consumer Durables & semi-industrial products	Industrial Goods	Total
0	0	0	1	1
1	0	1	4	5
2	3	3	2	8
3	8	2	1	11
4	4	0	0	4
5	1	0	0	1
Total	16	6	8	30

longest channels, all industry groups invariably indicate the prevalence of multilevel channels. However, when the dominant channels are considered, industrial goods are exceptions. Judged solely by the average number of intermediaries, consumer durables and semi-industrial goods are also exceptions. Yet, as the hypothesis relates to the number of levels, and not the number of intermediaries, the indications are in favour of the hypothesis, particularly with reference to the longest channels.

4.1.1.23. Frequency Distribution in Terms of Number of Levels

The available data can be analysed from a different perspective, namely, based on the frequency distribution in terms of the number of levels and intermediaries. When the number of levels are considered, except five firms (20 percent) all others have two or more levels in the longest channels (Table 2.7). In the dominant channels, however, 13 firms (43.33 percent) do not have two or more levels (Table 2.8). Thus, 80 percent of the firms in the longest channels and 56.67 percent in their dominant channels have multilevels. Here also the data is more in support of the hypothesis than otherwise.

Table No.2.7

Number of Levels in the Longest
Channels - Frequency Distribution

No. of firms : 30

Number of Levels	Frequency	Percentage	Cumulative Percentage
0	1	3.33	3.33
1	5	16.67	20.00
2	8	26.67	46.67
3	11	36.67	83.33
4	4	13.33	96.67
5	1	3.33	100.00

Table No.2.8

Number of Levels in the Dominant Channels - Frequency Distribution

No. of firms : 30

Number of Levels	Frequency	Percentage	Cumulative Percentage
0	7	23.33	23.33
1	6	20.00	43.33
2	11	36.67	80.00
3	2	6.67	86.67
4	4	13.33	100.00
5	0	0	100.00

4.1.1.24. Frequency Distribution in Terms of Number of Intermediaries

In terms of the number of intermediaries used, 26.67 percent of the firms in their longest channels and 53.33 percent in their dominant channels have less than two intermediaries, the number of intermediaries is either one or none (Table 2.9 . Stated conversely, 73.33 percent of the manufacturers have two or more middlemen in their longest channels; however, only 46.67 percent of the firms have two or more intermediaries in their dominant channels. In the strict sense, the first part of the hypothesis refers only to the number of levels and not to the number of intermediaries, further, the prevalence of two or more levels in the longest channels is sufficient to support the hypothesis. Here, since 73.33 percent of the firms engage two or more intermediaries in their longest channels, the evidence is much in favour of the first part of the hypothesis (H.2.1.1.).

4.1.1.25. On the whole, the data support the hypothesis pertaining to the prevalence of multilevel channels. The evidence is overwhelming in support of the assumption when the longest channels of the manufacturing firms are considered. However, the longest channels are not often the most significant channels in terms of

Table No.2.9

Number of Intermediaries - Frequency Distribution

Number of Intermediaries	Longest Channels		Cumulative percentage	Dominant Channels		Cumulative percentage
	Frequency	Percentage		Frequency	Percentage	
0	1	3.33	3.33	8	26.67	26.67
1	7	23.33	26.67	8	26.67	53.33
2	10	33.33	60.00	9	30.00	83.33
3	11	36.67	96.67	5	16.67	100.00
4	0	0	96.67	0	0	100.00
5	1	3.33	100.00	0	0	100.00
Total	30	100.00	100.00	30	100.00	100.00

the sales volume. From the perspective of channel efficacy, the pertinent channel is the dominant channel. Further, when a reference is usually made to the number of levels in marketing channels, what is implied is the number of intermediaries used, and not the number of levels as defined in this study. Obviously, the focus of analysis now turns to the number of intermediaries in the dominant channels.

4.1.1.26. First, more than fifty percent of the firms have either one intermediary or no intermediary in their dominant channels. As shown by Table 2.9, only 14 out of the 30 firms have two or more intermediaries in their dominant channels. It is significant to note that there is not even a single firm which engages more than three intermediaries in the main channels. On the whole, while 25 firms have two or less intermediaries, five firms have three intermediaries in the dominant channels. Even when the longest channels are considered, there is only one firm that engages more than three intermediaries, These observations call into question the prevailing assumption about the excessive number of intermediaries in the channel structures of Indian manufacturing firms.

4.1.1.27. Frequency distribution of the number of intermediaries in the channels of the firms covered by the study indicates that with one exception, all firms use three or less intermediaries in their longest channels (Table 2.9). Sixty percent of the manufacturing firms use two or less middlemen in their longest channels, and 26.67 percent of the firms have only one intermediary.

4.1.1.28. In the main channels, the number of middlemen are still less (Table 2.9). No firm has more than three middlemen in their dominant channels. Only five firms have three intermediaries each, and all others (83.33 percent) have two or less middlemen. In fact, eight firms (26.67 percent) use no middlemen, eight firms (30 percent) use two middlemen each.

4.1.1.29. The empirical findings fairly indicate that the number of intermediaries do not normally exceed three. However, the prevailing notion popularised by the literature on marketing, especially based on the study of Hirsch, envisages more intermediaries in the channel structures of Indian firms. As this study does not cover a large number of industries, there are constraints in making broad generalisations. However, it can be concluded that the prevailing assumptions about the excessive number of levels in the marketing channels of manufacturing firms in India are not true, based on the evidences available with reference to the industries and firms under study. Multilevel channels do exist among the firms under study, but the number of intermediaries are not as many as reported in the marketing literature. These findings support the hypothesis (H.2.1.1).

4.1.2.0. <u>Wholesale Structure</u>

4.1.2.1. The frequency distribution of the number of wholesale intermediaries in the longest channel of each company reveals certain pertinent facts (Table 2.10). Except for two firms, all other firms have two or less wholesale intermediaries. Fourteen firms have only one wholesale intermediary each and three firms use no wholesalers at all. Thus, in the longest channels, 17 firms (56.67 percent) have wholesale middlemen either one or none. The longest channels of 11 firms (36.67 percent) have two wholesalers each. There is indeed one company with a whilesale structure having four intermediaries and another with three. Obviously only 13 firms (43.3 percent) have multilevel wholesale intermediaries in their distribution systems.

4.1.2.2. Multistage wholesale structures exist most often in the distribution channels of consumer nondurables. Among the 13 manufacturers with multilevel wholesale intermediaries, 11 are indeed manufacturing

Table No.2.10

Wholesale Intermediaries in the Longest Channels - Frequency Distribution in Industry Groups

No. of Firms : 30

Number of wholesale Intermediaries in the longest channels.	F r e q u e n c y				
	Consumer Non-durables	Consumer durables and emi-industrial goods	Industrial goods	Total	Percentage
0	0	2	1	3	10.00
1	5	4	5	14	46.67
2	10	0	1	11	36.67
3	0	0	1	1	3.33
4	1	0	0	1	3.33

firms of consumer nondurables. The other two are manufacturers of industrial goods. None of the six firms in the category of consumer durables/semiindustrial products has more than one wholesale intermediary even in the longest channels. Obviously, multilevel wholesale structures appear to be a conspicuous feature of the channels of consumer nondurables. Not all industries and companies in this group, however, have channels with multilevel wholesale intermediaries (Table 2.11). Manufacturers of soft drinks, fertilizers and cattlefeed do not use more than one wholesale intermediary in any of their channels. Manufacturers of pharmaceuticals, bread, jams and syrups, pesticides, batteries and lamps and two firms producing soaps - all have wholesale intermediaries at two levels in their longest channels. It is the biscuit manufacturer who uses a channel with four wholesale middlemen.

4.1.2.3. Among the six firms comprising the group of consumer durable and semi-industrial products, manufacturers of tyre and fan do not employ wholesale middlemen in any of their channels. (Table 2.12). Manufacturer of TV and radio, paint and watermeter use one wholesaler each in their longest channels.

4.1.2.4. The two instances of channels with multilevel wholesale intermediaries among manufacturers of industrial

Table No.2.11

Number of Wholesale Intermediaries in the Dominant Channels and the Longest Channels - Consumer Nondurables

Company	Longest Channels: Wholesale Intermediaries	Longest Channels: Wholesale Levels	Dominant Channels: Wholesale Intermediaries	Dominant Channels: Wholesale Levels	Manufacturers' Wholesale Branch
1. Soap I	1	2	1	2	1
2. Soap II	2	3	2	3	1
3. Soap III	2	3	2	3	1
4. Pharmaceutical I	2	2	1	1	0
5. Pharmaceutical II	2	2	1	1	0
6. Pharmaceutical III	2	2	1	1	0
7. Biscuit	4	4	2	2	0
8. Bread	2	2	1	1	0
9. Jams & Syrups	2	2	1	1	0
10. Soft Drink I	1	1	1	1	0
11. Soft Drink II	1	1	1	1	0
12. Fertilizers	1	2	0	1	1
13. Pesticides	2	2	1	1	0
14. Cattlefeed	1	1	1	1	0
15. Batteries	2	3	2	3	1
16. Lamps	2	3	2	3	1
Average	1.8	2.19	1.25	1.63	0.38

Table No.2.12

Number of Wholesale Intermediaries in the Longest Channel - Consumer Durables and Semi-industrial Goods

Company	Longest Channels		Dominant Channels		Manufacturers' Wholesale Branch
	Wholesale Intermediaries	Wholesale Levels	Wholesale Intermediaries	Wholesale Levels	
1. TV & Radio	1	2	0	1	1
2. Fan	0	0	0	0	0
3. Tyre	0	1	0	1	1
4. Paint I	1	1	0	0	0
5. Paint II	1	1	0	0	0
6. Watermeter	1	2	1	1	1
Average	0.67	1.17	0.17	0.5	0.5

goods occur in the distribution systems of a manufacturer of chemicals and a producer of electromechanical components (Table 2.13). In all other cases the longest channels, invariably the indirect channels, consist of one wholesale middleman, except in the case of a single firm that uses only direct channel. Producers of transformer and power tillers, one of the two cable manufacturers and one of the two chemical firms - all employ indirect channel with one intermediary each.

4.1.2.5. Multilevel Wholesale Intermediaries in the Dominant Channels

The field survey indicates that there is not a single firm that uses more than two levels of wholesale intermediaries in the dominant channel. In fact 25 firms (83.33 percent) out of 30 do not have any multilevel wholesale intermediaries in their main channels (Table 2.14). Industry-wise analysis reveals that all the five instances of multilevel wholesale structures of intermediaries occur among firms producing consumer nondurables. Firms which use two wholesalers each are manufacturers of soaps, biscuits, batteries, and lamps. Further, it appears that firms in the other two categories seldom use wholesale intermediaries in their dominant channels. Only one firm each from these categories uses a wholesaler in the main channel and they are the producers of watermeters and power tillers.

Table No.2.13

Number of Wholesale Levels for Industrial Goods

Company	Wholesale Intermediaries in the Longest Channel	Wholesale Intermediaries in the Dominant Channel	Manufacturers' Wholesale Branch	No. of wholesale levels including Sales Branches
1. Transformers I	1	0	0	1
2. Transformers II	1	0	0	1
3. Electromechanical components	3	0	0	3
4. Cables I	0	0	0	0
5. Cables II	1	0	0	1
6. Chemicals I	1	0	0	1
7. Chemicals II	2	0	0	2
8. Power tillers	1	1	0	1
Average	1.25	0.13	0	1.25

Table No.2.14

Wholesale Intermediaries in the Dominant Channels - Frequency Distribution in Industry Groups

No. of Wholesale Intermediaries in the Dominant Channels	Frequency				
	Consumer Nondurables.	Consumer durables and Semi-industrial Goods	Industrial Goods	Total	Percentage of Total
0	1	5	7	13	43.33
1	10	1	1	12	40.00
2	5	0	0	5	16.67
3	-	-	-	-	0.00
	16	6	8	30	100.00

4.1.2.6. Manufacturers' Wholesale Branches

Levels in the wholesale structure increases when the manufacturers' wholesale branches are taken into consideration. Of the 30 firms, nine firms have sales branches which replace one or even more intermediaries in the wholesale structure. Of the 16 manufacturers of consumer nondurables, six firms have networks of wholesale branches; they are manufacturers of soaps, batteries, lamps and fertilizers. Among the six units in the category of consumer durable and semi-industrial products, three manufacturers (producers of TV and radio, tyre and watermeter) have wholesale branches. None of the producers of industrial goods has any sales branch.

4.1.2.7. Wholesale levels

Naturally, the number of stages in the wholesale structure increases as the sales branches are also considered. As Table 2.15 indicates,43.33 percent of the firms in their longest channels and 80 percent in their dominant channels do not have multilevel wholesale structures. Only six firms (20 percent) in their longest channels and four firms (13.33 percent) in their dominant channels use more than two wholesale levels. However, there is indeed one manufacturer with four levels in its longest channel.

Table No.2.15

Wholesale Levels

Number of firms : 30

Number of Wholesale Levels	Dominant Channels		Longest Channels	
	Frequ-ency	Percen-tage	Frequ-ency	Percent-age
0	10	33.33	2	6.67
1	14	46.67	11	36.67
2	2	6.67	11	36.67
3	4	13.33	5	16.67
4	0	0	1	3.33
Total	30	100.0	30	100.0

4.1.2.8. Industry Group Comparison

Industry-wise analysis of the average number of wholesale levels yields significant results (Table 2.16). The maximum number of wholesale levels are found in the channels of consumer nondurables. The longest channels of the manufacturers of consumer nondurables, consumer durable and semi-industrial products and industrial goods involve, on an average, 1.8, 0.67 and 1.25 wholesale intermediaries respectively. In the dominant channels the average number of intermediaries are obviously less with 1.25, 0.17 and 0.13 for the different groups respectively. In terms of wholesale levels also, manufacturers of consumer nondurables are quite distinct; the averages for the different groups are 2.19, 1.17 and 1.25 respectively.

4.1.2.9. The specific industries with multistage wholesale structures in the dominant channels are soaps, biscuits, lamps and batteries (Table 2.11). In certain other industries, multilevel wholesaling occurs in their secondary channels. Pharmaceuticals, chemicals, electromechanical components and watermeters, food products such as jams and syrups and bread, and agricultural inputs such as fertilizers and pesticides are some of the industries where the longest channels, often the secondary channels, sometimes involve multistage wholesale structures.

Table No.2.16

Average Number of Wholesale Levels and Intermediaries in Different Industry Groups

Type of Company	Average No. of Wholesale Intermediaries in the Longest Channels.	Average No. of Wholesale Intermediaries in the Dominant Channels	Average No. of Wholesale levels including Manufacturers' Sales Branches in the longest Channel.
Consumer Nondurables	1.8	1.25	2.19
Consumer Durables and Semi-Industrial products	0.67	0.17	1.17
Industrial Products	1.25	0.13	1.25
All firms	1.43	0.73	1.73

The two level wholesale structure in the case of TV and radio appears to be a freak phenomenon. Among the 15 industries classified in the previous chapter (3.1.1.32,Table 1.4) multistage wholesale structures seem to exist in nine industries.

4.1.2.10. In summary, 80 percent of the firms do not have multistage wholesale structures in their dominant channels and 43.3 percent of the firms do not have them in their longest channels. Similarly, six out of the fifteen industries considered have no multistage wholesaling. Limiting the analysis to the number of wholesale intermediaries, it is found that 25 firms (83.33 percent) in their dominant channels and 17 firms (56.67 percent) in their longest channels, do not have two or more wholesale intermediaries. Obviously, the hypothesis which states that there exist multistage wholesale intermediaries in the distribution systems of the companies under study is not supported by the data. However, the fact remains that 17 manufacturing firms among the 30 surveyed have two or more wholesale levels, not intermediaries, in their longest channels, when the manufacturers' sales branches are also taken into account.

4.2.0. DEVELOPMENT

4.2.1 Additions and Deletions of Intermediaries

The distribution structure in an economy appears to reflect the stage of economic development. Wadinambiaratchi found evidence to believe that there is a regular pattern of distribution that is more or less unique at each stage of economic development[15]. But it is often postulated that the primitive stage of an economy is characterised by short channels, the developing stage by long channels and an advanced stage by short channels.

4.2.2. In a primitive economy, the producer deals directly with the consumer, and middlemen take no part in the transaction. In the medieval period, as the handicrafts became specialised occupations under a town-market regime, the producer also assumed the role of a retailer and sold directly to the consumers. As the market widened, a division of labour became necessary, and the merchant appeared as an organiser of the market. In the early days of the factory system when the mercantile capitalists became producers, they lost their character as merchants and they began to concent-

[15]George Wadinambiaratchi, "Channels of Distribution in Developing Economies", The Business Quarterly, Vol.30 (Winter 1965), p.78.

rate on the problems of production. Thus, selling came to be bifurcated from production.

4.2.3. At this stage, the selling agent appeared as a link in the chain of distribution. He distributed the products among wholesalers and they, in turn, distributed it to retailers, and the retailers to the consumers. This may be termed the orthodox pattern in distribution, a pattern almost universal in the nineteenth century.

4.2.4. Conversely, as the long period of development from a system of barter economy to the early stage of the factory system showed a continuous tendency towards increase in the number of middlemen intervening between the producer and the consumer. recent years have shown a growing tendency to decrease the number of successive steps in distribution[16].

4.2.5. The distribution structures of underdeveloped economies are often found multi-level, perhaps containing four or five stages between manufacturers and small retailers. To a lesser extent, this was also true of the American economy in earlier years. The early domination of the full service wholesaler in the American economy was challenged from both sides of the market by the gradual emergence of largescale

[16] Arch W. Shaw, "Some Problems in Market Distribution", Robert J. Holloway and Robert S. Hancock (eds), The Environment of Marketing Behaviour, (New York, John Wiley &Sons, 1977), p.7.

retailers and manufacturers who attempted to absorb some of the wholesale functions. The same has happened in other economies. Wholesalers came under similar pressures in Germany, Italy and Israel[17]. It has happened in Great Britain and Japan also,as explained in Chapter I of this study. But these developing countries are economies of scarcity. Retailers are typically small and scattered. Consequently, the wholesaler is the activist and the dominant factor in the channel.

4.2.6. Edwin Lewis postulates that channels of distribution are likely to be longer in the less-developed countries, and two or more wholesalers may be used. As countries develop, the smaller wholesalers, especially of the subwholesaler type, tend to be eliminated. The remaining wholesalers become larger and stronger, except in fields where large-scale retailers buy directly from manufacturers[18].

4.2.7. Indian Experience

A review of Indian business history appears to show that there has been a progressive reduction in the number of links in the distribution channels. Latif

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[17] Edwin H.Lewis, "Channel Management By Wholesalers", Robert King (ed), Marketing and the Science of Planning, (Chicago, American Marketing Association, 1968) p.138.

[18] ________, Marketing Channels: Structure and Strategy, (New York, McGraw-Hill Book Company, 1968) p.54.

refers to the structure of distribution during the early years of independence[19]. He indicates four levels of intermediaries in the Indian distribution system for consumer goods:

1. The port town importers of Bombay, Madras and Calcutta who once indented on foreign manufacturers. In due course, as Indian Industry began to grow, they started buying locally too.

2. The distributors located in some main upcountry towns who undertook distribution in their areas.

3. The wholesalers in big and small towns who usually bought from the distributors and sold partly in retail but largely to retailers in their own towns, neighbouring villages and satellite markets.

4. Retailers all over the country.

4.2.8. Although this was broadly the pattern of distribution in the initial years of industrialisation, subsequent developments in the economy have brought about considerable changes in the vertical structure

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[19] T.A.A. Latif, The Practice of Marketing, (New Delhi, S. Chand &Company Ltd., 1976) p.205.

of distribution channels. Changes were in the offing even before independence. During the days of the nationalist boycott of foreign goods, certain big companies such as Hindustan Lever, started opening their own depots in port towns, thus severing the link of port town importers, particularly when manufacturing in India gained momentum. Later, when market began to grow and marketing began to spread wide and deep, manufacturers ceased to use the provincial distributors and went straight to the town wholesalers.

4.2.9. The little empirical evidence available from two sources may perhaps clarify the issue further. During the early sixties, Hirsch[20] found the Indian distribution structure dominated by the selling agents. Lack of emphasis on marketing functions had created a vacuum in the distribution system. The selling agents who for all practical purposes functioned as the selling arms of the factories filled this gap. While sole-selling agents were responsible for selling the entire output of a manufacturer, selling agents were assigned distribution tasks pertaining to specific regions. In between the selling agent and the wholesaler, there were brokers who helped to mediate sales transactions between them. While the large wholesalers confined their

[20] Hirsch, Op.cit., pp.137-53.

operations to purely wholesale functions, smaller wholesalers used to sell at retail also. They were in fact subwholesalers. Thus, the multilevel wholesale structure that existed at the time of Hirsch's study involved the selling agents, brokers, wholesalers, and Subwholesalers.

4.2.10. By the time Kacker[21] undertook a study of the marketing practices of the Indian subsidiaries of American transnational corporations, during the early 1970's, the importance of some of these wholesale levels seems to have come down, and the number of links in the channel structure appears to have been reduced. The study reported the existence of 'sole distributors' for marketing most consumer and semi-industrial goods, manufactured by the multinational subsidiaries. The sole distributor primarily acted as the sole selling agent. Two types of stockists were also reported in the study; the wholesale stockist for the large towns and substockists for the smaller towns. The main substockists were supposed to work under the direction of the town stockists. Obviously, the broker, who earlier facilitated the negotiation between the selling agent and the wholesaler seems to have been bypassed by that time. Or, he did not play any role in the distribution of consumer goods, even earlier. The study further

[21]Kacker, Op.cit., p.86

reported the tendency of some of the leading manufacturers to bypass the entire wholesale superstructure and sell direct to retailers at least in some major cities. The tendency is obviously towards a reduction in the number of levels in the channel structure.

4.2.11. Elimination of links from the channel structure need not necessarily follow the course of economic evolution. Conceptually, the length of channels can take opposite courses: additions as well as deletions of channel intermediaries. Growth of the firm and expansion of the market can lead to addition of links in the channels. Reduction in the number of levels may result from further growth of the firm and the adoption of the marketing concept as well as the development of a mass market.

4.2.12. Factors leading to the Reduction of Levels in the Channel Structure

1. Initially, where the manufacturer lacks information about the market conditions, the distribution task would be delegated to selling agents, but as the company gains knowledge about the market, this link of agent may be eliminated.

2. If the appropriate channel with the optimal length is not available for a marketer at the time of introduction of a product, there would be subsequent reduction in the number of links in the channel as the company gains market power.

3. With improvement in the financial position, marketing knowhow and product mix, there would be reduction in the number of levels in its channel structure.

4. Changes in the product life cycle might necessitate revision of channel structure and reduction in the number of links.

5. As competition increases there would be an attempt to reduce the number of levels.

6. Manufacturers generally believe that by eliminating certain links, particularly in the multistage wholesale structure, greater efficiency in distribution can be achieved.

7. Change in the marketing policy leading to a decision to use exclusive or selective distribution for the purpose of greater channel control would result in reduction of channel length.

8. Improvement in the operational efficiency of middlemen and the growth in the size of intermediaries would lead to a reduction in the number of links, particularly in the multistage wholesaling.

9. Changes in the consumer buying pattern might favour elimination of certain links in the channel structure.

10. The stage in the life cycle of an industry also has an impact on the number of levels in the channel: There is a tendency for shorter channels at the introductory stage of an innovative industry. More links are added at the growth stage of the industry. The maturity stage is sometimes characterised by vertical integration.

4.2.13. Factors Influencing the Addition of Levels in the Distribution Structure

1. With increase in general demand for a product, companies are forced to follow intensive distribution and as a result more wholesale intermediaries are added to the channel structure.

2. As the market expands geographically from the urban captive markets to satellite towns and villages, more levels are added.

3. When small firms which have been confining their distribution to local markets increase volume and seek distant markets, they are forced to add more levels in their channel structures.

4.2.14. Since opposing forces for additions and deletions of levels of intermediaries act upon the structure of distribution in a developing economy, the following hypothesis has been set for empirical testing:

H.2.2.1. "There have been additions as well as eliminations of levels in the marketing channels of the manufacturing firms under study".

4.2.15. Empirical Analysis : Elimination of Links

The length of marketing channels of some manufacturing firms has been reduced by eliminating certain levels of intermediaries. It has already been noted in the previous chapter that many instances of channel replacements and additions involved the elimination of certain intermediaries and levels. Among the 27 relevant companies which have been in existence for more than four years, eliminations of intermediaries from the distribution channels have taken place in eight companies. However, the constraint is that not all changes in channels could be properly traced.

4.2.16. It is pertinent to note that most of the intermediaries eliminated were of the primary wholesaler type (Table 2.17). For instance, the pesticide manufacturer eliminated the sole selling agent who was distributing most of the output. However, the agency has been retained as selling agent, for, one of the products; in this case the technology and brand name belongs to the agency. Similarly, one of the manufacturers of transformer had been distributing its output through sole selling agent; but the agency was subsequently eliminated. Selling agents were eliminated from the channels of power tillers as well. A public sector pharmaceutical concern had distribution arrangement with a leading producer of the same line of products where the large manufacturer acted as selling agent for the relatively small producer . The distribution arrangement with the selling agent was dropped later.

4.2.17. Another type of intermediary that has been eliminated is the distributor for an entire State or few districts. Such intermediaries have been eliminated from the channels of soaps and batteries. Yet another agency eliminated from the channels of batteries was the clearing and forwarding agent who also was

Table No.2.17

Elimination of Intermediaries

S. No.	Company	Agency Eliminated	Reasons for Elimination	Stage of Growth of the Company
1.	Soap III	State-level distributors	1. Market Expansion 2. Increase in competition	Growth
2.	Pharmaceuticals II	Selling Agent	Monopoly market in Kerala	Growth
3.	Bread	Wholesalers (in certain areas)	With increase in demand Company was able to sell direct to retailer in local market	Maturity
4.	Fertilizers	Private Agents (Wholesaler)	Inefficiency and malpractices	Growth
5.	Pesticides	Sole Selling Agent	1. Legal restriction 2. Better access to public sector customer	Growth
6.	Batteries	State level distributors & C & F Agents	Market Expansion; increased competition	Take-off
7.	Power Tillers	Selling Agents	Costly and ineffective	Take-Off-
8.	Transformer I	Sole selling agent	Poor performance, High margin	Growth

operating mostly at the state level. The State level distributors and clearing and forwarding agents too are treated as primary wholesalers, as they occupy the highest level in the wholesale structure and operate between manufacturers and regular wholesalers. Wholesalers of the secondary type, operating in limited geographic territories, were eliminated from the channels of two manufacturers, the fertilizer unit and the manufacturer of bread. It is evident that out of the eight companies that eliminated certain intermediaries from their channels, six firms eliminated intermediaries of the primary wholesaler type in seven instances: two cases of sole selling agents, two cases of selling agents, two cases of state level distributors and one instance of clearing and forwarding agent.

4.2.18. Reasons for Elimination

Different reasons have been pointed out for the elimination of these intermediaries. Except where the selling agents were manufacturers and marketers of the same line of products, the primary reasons for eliminating the selling agents were poor performance and high margin. This happened in the cases of transformers and power tillers. The reason for eliminating selling agency operations in the distribution channels of private sector companies in certain industries was the immediate provocation. Further, their public sector customers preferred to deal directly with the manufacturer than through an agent. For the public sector pharmaceutical corporation, a monopoly market had developed in the State sector, and therefore, the marketing arrangement with the larger public sector corporation was severed.

4.2.19. In the case of the manufacturers of soaps and batteries who eliminated the links of State or district level distributors the pressures for elimination were exerted by market expansion and increased competition. For the same reason, clearing and forwarding agents were bypassed in the channels for batteries. These intermediaries were not sufficient to meet the challenge. Unsatisfactory performance and grave malpractices of the private wholesale agents forced the public sector fertilizer corporation to eliminate the link. With respect to the manufacturer of bread, increased demand in the urban local market enabled the company to sell directly to retailers, thus eliminating the wholesalers in the local market.

4.2.20. In advanced societies, it is indeed the wholesale intermediaries who are often eliminated; but there,the wholesalers are eliminated from the channels of consumer goods in order that the manufacturer can deal directly with the retailers. In the present study, there is only one instance where a wholesale intermediary had been eliminated with the primary objective of direct distribution to retailers - that is the producer of bread. In the case of the fertilizer manufacturer, though the primary objective was different, the elimination of wholesalers led to direct distribution to retailers in some geographical areas. All other firms eliminated intermediaries of the primary wholesaler type. It is pertinent to note that reducing the cost of distribution was seldom the explicit objective of eliminating levels.

4.2.21. It should, however, be noted that the elimination of intermediaries does not necessarily reduce the number of levels. Sometimes, an intermediary is replaced by the manufacturers' sales branch. This happens particularly when primary wholesalers are eliminated. In this study, however, there are only two instances where the manufacturers' sales branch replaced an intermediary; it happened in the case of the manufacturers of soaps and batteries when the State level distributors of the primary wholesaler type were replaced. In all other cases the number of levels in the channels have been reduced by the elimination of intermediaries. Obviously, the eliminations of intermediaries have reduced the number of levels in the channels in all cases except two.

4.2.22. Addition of Links

The field survey seems to indicate that certain intermediaries had been added in the channels of some manufacturing firms. Addition of links refers to the addition of level or intermediary to the existing channels. However, when a new intermediary is added to an existing channel, a new channel is created, unless the previous channel is replaced by the new channel. Another situation is that one intermediary is added but another intermediary is eliminated at the same level. This is not treated as an addition of an intermediary but only as the replacement of one intermediary by another; there is no addition in the number of levels. The addition of a link leads to an increase in the length of an existing channel.

4.2.23. Apparently, intermediaries have been added in the channel structures of many firms. But in most cases the addition of levels to the existing types of channels have led to the formation of new channels rather than increasing the length of the existing channels. The study makes a survey of the apparent additions of links in the channel structures (Table 2.18).

4.2.24. The manufacturer of soap who was initially selling the product directly to retailers added wholesalers to their channels thus apparently increasing

Table No.2.18

Addition of Intermediaries in the Channels

S. No.	Firms where inter-mediaries were added	Agencies Added	Result	Stage of Growth of company
1.	Soap I	Wholesalers	New channel	Take-off
2.	Pharmaceuticals I	a. Distributors b. Super-stockists	Level added New channel	Take-off Growth
3.	Pharmaceuticals II	Distributors	New Channel	Growth
4.	Pharmaceuticals III	Super-stockist	New Channel	Growth
5.	Pesticide	Dealer (for one product	New Channel	Growth
6.	TV and Radio	Main Dealers	Additional funct-ions to existing retail dealers	Growth
7.	Fan	Dealers	New Channels	Take-off.

a level. However, it did not stop selling direct to retailers; hence the wholesaler channel was an additional channel. All the three pharmaceutical firms surveyed seem to have added some wholesale levels to their channel structures by adding certain intermediaries. One firm which was selling directly to retailers added distributors when the company reached the take-off stage. As direct sales to retailers ceased to exist, the addition of distributors was indeed an addition of a level. Two of these firms added super stockists in their traditional channels, but in these cases the additions led to the creation of new channels to enter distant geographic markets.

4.2.25. The public sector pharmaceutical company has recently added a channel involving distributors. This cannot be treated as addition of a level. The manufacturer of pesticides and chemicals added a channel involving dealers for one of its products which was earlier sold direct to bulk consumers. The small scale fan unit which had been selling the output directly, added a level by appointing dealers. However, the company has not stopped direct distribution. The TV and radio manufacturer added a new level by elevating some of their dealers as main dealers or clearing and forwarding agents and assigning certain wholesale functions to them. This can hardly be treated as an addition of a regular wholesale level, but only as addition of certain new functions to intermediaries who are essentially retail dealers.

4.2.26. In the strict sense, there has been hardly any addition of links; in almost all cases where intermediaries had been added to the existing channel,new channels had been created, except when one of the pharmaceutical companies introduced the wholesalers in between the company and the retailers during the company's take-off stage. So did the small scale soap unit, but it did not stop direct supplies to retailers.

4.2.27. The explicit objective of adding intermediaries in most cases was to create new channels with a view to enter new geographic markets or to cover the existing market more intensively. Naturally, these additions were made at the take-off or growth stages. Obviously, the addition of intermediaries has increased the number of channels, not the number of levels in existing channels, with the exception of a single firm.

4.2.28. Eliminations and additions of intermediaries occurred during the take-off and grwoth stages in all these firms, except one. Of the 16 instances of additions and deletions, 10 occurred during the grwoth stage, five at the take-off stage and one at the maturity stage (Table 2.19). These observations support one of the assumptions in the metamorphosis model. The assumption is that channel modifications involving additions or deletions of intermediaries take place predominantly at the growth stages[22].

4.2.29. Data reveal that there have been eliminations of intermediaries in the channels of eight companies, and that in six companies, the number of levels in the channels has been reduced. There have also been additions of intermediaries in the channel structures. These additions have often led to the formation of new channels with more number of levels. It is indeed true that additions of intermediaries have not led to the increase in the length of the existing channels. However, the result of additions of intermediaries have been the creation of longer channels, and levels have been added to existing type of channels. Thus, middlemen have been eliminated and the number of levels have been reduced; intermediaries have been added and longer channels have been formed. The results of the survey are more in support of the hypothesis than otherwise.

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[22] William E. Mathews, "Challenge for Industrial Marketers: Changing Channels of Distribution", Eugene J. Kelley and William Lazer, (eds) Managerial Marketing, (Homewood, Illinois, Richard D. Irwin Inc., 1973) pp.405-12.

Table No.2.19

Stage of Growth of the Company and Additions and Deletions of Intermediaries

S. No.	Particulars	Number of instances	Stage of grwoth of company		
			Take-off	Growth	Maturity
1.	Elimination of Intermediaries	8	2	5	1
2.	Addition of Intermediaries	8	3	5	0

4.3.0. DYNAMICS

4.3.1.0 Redundant Intermediaries and Cost Reduction

4.3.1.1. The question of unnecessary middlemen interposing themselves between the producer and the consumer has always baffled philosophers, economiests and political thinkers alike. The uneasiness about the role of the middlemen dates back at least, to Aristotle, and to-day it is reflected, in John Kenneth Galbraith's The Affluent Society[23]. This was one of the major issues that marketing had to resolve, during the formattive years of discipline. Weld's 1920 classic, The Marketing of Farm Products, addressed the macro issue, "Are there too many middlemen in food marketing?"[24].

4.3.1.2. Subsequently the issue was raised during development debates and deliberations on economic aid programmes. The studies that followed showed that many levels of intermediaries is a conspicuous feature of the marketing scene in developing economies. This multiplicity of intermediaries is often held responsible for the high cost of distribution and is widely regarded

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[23] Marshall I. Goldman, "Marketing - A Lesson for Marx", R.Clifton Anderson and Philip R.Cateora (eds), Marketing Insights, (New York, Appleton-Century-Croft, 1968) p.56.

[24] Shelby D.Hunt and John J.Burnett, "The Macromarketing/ Micromarketing Dichotomy: A Taxonomical Model", Journal of Marketing, Vol.46, (Summer 1982) pp.11-26.

as a major deterrent to efficiency in distribution. The argument is that unnecessary intermediaries place themselves within the distributive chain thereby raising its costs. As a corollary the compulsory elimination of these redundant intermediaries has been proposed in certain centres. Bauer poses the question: Why are the allegedly redundant intermediaries not by-passed by those with whom they deal? An intermediary will normally be used only if the price he charges for his service (that is, his margin) is less than the value his customers place on his service. He will be by-passed if he provides no services (that is if he is redundant), or if his services exceed the costs incurred by his customers when they performed these services for themselves[25].

4.3.1.3. The allegedly redundant intermediary necessarily must stand between another middleman and the producer, or between a middleman and the final consumer, or between two middlemen. At least one of the parties served by the supposedly redundant intermediary is himself an intermediary. Assuming that the average manufacturer does not know his marketing alternatives, a redundant intermediary would still be eliminated if his

[25] P.T.Bauer, "Some Aspects and Problems of Trade in Africa", Reed Moyer and Stanley C. Hollander (eds), Markets and Marketing in Developing Economies, (Homewood, Illinois, Richard D. Irwin, Inc. 1968) pp.55-56.

middleman customer could effect a saving by dealing direct. It is not likely that those who live by trading, and whose profits and livelihood depend on their margins, would ignore economic opportunities in their own field of business, or fail to take advantage of them. Thus an intermediary whose margin exceeds the value of his services to the parties served by him will be by-passed[26]. Apparently, the seemingly redundant intermediary is performing certain functions the value of which is more than the margin he takes.

4.3.1.4. We speak of 'value added by manufacture', but we ask, 'Does distribution cost too much'? [27] It is a widely held belief that cost could be reduced by eliminating middlemen in a distribution channel. Multiplicity of intermediaries is often held responsible for the high cost of distribution and is widely regarded as a major deterrent to efficiency in distribution. "In the flow of goods from the producer to the consumer, whenever the product stops in its movement, costs add up and service deteriorates. When the products are moving in a continuous flow, distribution service is at the highest level possible and costs are minimized"[28].

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[26] Ibid., pp.56-57.

[27] P.W. Stewart and J. Frederic Dewhurst, Does Distribution Cost Too Much?, (New York, Twentieth Century Fund, 1939) p.123.

[28] W.Clayton Hill, "Reorganizing Distribution for Higher Profits", J.H. Westing and Gerald Alabum (eds),

4.3.1.5. The transvection concept, originally conceived by Wroe Alderson, is relevant in this context. He believed that consideration should be given to the entire sequence of transactions from raw material stage through the final sale of the finished product. Apparently Alderson's major concern was with cost reduction by finding the optimal number of steps in the channel. This type of approach will disclose the total cost of the distribution process, for, it matches an original producer of raw material and an ultimate consumer through all of the transformations the material goes through, and the sorting processes performed by manufacturer, wholesaler and retailer[29].

4.3.1.6. Alderson used the term transvection to indicate the complete sequence from the sale of the raw material to the final sale of a finished product. "We are primarily concerned here with delineating a transvection which represents the shortest path to market, taking account of the several possible types of movement. ... A transvection has the optimal number of steps if costs cannot be decreased either by increasing or decreasing the number of steps"[30].

Modern Marketing Thought, (New York, The Macmillan Company, 1964), pp.300-301.

[29] Wroe Alderson, Dynamic Marketing Behaviour, (Homewood, Illinois, Richard D.Irwin Inc., 1965) p.22.

[30] ________, and Miles W.Martin, "Toward a Formal Theory of Transactions and Transvections," Journal of Marketing Research, Vol.2, (May, 1965) p.125.

4.3.1.7. Cutting distribution costs is a frequently lauded goal because efficiency is usually seen in the single dimension of lowered cost per unit of throughput. The transvection concept, when confined to the distribution process, helps to arrive at the optimal number of levels in the channel structure, in terms of cost. However, cost is not the only consideration while designing or evaluating channels. It has been commented: "If low cost is what is wanted, the transvection concept will provide it. If effectiveness is wanted the flow or systems concept will provide that"[31].

4.3.1.8 The value added to merchandise by the various stages of distribution, and the services rendered to customers, vary in accordance with the needs of consumers. Indeed, reductions in production costs are sometimes dependant on increases in distribution costs to help widen the market for a product. In many instances, production which aims to achieve the economies of scale cannot be undertaken until a wide distribution of the product is assured[32]. A relatively longer channel may be used to secure a market segment in a distant geographic

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[31] James A. Constantin, Rodney E. Evans and Macolm L. Morris, Marketing Strategy and Management, (Texas, Business Publications Inc., 1976) pp.275-76.

[32] Christina Fulop, Competition for Consumers, (London, George Allen and Unwin Ltd., 1964) pp.3-4.

area, thus extending the market. The cost of distribution cannot consequently be looked at in isolation. To the consumer the relevant consideration is the final price of the product. If a reorientation of production and distribution costs helps to reduce the price of the product, the actual percentage taken by each function becomes immaterial. On the contrary the sheer concern for reducing distribution cost may end up in increasing the cost of production and higher prices.

4.3.1.9. Inspite of such logical deliberations, the assumption regarding the existence of redundant intermediaries and the notion of cause-effect relationship between the length of channels and the cost of distribution seem to prevail. The study, therefore, set the following hypotheses:

H.2.3.1. "In the distribution channels, there exist redundant intermediaries who can be eliminated".

H.2.3.2. "Cost of distribution can be reduced by reducing the number of levels in the channel structure".

4.3.1.10. Empirical Results

The results of the survey have already indicated that some manufacturers have eliminated certain intermediaries from their channels. This does not, however, imply that the eliminated intermediaries were actually redundant middlemen. As their services were no longer needed, or as their performance of functions were not satisfactory,they were eliminated. Availability of better alternatives was perhaps another reason. The manufacturers who are using such intermediaries are the best critics of the services they get from the middlemen. To verify the two hypotheses, the opinions of the executives were sought. The respondents were asked to comment on two issues: first, the possibility of reducing the cost of distribution by eliminating any intermediary in any of their channels; second, the existence of any redundant intermediary in any of their channels. Although the questions were very much related, the responses differed.

4.3.1.11. Marketing executives generally do not believe that cost of distribution can be reduced by eliminating certain links from the existing channels. Of the 29 respondents, only eight (27.6 percent) felt that their respective companies could reduce the cost of distribution by bypassing certain links in their channels (Table 2.20). Twenty one respondents (72.4 percent) did not subscribe to this view.

Table No.2.20

Elimination of Levels* and Cost of Distribution - Executives' Response

Issue for response	Response	
	Frequency	Percentage
1. Cost of distribution can be reduced by eliminating certain links in the channel.	8	27.6
2. Cost of distribution cannot be reduced by eliminating certain links in the channel.	21	72.4
Total	29	100.0

*Elimination from the existing channels.

4.3.1.12. However, it is interesting to note that out of the 29 respondents, only four (13.8 percent) reported the existence of redundant intermediaries in their channels (Table 2.21). The remaining 25 (86.2 percent) did not perceive any redundant intermediary in their channels. The redundant intermediaries identified were selling agents, substockists, C & F agents and wholesalers. It is significant to note that though eight respondents felt that the cost of distribution could be reduced by reducing the number of levels, only four felt that there were redundant middlemen, and were able to identify the links that could be eliminated. A possible explanation is that the respondents who felt that cost could be reduced by eliminating certain middlemen were in fact commenting on the incompatibility between the high margin and unsatisfactory services of these intermediaries.

4.3.1.13. Now another question arises: if there are redundant intermediaries in their channels, why are they not eliminated? Of the four respondents,none was able to answer the issue satisfactorily. It follows that although some companies feel that some of their agencies are redundant, they cannot be dispensed with easily; the implication is that the apparently redundant inter-

Table No.2.21

Redundant Intermediaries - Executives' Response

Factors	Frequency	Percentage
1. Executives reporting the existence of redundant intermediaries in their channels.	4	13.8
2. Executives reporting the non-existence of any redundant intermediaries in their channels.	25	86.2
Total	29	100.0

Agencies considered Redundant

1. Selling Agents,
2. Wholesalers,
3. Substockists,
4. C & F Agents.

mediaries still perform certain functions, which cannot be assigned to any one else.

4.3.1.14. There are eight respondents who feel that cost can be reduced by eliminating certain intermediaries; however, only four find redundant intermediaries in their channels. The majority of the respondents do not agree with the hypotheses. And even those who support the hypotheses do so only because some of the 'redundant intermediaries' do not seem to earn their margin by satisfactory performance of their functions.

4.3.2.0 Channel Length and Functional Efficacy

4.3.2.1. Product Flow

The notion of the excessive cost of distribution and the waste in distribution arose partly from the limited perspective of distribution as the flow or movement of physical goods. The value added in terms of services is totally left out. As Pearson puts it, "No product is ever purchased solely as a physical entity; rather it is always sold with some service or 'value added' attached[33]. If product flow is the sole function in distribution, naturally, the many levels in

[33]Michael M. Pearson, "Ten Distribution Myths", Business Horizons, Vol.24, (May/June 1981) pp.17.23.

the channels become obviously unproductive, adding cost but no value. However, the persistence of many links and the apparent duplication of functions at various levels, irrespective of the business objective of cost reduction and profit maximisation, indicate a larger array of functions and utilities than sheer commodity flow through the pipeline.

4.3.2.2. The term "moving" must be taken to cover much more than the physical movement of the goods themselves. It implies passage of the rights and responsibilities of ownership and the burden of finance and risk to successive agencies; transmission of impulses to buy or sell; accumulation and dissemination of marketing information; transfer of instructions as to what shall be produced; and payment for the goods and services provided[34]. Flows of physical possession, ownership and title transfer, negotiation, financing, information, risk taking, ordering and payment are, all thus involved.

4.3.2.3. <u>Not an Institutional Sequence</u>

The channel of distribution is often conceived as the sequence or combination of agencies through

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[34] R.S. Vaile, E.T. Grether and Reavis Cox, Marketing in the American Economy, (New York: Ronald Press, 1952), p.121.

which one or more of the marketing flows move. More precisely, marketing channels have been viewed as conducting four flows:

1. The physical flow of goods, i.e., a sequence of agencies or more precisely, facilities through which the goods move for transportation, storage, sorting and final sale.

2. The flow of ownership or control, i.e., a sequence of agencies through which moves the authority to decide what shall be done with the goods.

3. The flow of information, i.e., a sequence of agencies through which users tell producers and distributors what they want, while producers and distributors simultaneously tell users what they have to sell, and try to persuade users to buy it.

4. The flow of money, i.e., a sequence of agencies through which capital is assembled and brought into the marketing process and an overlapping sequence of agencies through which buyers pay sellers for what they buy[35].

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[35] Reavis Cox and Thomas F.Schutte, " A Look at Channel Management", Bruce J.Walker and Joel B.Haynes (eds), Marketing Channels and Institutions: Readings on Distribution Concepts and Practices, (Columbus, Ohio, Grid Publishing Company Inc., 1973) p.21.

Recurring throughout the above passage from Cox and Schutte is the concept of channel as a 'sequence of agencies'.

4.3.2.4. In fact, the perception of channel as a network of institutions has been very strong in marketing theory. Because institutions are more visible than their functions, a common reaction evoked by the term channel of distribution is the visualising of a sequence of institutions, generally of middlemen, rather than a sequence of functions, in a systems framework. A marketing institution acquires its particular designation of retailer, stockist or agent because of what it does, the functions it performs. An approach which treats a channel as a functional system, rather than an institutional sequence, is of greater value in analysing the dynamics of channel structure, efficiency and profitability. While such an approach does not "eliminate the middleman", it subordinates his existence as an institution to his existence as a system functionary. A marketing channel can then be viewed as a unique system of functional performances. The institutions which participate are incidental; what is critical is the system design through which functions can be best performed[36].

[36] William P.Dommermuth and R.Clifton Andersen, "Distribution Systems Firms, Functions and Efficiencies", MSU Business Topics, Vol.17, (Spring 1969) p.51.

4.3.2.5. The availability of appropriate institutions for optimal functional delegations is a limiting factor for any radical change in the design of distribution channels. The manufacturer probably would not be able to find or create such institutions even after determining the best systems alignment from a functional or cost point of view. But the notion of marketing channels as system centered rather than institution-centered is of much importance in analysing channel length. Ridding channel analysis of its traditional institutional orientation makes it possible to evaluate the distribution system not in terms of the number of successive levels of intermediaries, but in terms of the efficacy of the functional alignment.

4.3.2.6. Repetition of Functions at Various Levels

One of the major criticisms against marketing rests on the assumption that if certain middlemen could be eliminated, the cost of marketing would be reduced. Some of the critics do not seem to consider the fact that even if specific middlemen are eliminated, the functions they perform cannot be eliminated. What is happening is a reallocation of functions and not their elimination; someone must perform them and, if they have financial implications, these must be borne by the current incumbent[37]. If one institution or agency cannot perform a particular function, for instance, transportation or warehousing, some other agency must perform it. What happens when a certain link in the channel is eliminated is that the functions earlier performed by the institution are shifted backward or forward to other levels in the channel. An intermediary is eliminated but the functions remain, and the cost of performing them is not eliminated.

4.3.2.7. Analysis by any conventional classification of marketing functions, followed by examination of the operations of the various intermediaries organised as a channel of distribution, is likely to lead to the observation that the same functions are performed repeatedly. This observation of repetitive performance naturally leads to the conclusion that by reducing the number of levels by eliminating certain middlemen, unnecessary repetition of functions can be avoided. The typical manufacturer - wholesaler - retailer - consumer channel involves storage and transportation by manufacturers, wholesalers and retailers, and three sales

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[37] B.G.S. James, Integrated Marketing, (London, B.T. Batsford Ltd., 1967) p.221.

and purchases transactions, with similar repetition of other functions, even in this relatively simple channel.

4.3.2.8. Although functions cannot be eliminated, the number of times a function is performed in the channel can be changed. For example, when production preceeds demand, the function of stockholding arises; if there are several stages in the distribution of products, the need to hold stocks in anticipation of demand could be repeated at each stage: manufacturer for wholesaler, wholesaler for retailer, retailer for final customer. In an M-W-R-C channel, selling is performed three times. By bypassing the wholesaler and establishing an M-R-C channel, selling need be performed only twice, the number of performances has been reduced in the shorter channel.

4.3.2.9. However, when the manufacturer tries to perform the functions earlier performed by the wholesaler, the cost might perhaps be more than the cost at which the wholesaler had been performing the function. If each function is considered in the totality of that functional activity between point of origin and point of use, repetitive performance is simply a division of the complete activity between various marketing intermediaries operating at various stages of the total process.[38]

[38] Harrey W. Huegy, "A view of Marketing Functions as

Even though the number of times the function is performed gets reduced, the total cost of the particular function in the channel might increase.

4.3.2.10. Omitting a middleman may or not not reduce distribution cost. In reality, it is possible that increasing middlemen might reduce costs even more. What is significant is that the distribution functions are being performed by someone. Even in a manufacturer-to-consumer channel, one party or the other is taking care of physical distribution, transfer of title, ordering, risk taking and so on. The real question is how well these functions are being performed[39]. The issue of cost reduction in distribution, therefore, relates to efficient performance. If an efficient middleman, say stockist, is performing the function of warehousing for the manufacturer, the elimination of his performance of this function would reduce costs only if someone else, say the manufacturer, could perform this function more efficiently. The total cost of distribution may be reduced by eliminating those middlemen whose functions may be more economically performed by others.

Divisible and Multi-dimensional", R.Clifton Anderson,& William P.Dommermuth (eds), Distribution Systems - Firms Functions and Efficiencies, (New York, Appleton-Century-Croft, 1972) p.51.

[39]Pearson, loc. cit.

4.3.2.11. Based on this conceptual background the study set the following hypotheses for testing:

H.2.3.3. "Even when certain intermediaries are eliminated, their functions are absorbed at the adjacent levels".

H.2.3.4. "More number of levels in the channels do not necessarily lead to unnecessary repetition of functions".

4.3.2.12. Empirical Observations

Apparently, repetitions of the same functions at many levels exist in any typical channel, but whether some of these repetitions are unnecessary or not is a question that has to be analysed from a systems perspective. Most of the companies under study do have channels with varying lengths. Often the difference between a long channel and a short channel is that there is one or more additional intermediary or intermediaries in the long channel. Usually, there is a specific purpose for establishing a channel with additional intermediary. For example, in the pharmaceutical industry, the longest channel has the superstockist as the additional intermediary. He performs the warehousing and onward transport, besides other functions. All these functions are indeed critical as far as the marketer is concerned. In fact, the superstockist is being increasingly used in the industry to replace the company sales branch, where the overhead cost has grown to a prohibitive extent.

4.3.2.13. The Clearing and Forwarding agent and sub-stockist are the additional intermediaries used in the longest channel for biscuits. The C & F agent is used in certain geographical areas for undertaking the specific functions of warehousing and onward transport, more than anything else; the alternative is to have the company-owned depots wherever the agencies are used. Similarly, the substockist undertakes the distribution functions in remote rural areas, where the stockist cannot effectively distribute the product. Here the substockist repeats the transportation and warehousing functions and to that extent, the inventory and transportation functions of the stockist are reduced.

4.3.2.14. Another intermediary who adds to the length of channels in the distribution systems of consumer nondurables is the wholesaler who stands between the stockist and the retailer. He repeats the inventory function. But if he does not do it, the inventory function of the stockist or alternatively, that of the retailer will increase. Only those retailers who do not get any, or do not get often enough supply from the stockist, do approach the wholesaler. Thus, wherever an additional intermediary is used, it is likely that he repeats some of the functions performed at other levels; but such repetitions are seldom unnecessary.

4.3.2.15. As the issue involves cost as well as consumer price, it is the manufacturer who under the present dispensation, is more concerned about the unnecessary repetition of functions, than any other channel participant. In the absence of a proper systems analysis for each manufacturer's distribution system, the only possible data to analyse the issue is the opinion of the marketing executive. During the survey, the executives were asked to comment on the issue. Among the 29 respondents, only one felt that certain functions were repeated unnecessarily (Table 2.22). The responses of the remaining 28 seemed to support the hypothesis.

4.3.2.16. The study further shows that wherever an intermediary has been eliminated, his functions have been absorbed by adjacent levels in the channel. For instance, where a primary wholesaler is eliminated, the manufacturer or his wholesale branch usually absorbs most of the functions. In certain cases, the stockist or manufacturers' agent absorbs part of the functions earlier performed by the intermediary. The manufacturer

Table No.2.22

Unnecessary Repetition of Functions - Executives' Opinion

Response	Frequency
Certain functions are repeated unnecessarily at various levels	1
Functions are not repeated unnecessarily	28
Total	29

of batteries who bypassed the state level and district level distributors and C & F agents established sales branches which absorbed the functions earlier performed by these agencies. Those firms which eliminated the selling agents had to strengthen their marketing departments and sales force. Table 2.23 indicates who absorbed the functions earlier performed by the intermediaries who had been eliminated. The manufacturer of bread who eliminated the wholesale intermediary in the local market had to increase its transport facility as well as the number of sales people to perform the functions earlier undertaken by the wholesalers. At the same time the bread manufacturer retained the wholesaler system in other districts to expand the market. When sole selling agent was eliminated from the channel of transformers, the manufacturer as well as the manufacturer's agents absorbed the functions. In the distribution of power tillers, selling agents were bypassed and the functions were absorbed by the manufacturer. The same thing happened when private agents (wholesale) were dispensed with from the distribution of fertilizers. The available data show that most often it is the manufacturer who absorbs the functions earlier performed by the eliminated intermediary. On the whole, the empirical evidence supports the hypothesis that when intermediaries are eliminated, their functions are absorbed by the adjacent levels.

Table No.2.23

Elimination of Intermediaries and Functional Absorption

Firms	Agencies eliminated	Levels which absorbed the functions of the agency eliminated.
Soap I	Distributor (state level)	Manufacturer's Branch.
Pharmaceuticals II	Selling Agent	Manufacturer
Bread	Wholesaler	Manufacturer
Fertilizer	Private (Wholesale) Agents	Manufacturer's Branch
Pesticide	Sole selling Agent	Manufacturers
Battery	1. Distributor (State level) 2. C & F Agent	1 & 2. Manufacturers' Branch.
Power Tiller	Selling Agent	Manufacturer.
Transformer I	Sole Selling Agent	Manufacturers; Manufacturer's Agent.

4.3.2.17. It has, however, been observed that executives often perceive a channel as a sequence of agencies rather than as a functional system. They think in terms of institutions, not in terms of functions. To questions about the functions of various intermediaries, satisfactory descriptions of the functions were not available. The rationale and the cost implications of the assignment of particular functions to specific agencies are not fully realised by the respondents; nor are they aware of the cost and efficacy of specific functions when performed by institutions of different types and at various levels. Similarly, questions about functional evolutions of particular types of institutions evoked inadequate responses. Obviously, the respondents perceive institutions, but not their precise functions from a systems perspective.

4.3.3.0. Information Gap

4.3.3.1. The channel of distribution is also a channel of communication. Balancing the flow of ownership, through successive stages of distribution, there is the flow of information. Here we find such activities as persuading people to buy or sell, ordering, bargaining, and pricing. This flow differs from that of ownership because a considerable number of entities participate in negotiation without participating in the flow of ownership; brokers and agents of many types are examples[40]. The heart of distribution is people writing and talking to each other as they arrange transactions.

4.3.3.2. In most developing countries the distance between a producer and his customer is ordinarily much longer than one thinks. By distance we do not mean only physical distance. More important is the marketing pipeline distance created by intermediaries between the enterprise and the ultimate consumer of the product, or the social and cultural distance. All these factors conspire to produce an information gap.[41] The greater the distance separating the producer and the consumer, the greater the need for intermediate levels in the channel of distribution to provide market contact and market information. The costs of searching out and contacting prospective buyers tend to increase as the distance to the market increases. Information about market conditions and consumer reactions in a distant market is imperfect at best.

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[40] Reavis Cox, Distribution in a High-Level Economy, (New Jersey, Englewood Cliffs, Prentice-Hall, Inc., 1965) pp.34-35.

[41] Siro P.Padolecchia, Marketing in the Developing World, (New Delhi, Vikas Publising House Pvt. Ltd., 1979), p.49.

4.3.3.3. Relying on middleman having broad market contacts with a number of buyers, provides a manufacturer with one means of obtaining a more accurate picture of actual market conditions. However, as the intermediate levels increase, there would be the problem of communication bottlenecks. By breaking up the distribution effort among specialised marketing agencies, the effective transmission of information necessary for correct decisions to be made at the processing level becomes highly important. More independent decisions among the participating institutions have to be integrated if the trade channel is lengthened. The longer the movement through the channel the product takes, the longer the ex ante period for production decisions[42].

4.3.3.4. The simple face-to-face situation between maker and buyer is the best arrangement for the transmission of consumer reaction; it enables instant sales research. The introduction of intermediaries between the maker and the final buyer creates a communcation problem. In those cases, where a manufacturer controls his own outlets, the necessary machinery can be introduced for continuous appraisal of sales, the processing

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[42] Edna Douglas, Economics of Marketing, (New York, Harper & Row, 1975) pp.617-18.

of information, and the supply of abstracts on which production decisions can be made. The quicker the flow of information, then the quicker the decision-making process and the lower the possibility of wasteful production[43].

4.3.3.5. Small and numberous retail outlets buying through wholesale intermediaries present a specially difficult problem when a manufacturer wants to discover the turnover of his product at retail point, and special audits may be necessary to discover the rate of turnover and also the relationship of this to competing brands; however, even this is not as instantaneous as modern production methods require. The process of ordering indicates the likely length of time taken: for the retailer to decide that the article is not selling; the time for a final decision not to reorder from the wholesaler; the period when retailer reaction is registering on the wholesaler; and the final reduction in his order to the manufacturer to meet retailer reaction. Where a market is segmented in any way, reaction to different brands or quality ranges may be delayed, thus preventing reorientation to meet expanding and contracting segments. As James points out, the longer the period of communication and the greater the

[43] James, Op.cit., p.231.

propensity to produce goods, the greater the need to establish direct contact with the retailer or the consumer[44].

4.3.3.6. The paradox is obvious. On the one side intermediaries provide a channel for market information and market communication. There are indeed market middlemen such as brokers and manufacturers' agents who primarily perform a communication function which facilitates speedy transactions between their adjacent levels. However, as the number of links in the channel increases beyond a certain number, it is likely that the many links in the channel of communication create bottlenecks. Therefore, a manufacturer who seeks the help of intermediaries to establish initial market contact may attempt to eliminate them at an advanced stage of growth with a view to obtain quicker market feed back.

4.3.3.7. The field survey indicates certain pertinent facts in this regard. Communication break down in certain channels is indeed staggering. This is more acute in the case of the relatively longer channels, particularly where the manufacturer has little contact

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[44] Ibid., p.232.

with some of the intermediaries down the channel levels. Some of the manufacturers do not even know the details of the operations of some of their own channel intermediaries; not even the trade discount given them by other intermediaries, or the margin they get. The operations of the subdistributors in the channels for biscuits and jams, of the dealers and subdealers of electromechanical components, of the brokers for chemicals are all shrouded in mystery for the channel captains. Some of the manufacturers of consumer non-durables do not seem to be much aware of the business practices of their wholesalers; the discount allowed to them by the stockists or the discount the wholesalers give their retail customers. Often producers are in the dark with respect to the retail prices the consumers pay for their products. The manufacturers are seldom in a position to describe their consumers in terms of segmentation variables. It is therefore, not surprising that during the survey many manufacturers were not able to figure out the approximate number of retailers and wholesalers who stock and sell their products. The communication bottleneck appears to be more pronounced in the case of secondary channels which are relatively longer.

4.3.3.8. Intermediaries seldom feedback market information unless they are pressurised. Even when they perform the service, the information provided is often biased. The function is performed by the company salesforce, and the scope for information availability is limited to the extent of the company's direct contact with the intermediaries through its salesforce. More the number of levels in the channels, the lesser the extent of the manufacturer's contact with the intermediaries and obviously, effective communication is seriously hampered in such channels.

4.3.4.0. Speed of Operations

4.3.4.1. The concept of the flow of goods through time is more nearly an analogue than a description of a physical fact. When the marketing channels perform this function what really happens is that the goods stay still and time flows. The great mass of goods undoubtedly spend most of the time that elapses between their appearance as raw materials and their disappearance as consumables simply waiting somewhere for somebody to do something to them. It is, however, convenient to regard all this waiting as a flow through time. The lapse of time that occurs while goods wait somewhere for someone to do something to or with them imposes costs of warehousing, financing, and risk which someone must bear.[45] That these are significant is

[45]Cox, Op.cit., p.33.

indicated by the fact that the inventories of manufacturers, wholesalers and retailers form the major part of the working capital which involves a significant part of the total capital invested in a developing economy. It is generally assumed that the more the number of levels, the lesser the speed of operations.

4.3.4.2. The problem, however, is that there are two types of speed in a channel. One type of speed has to do with the total time goods are in process in the channel--that is, the time it takes the goods to move through the channel from producer to consumer. The other concept of channel speed concerns the reaction time between two channel members or two successive stages in the channel[46]. A short channel, direct from producer to retailer, may keep the product in process for the shortest total length of time because of more rapid adjustment to market changes. Thus, this type of channel is preferred for fashion or other perishable goods. Often it takes a long total time to move goods through wholesalers, but if a retailer wishes to obtain immediately a convenience product, he can often approach his local wholesale intermediary. This speed of delivery cannot be accomplished if the retailer has to buy direct from the manufacturer who may be located two thousand

[46]Walters, <u>Op. cit.</u>, p.182.

miles away. A retailer who gets supplies from the stockist twice or thrice a month approaches the wholesaler for immediate replenishment of his stock. It is obvious that both concepts of channel speed has to be considered while judging the speed of operation of a particular channel. In some cases, speed of operation is increased by the addition of levels.

4.3.4.3. Generally, speed of operation is more where distribution is direct. However, it has been found that industrial buyers sometimes prefer to deal with local intermediaries rather than with distant manufacturers. It is easier to get supplies from local distributors. Many industrial customers today try to reduce their inventory by relying on local dealers. This has been reported in the case of chemicals and electro-mechanical components. There is an increasing tendency among the leading industrial buyers to purchase such inputs from intermediaries rather than from the manufacturers. Among the firms under study, there are indeed manufacturers who restrict the stockist or dealer from supplying to the large direct customers of the manufacturers. The implication is that in certain cases, addition of levels increases the speed of operation.

4.3.4.4. The prevailing assumption about the inverse relationship between channel length and speed of operations is not always true. The instances of industrial buying through intermediaries to avoid delay imply that intermediaries sometimes help to reduce the reaction time rather than increasing it. Similarly, the apparent increase in the total time goods are in process with the involvement of intermediaries need not be necessarily be so.The industrial buyer who prefers to purchase from local intermediaries, with a view to reduce his own inventory, is actually trying to transfer the inventory function to the middleman. When the customer also is included in the channel, there is hardly any net addition to the total time goods are in process.

4.4.0. DETERMINANTS OF CHANNEL LENGTH

4.4.0.1 The length of marketing channels are determined by a host of factors related to the product, the company, the consumer and the socioeconomic environment. The following variables are deemed to be among the critical determinants of the channel length:

1. Number and size of the intermediate and final customers and their buying pattern.
2. Physical and economic distance between the producer and the consumer.
3. Market density.
4. Market power and size of the manufacturer.
5. Product characteristics.

An attempt is being made to analyse these variables logically and empirically.

4.4.1.0. Customer size and Buying Patterns

4.4.1.1. Distribution management starts with the consumer and works its way to the manufacturer. In fact, the frequently suggested idea of placing the consumer at the top, rather than at the bottom, of the traditional distribution channel may be the best general guide while analysing the number of links in the distribution channel. Once the behaviour of the consumer is understood, the retailer's behaviour is analysed using the same questions, and the process leads to an understanding of the entire distribution process.

4.4.1.2. The types of markets--ultimate consumer, reseller, industrial, institutional and governmental--and the segments within these customer groups, are major determinants of the channels used. Their relative number , location, and degree of geographical concentration are additional determinants. Consumers of all types have specific needs and requirements related to the characteristics of the product or service offered, the scope of the line and depth of stocks, and package of services, including repair and parts availability, installation, guarantees, technical aid and consultation, satisfactory terms of sale, acceptable delivery arrangements, and adequate provision for returns and adjustment. The source from which the user buys will be governed to a substantial degree by these needs. Consequently, whether orders are large or small, frequent or infrequent, planned or unplanned, and whether purchases must be made at a given time or can be postponed are factors which affect the channels used. The frequent, small purchase is characteristic of convenience goods. The infrequent, postponable purchase is characteristic of shopping and specialty goods[47].

[47] Lewis, Marketing Channels: Structure and Strategy, Op. cit., p.116.

4.4.1.3. The obvious starting point in building up a distribution structure is to look to the ultimate user's buying preferences. The channel design decision has several elements, all built on the manufacturer's objectives: (i) Determine who the user is, where he buys, and what his wants are (ii) Do the same thing for middlemen who buy for resale (iii) Match up these characteristics with the manufacturer's objectives[48].

4.4.1.4. The buying habits of the consumers have a direct bearing on the length of channels used. Where the customers typically buy in very small quantities, the channels used to reach them tend to be longer. Where the buying is seasonal, intermediaries are added in the channel to perform the storage function thereby reducing the peaks and valleys in production. In the industrial market where there is multiple influence on purchase decisions, direct distribution is adopted for greater control of sales force to successfully reach all parties responsible for making purchase decisions. In the final analysis, matching the number, size, and location of customers with product characteristics is the primary determinant of channel structure[49].

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[48] Constantin, Evans and Morris, Op.cit., pp.291.92.

[49] Donald J. Bowersox, et.al., Management in Marketing Channels, (Tokyo, McGraw-Hill International Book Company, 1980), p.239.

4.4.1.5. The socio-economic background of the consumers also influences the length of a channel used. Rosenbloom explains the phenomenon: In some developing countries it is not unusual to find as many as ten levels in the channels for imported consumer goods.

> "Most of the very small retail intermediaries, often referred to as mammy traders, deal in tiny quantities of products, such as a handful of salt, half a bar of soap, or two or three cigarettes. Western observers, as well as some government officials in tropical African countries, are often appalled at this, believing it to be a highly irrational and inefficient channel structure. These observers, however, make the mistake of failing to consider the socio-cultural context within which this channel structure exists. That is, the seemingly archaic channels with layers upon layers of tiny middlemen are quite rational and efficient when due allowance is made for the socio-cultural factors involved."[50]

4.4.1.6. Japan appears to have a market which is tailor-made for short channels: a huge population concentrated in a relatively small geographic area. Yet channels are anything but short. Till recently, direct sales from the manufacturer to consumer was virtually unheard of, and a three level structure (manufacturer - retailer - consumer) was almost rare. Several levels of wholesalers intervening between the manufacturer and the retailer, were a familiar feature till recent decades,

[50]Rosenbloom, Op.cit., p.46.

though it is fading fast (1.4.15). The reasons for such long channel structures even in the face of such dense markets are traceable to a basic phenomenon: - market behaviour of the Japanese consumer. The average Japanese housewife shops everyday within a short distance of her home and typically spends a small amount each time. Obviously, there is the need for a great number of points of supply for this; it is the logistics of bits and pieces. The indication is that the seemingly straightforward relationship between concentrated markets and short channels must be tempered by careful judgement of how other forces are likely to affect channel structures.

4.4.1.7. Middlemen as Buyers

Middleman in his role as buyer and selector of sources of supply determines to a great extent the nature of the channel of distribution[51]. The assortment of goods required by a typical consumer forces him to shop at different stores. Usually the consumer expects a particular assortment at a certain store. The retailer's stock more or less reflects the assortment expected by the customer. The retailer, in turn, draws his supplies from different sources because no single whole-

[51] William R.Davidson, "Channels of Distribution - One Aspect of Marketing Strategy", Bruce J.Walker and Joel B.Haynes, (eds), Marketing Channels and Institutions: Readings on Distribution Concepts and Practices, (Columbus, Ohio, Grid Publishing Inc., 1973) p.9.

saler will have the complete range of products required by the retail consumers. The wholesaler on his part seeks supplies from different producers as the range of products available with a particular manufacturer may not strictly correspond with his own stock requirements. As the retailers'stock requirements do not correspond to the product mix of any particular manufacturer, the wholesaler assembles diverse product lines from different manufacturers and breaks the bulk to satisfy the needs of his retail customers. The discrepancy of assortment and the process of sorting has necessitated the wholesale level or levels and the process of distribution has become a tradition which is not easy to break. The long standing relationship between the intermediaries at different levels maintains a vertical structure that is hard to change. To the extent that the middleman is the purchasing agent for the consumer, he is the one who selects the manufacturer and not vice versa. Consequently, it is the middlemen who decide the channel length to a certain extent.

4.4.1.8. Number of Retail Outlets

Where the consumers buy frequently and in small quantities, it is necessary to have a large number of petty retail shops. As the daily turnover is small, the small retailer makes frequent purchases in small quantities. The one man retail enterprise which makes purchases almost daily, needs wholesale intermediaries closeby. Obviously, there is the need for a large number of small wholesalers widely dispersed. As their turnover on a given product is very small, they cannot order directly from manufacturers. Therefore, to serve a large number of small wholesalers, another level of wholesale intermediaries becomes necessary. Where the small wholesaler seeks a wide assortment of merchandise from the large wholesaler, the large general wholesaler himself may not have sufficient turnover in each line to seek direct supply from manufacturers. Naturally, another level of wholesale intermediaries with product line specialisation becomes necessary. Thus, the distribution system comes to be characterised by a wholesale structure with three levels. The semi-wholesaler, the wholesaler and the stockist who exist in the channels of many consumer nondurables in India represent this three-level wholesale structure. The semi-wholesaler is infact a large retailer who sells a small quantity to smaller retailers. A recent tendency is that the stockist supplies directly to the semi-wholesaler and he is either treated as a wholesaler or a retailer, based on the volume of purchase. Hence, in the field survey, the semi-wholesaler seldom appears in the channels of most products, although he exists in reality.

4.4.1.9. The basic determinant of this multistage wholesale structure is the retail buying habits of the consumers. And purchasing habits of the people are, in turn, decided partly by tradition and partly by the socio-economic characteristics.

The following hypothesis has, therefore, been set for analysis:

H.2.4.1. "Customer sizes and their buying habits decide the length of channels".

4.4.1.10. Empirical Observations

Direct distribution to large institutional or industrial customers is a conspicuous feature of the distribution scene, irrespective of the category of industry or the nature of the product. (This has been illustrated in Chapter III). As the volume of purchase is large and as the number of customers are limited, it is feasible for the manufacturer to supply directly to industrial and institutional customers. When the number of customers increases and the volume of a single purchase decreases, intermediate levels are added in the channels of distribution. For instance, the indirect channels for industrial goods serve primarily a large number of small volume customers: The manufacturer of carbon black supplies directly to the large tyre manufacturers; however, intermediaries are used to serve the small volume requirements of a large number of relatively small producers of rubber goods. Alkalies are supplied directly to large volume users while the small volume requirements of numerous industrial customers are met through dealers and brokers. Professional grade electro-mechanical components are supplied directly to large industrial customers while small quantity requirements of a variety of industrial producers are met through relatively long channels involving stockists, dealers, and subdealers. Power cables are routed through indirect channels to a large number of small volume customers.

4.4.1.11. The tendency is much more pronounced in the case of consumer goods. Soaps to the canteen stores departments, batteries to defence, bread to hospitals, jams and syrups to institutions, soft drinks to hotels, fertilizers to plantations, lamps and tubes to industries and institutions, paint to industrial users, and tyre to original equipment manufacturers are sold directly. However, these products take longer routes to the individual or household consumers.

4.4.1.12. A large number of small retail stores is a common feature of the Indian distribution system. To reach the product to a multitude of relatively small retail stores, compartively longer channels are used. Where the retailers are small, the value of a single purchase is small, the stock carrying capacity of the store is limited, the frequency of purchase is more, and the number of such stores are numerous. It is, therefore, uneconomical for a stockist or distributor to serve the small stores directly. Products such as soaps, batteries, bulbs and biscuits move directly to large retailers from the stockists or distributors, while these products move to relatively small retailers operating in the same geographic area through the wholesalers. The mildly medicated toilet soap is supplied directly to large volume retail stores while the relatively smaller stores get the supply from wholesalers. Similarly, water-meter is sold direct to large volume hardware retailers while it passes through wholesalers to relatively smaller stores.

4.4.1.13. It has been observed that the length of the dominant channels is relatively more for soaps, batteries, bulbs and biscuits, compared to products such as prescription drugs and agricultural inputs. The reason is that the latter products are sold not as extensively as the former and that the number of retail outlets for these products are comparatively few. The same logic applies to the relatively short channels for consumer durables such as fan and TV, and semi-industrial products such as paint, and tyre. While the number of retail dealers for the tyre manufacturer is approximately 200 in Kerala, one of the soap manufacturers has to reach about a lakh of retail stores in the same area.

4.4.1.14. The buying habits of the consumers in fact decide the size and number of retail outlets. As convenience goods are bought very frequently, but in small quantity, more stores are required for such products, compared to products such as fan or TV. When there are more stores with limited turnover, the size of the store has to be necessarily small. Naturally, where the customers, intermediate or final, are more, the quantity purchased is small and the frequency of purchase is more, the length of the channel has to be longer; this is evident not only in the distribution of consumer goods but also in the case of industrial products.

4.4.2.0. Physical and Economic Distance

4.4.2.1. The geographic size of the market is usually a factor that influences channel structure. Large national markets may require more links in the channels than a small country needs[52]. While no complete theory of market geography relative to channel strategy has yet emerged as a basis for guiding channel analysis, a partial theoretical model developed by Bucklin can be of some practical value. Bucklin's model attempts to explain the relationship between the distance of a producer from

[52] Reed Moyer, "The Structure of Markets in Developing Economies", William G.Mollier and David L. Wilemon (eds), Marketing Channels: A systems

his markets and the use of intermediaries in the channel. Bucklin refers to his construct as the distance and lot size model. While Bucklin's model presents a macro view of the total channel system operating in an economy, it nevertheless, also provides insight from a micro or managerial perspective[53]. The basic assumption of Bucklin's model is that, other things being equal, the greater the distance between a producer and his markets, the higher the probability that a channel structure using intermediates will be less expensive.

4.4.2.2. The Indian market is a highly dispersed national market spread over a large subcontinent. While the consumers are scattered in nearly six hundred thousand cities, towns and villages, factories are more or less concentrated in a few large industrial centres. The physical distance between the producer and the consumer is obviously great. Increase in physical distance necessitates longer channels.

Viewpoint, (Homewood, Illinois, Richard D. Irwin Inc., 1971) p.76.

[53]Louis P. Bucklin, Competition and Evolution in the Distributive Trades, (Englewood Cliffs, New Jersey, Prentice-Hall, 1972) pp.18-20.

~~1.4.2.~~3. What is more significant is the economic distance. It is the distance created by problems in the economy such as transportation and communication bottlenecks. An efficient transportation system can reduce the physical distance; similarly, a well developed communication network can substantially help to overcome the barriers of physical distance. Conversely, the natural distance is increased by problems in transportation and communication. A consequence of the physical and economic distance is the augmented psychological distance between producers and buyers. Intermediaries arise to bridge the gap and the number intermediate levels in the channel is proportionate to the physical and economic distance. The impact of distance will be quite obvious in the functions performed by these intermediaries. The physical distribution functions of transportation and warehousing would be prominent where the intermediary has been used to overcome the barriers of distance. The study, therefore, set the following hypothesis for empirical analysis:

H.2.4.2. "Physical and economic distance necessitate longer channels".

4.4.2.3. Empirical Analysis

There are many instances where the length of channels increases with the physical distance. The small scale soap unit was initially selling direct to retailers when the market was local. As the company was forced to extend the market geographically, a longer channel with wholesalers was added. Still further, when the market expanded and the company started selling in a distant market outside the State, a branch depot was further added and a still longer channel thus came into existence. The other two soap manufacturers operating in the regional and national markets, have still longer channels with four levels. They do not sell direct to retailers as the smaller firm does in the local market. The wholesaler between the stockist and the retailer, basically serves the retailers located in remote rural areas, beyond the itinerary of a typical stockist.

4.4.2.4. Two of the three pharmaceutical companies use superstockists to sell to distant geographic markets outside Kerala. Another pharmaceutical firm has added liaison agents to contact institutional and government customers in distant cities, an additional level in the former direct channel. Biscuits are distributed directly to stockists in the local market while in the neighbouring states it is routed through C & F agents. As the stockist is not able to cover the segregated villages, which are miles apart in these States, another wholesale intermediary is added, namely, the sub-stockist who distributes the product to wholesalers and retailers.

4.4.2.5. While bread is now distributed direct to retailers in the local market, the wholesale intermediary remains an inevitable link in the distant districts. Jams and syrups are sold through agents in the home State, while a longer channel involving distributors and subdistributors are used in other states. Soft drink is another example. The product is distributed directly to retailers in the immediate vicinity of the bottling plants while in far away districts it is moved through wholesalers.

4.4.2.6. Fertilizers are routed through a shorter channel in the home state by selling directly to dealer, while in other states, state agencies perform wholesale functions. The fan unit serving a local market within the state use relatively short channels compared to other manufacturers operating in the national market, who add a wholesale stage in their dominant channels. The two paint manufacturers serving a local market, use short channels compared to the large-scale manufacturers serving the national market. The national marketers add one more level in the wholesale structure, often the manufacturers' sales branch, or at times, a selling agent.

4.4.2.7. In the field of industrial goods, firms sometimes employ manufacturers' agents to negotiate sales transactions with customers located at a distance. The two manufacturers of transformers use channels involving agents.

4.4.2.8. Some of the additional intermediaries used in the longer channels are primarily meant to bridge the physical and economic distance between producers and consumers. The superstockists, the C & F agents and the manufacturers' agents are examples. The superstockist performs the functions of inventory carrying, invoicing and onward transport of goods. The C & F agent warehouses and arranges onward transport of goods. Besides transportation and warehousing, they perform some information and communication functions also.

4.4.2.9. The channel of distribution is also a channel of communication. Certain links are added primarily to facilitate speedy communication, particularly in the context of the communication bottlenecks in the country. Agent middlemen are added essentially for this purpose. The manufacturers' agents are assigned functions which are fundamentally communication functions. They establish initial contact with customers, negotiate transactions, feedback information between the company and the customers, arranges speedy delivery of the product, and speed up payment. The manufacturer of pharmaceutical products who engages liaison agents is, infact, trying to reduce the distance in terms of communication. The manufacturer of pesticides who used to sell the entire output through a sole selling agent was engaging the agent primarily for better communication: the products were shipped directly from the factory to the dealers; functions of the agent were to canvass orders, prepare the invoice on behalf of the company, and speed up payment. The selling agents who were involved in the channels of transformers and power tillers were also performing the same functions. All these agents came to be eliminated. With general improvements in the communication system in the country, it became possible for the manufacturers to contact their resellers or consumers without much difficulty and the agents were made redundant, to some extent, by this environmental change. Brokers and agents of many types have been the main casualty in the process of improvements in the communication network. This implies that the communication bottlenecks in the country necessitates certain types of intermediaries, thus increasing the length of channels.

4.4.2.10. On the whole, it becomes evident that many intermediaries that are found in the distribution system find the rationale for their existence in the transportation and communication bottlenecks that still exist in the country. The C & F agent was brought forth precisely to overcome the transportation and communication barriers. The selling agents and brokers flourished under these distribution constraints. Even the establishment of manufacturers' branches were originally forced by the distance and the associated problems. It is fairly evident that many intermediaries at the wholesale level exist primarily to bridge the spatial and economic distance between the manufacturer and the consumer. Institutions such as selling agents, manufacturers' agents, brokers, C & F agents, superstockists, semiwholesalers and subdistributors exist in the wholesale structure partly to resolve the distribution problems associated with physical and economic distance.

4.4.3.0 Market Density

4.4.3.1. High density markets promote efficiency in the performance of several distribution tasks, particularly those of transportation, storage, communication, and negotiation. With respect to transportation and storage, a high geographical concentration of customers enables goods to be transported in large lots and stored in a relatively small number of inventory points. For geographic markets characterised by low density, smaller lots have to be transported and smaller inventories are to be maintained. Dense markets facilitate more effective and less costly flows of communication and negotiation. This is especially true when face to face information and negotiation are necessary. The major strategic implication is that the opportunity to achieve a relatively high level of customer service at low cost is higher in dense markets than in more dispersed ones. Thus, the probability of using a shorter channel is greater when buyers are highly concentrated[54].

4.4.3.2. The number of customers per unit of land area determines the geographical dispersion of the market. In general, the more geographically dispersed the market the more difficult and expensive the distribution. This is particularly true for the flow of goods to the market but it also applies to the flow of information. The cost of reaching customers is generally less when the market is concentrated in a geographic area. In such cases shorter channels may be the most effective and efficient. However, when markets are widely dispersed, more levels are necessary.

4.4.3.3. The opportunity for a firm to use shorter channels is greater if their retail and industrial customers are geographically concentrated in a limited area.

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[54] Rosenbloom, Op. cit., pp.167-68.

Salesmen operating in a limited market area can make more calls per day and more easily cover their territory. Scattered markets increase the cost of travel and reduce the number of calls a salesman can make in a given period of time. Thus, the cost of each call is increased. One reason a manufacturer uses middlemen is that they are well suited to reach scattered markets since they sell more than one line of products[55].

4.4.3.4. Dispersed markets tend to increase the chance of using longer channels. Greater potential indicates the opportunity to spread sales over more units of output. Business often tends to use the channel that reflects the ultimate size of the market rather than its actual size. Thus, a short channel become desirable when the potential in a market is great even though current sales volume may be low. The greater the sales volume, the more the opportunity to use a short channel, and the smaller the sales volume, the greater the tendency to use a long channel.

4.4.3.5. Rural markets have always created channel problems because of their sparse customer population. The dual channel where the manufacturer seeks short channels to the city and employs longer channels involving multistage wholesaling to reach the smaller rural

[55]Walters, Op. cit., p.177.

markets is an example of how the channel accommodates the market. Concentration at the retail level and the clustering of population geographically have forced manufacturers to distribute directly to retailers and to bypass the wholesaler.[56] The study now attempts to verify the following hypothesis:

H.2.4.3. "Channel length is inversely related to market density".

4.4.3.6. Empirical Observations

Relatively longer channels to dispersed and rural markets are much in evidence among the manufacturing firms studied. It is a familiar feature of the distribution systems of certain consumer nondurables that distribution to the rural and dispersed markets involves additional level or levels in the wholesale structure, between the stockist or distributor and the retailer. Where the demand is limited and the available demand is spread over a vast area, it is uneconomical for the stockist to make direct distribution to the retailers. The 'wholesaler' in the channels of soaps, batteries, bulbs, and biscuits is a case in point. Another example is cattlefeed: Where there is a concentration of milk producers, as indicated by the existence of Anand Pattern Cooperative Societies, cattlefeed is

[56] Harper W.Boyd and J.Douglas McConwell, "Marketing Consumer Goods in Australia", Business Horizon, Vol. 11,(Feb.1968) pp.49-58.

despatched directly to the cooperative society. However, the unorganised farmers get the product from subdealers who in turn get the supply from dealers.

4.4.3.7. In the field of consumer durables, the distribution system of TV and radio provides another instance. In distant markets where the particular manufacturer's product do not enjoy high demand, the company has transformed some of their dealers as main dealers, and they have been assigned certain wholesale functions including local promotion, thus adding another link in the channel.

4.4.3.8. The distribution systems of industrial goods often include longer channels to route the product to dispersed markets. One of the manufacturers of cables uses a channel involving selling agents with branch network to serve the needs of dispersed small volume customers. The manufacturer of electro-mechanical components uses channels with varying length to serve the needs of customers located in centres with different degrees of industrial concentration. At industrial centres like Bombay, the small volume customers get the product directly from the stockist. In centres with relatively less industrial concentration, where the number of customers are few, the stockist appoints dealers who supply the product to industries. Thus, the product moves from the stockist in the highly concentrated industrial centres to customers in still less industrialised areas. The subdealer gets the supply from the dealer. Thus, depending on the level of industrial concentration and market density the length of channels varies.

4.4.3.9. There is at least one instance where increase in market density led to elimination of a link in the channel. As demand increased for bread in the local market, the wholesaler was eliminated in a territory and the manufacturer started direct distribution to retailers.

4.4.3.10. It is farily evident that the length of channels is inversely related to market density. A conspicuous phenomenon is the addition of wholesalers and semiwholesalers as the product percolates into the dispersed and rural markets.

4.4.4.0. Size and Market Power of the Manufacturer

4.4.4.1. The characteristics of a firm's markets, the nature of its product lines, and the relative strength or status of the manufacturer in the channel, compared with other channel participants may determine the length of channels. There are some important company variables which affect the number of levels in the channels. They are: 1. size, 2. financial capacity, 3. managerial expertise, and 4. product lines and brand image. It has been postulated that the range of options for different channel structures is a positive function of a firm's size. The manufacturer may have a choice of channels available to him, particularly if the company is large and the line is broad. In such cases, he may wish to take full responsibility for distribution and sell directly to the user, if industrial products are involved, or directly to the retailer, in the case of consumer goods. The power bases available to large manufacturers, particularly those of reward, coercion and expertise, provide them relatively high degree of flexibility for choosing channel structures compared with smaller firms. Therefore, the larger firm's capacity to have channels which, at least, approach an optimal allocation of distribution tasks is typically much higher than for smaller firms.

4.4.4.2. Where the manufacturer is small and has limited lines, he may find it necessary to sell his output through many levels of intermediaries, either because he lacks the marketing knowhow and/or the financial resources to maintain his own sales organisation. The limited lines and the small volume may make a branch network prohibitively expensive.

4.4.4.3. The marketing strength of the manufacturer is a major factor determining channel length. This incorporates marketing management capability and know-how;financial strength and availability of capital for investment in field sales and warehouse facilities, inventories and customer accounts receivable; and the reputation which the company has established in the market in terms of its products and services. Marketing objectives such as a desire to exercise a high degree of control over the product and its service may limit the number of levels in the channels. Further, such policies as an emphasis on aggressive promotion and rapid reaction to changing market conditions will limit the number of levels in the channels.

4.4.4.4. The Product Line and Brand Image

One of the important factors which determines the length of channel is the product mix. A manufacturer of a broad and deep product mix is in a much better position to sell direct to either retailers or customers than one producing a single item or a narrow range of products. Generally, the greater the variety of products offered, the greater the opportunity to use fewer levels in the channels. The underlying assumption is that many of the items of stock can be bought from a single supplier. Eventhough individual items may be purchased in small quantities, the total volume combining all the items may be large enough to take advantage of the cost savings from buying direct[57]. Even a manufacturer of low unit value products may enjoy intensive distribution with short channels if the product line is broad enough to result in a relatively large average sale. Where this advantage of combination does not exist, the channel is likely to use more levels. The cost of direct distribution may be prohibitive for a manufacturer who offers a narrow product line to geographically scattered customers purchasing small quantities. Conversely, the manufacturer of a broad and deep product mix with large and geographically concentrated customers may find that direct selling is the most profitable distribution alternative. More important, perhaps, would be the brand image. High demand for some brands, increases the market power of the manufacturer and enables him to bypass certain types of intermediaries.

4.4.4.5. Financial Limitations

Efficient performance of distribution functions requires extensive resources in physical facilities besides human resources, all of which have to be financed. Goods in transit and storage have to be financed. Credit may have to be extended to consumers. The alternatives are that the financial burden is borne either by manufacturer or by the intermediaries. The financial

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[57] Walters, Op.cit., p.179.

condition of the company obviously plays a leading role in deciding the channel structure. Generally, the greater the financial strength, the greater the opportunity to use direct or short channels. Every marketing activity has an associated cost, and the shorter the channel, the greater the performance of marketing functions by the channel leader, and the greater the cost of operations. Larger firms are in a better position to bear the high costs of these activities. Only when the small firm deals with an extremely small number of customers is it likelty to be able to sell to them directly[58].

4.4.4.6. The strong capital position of a company reduces its dependence on intermediaries. One of the primary reasons for using middlemen such as the manufacturer's agents is to reduce the capital investment and the cost of selling functions. A firm may prefer to sell direct, but finds that it has to compromise on the use of middlemen because of financial constraints. As the number of levels in the channel decreases, the financial burden on the manufactuer increases. A strong financial position is essential to perform the marketing functions necessary to move goods to the consumers. A firm which tries to reduce the number of levels will have to absorb some of the marketing functions which otherwise would be performed by an intermediary.

[58] Lewis, Marketing Channels, Structure and Strategy, Op. cit., p.115.

Performance of these additional marketing functions calls for more resources. A manufacturer who would otherwise prefer to deal direct but lacks finance is invariably forced to rely on intermediaries. Weakness in financial position forces a firm to use financially sound middlemen even if they are unnecessary in all other respects.

4.4.4.7. Financial limitations might indirectly lengthen the channel: Lack of finance might force the firm to restrict its market as well as its product lines. Further, the company may not be able to promote and presell its brands. The manufacturer may not also extend trade credit; all these may restrict the availability of the most efficient channel; intermediaries may have to be added just for the financing function. Financial constraints may also affect the ability to attract high quality management, which may increase the dependence on middlemen.

4.4.4.8. Lambert has developed an approach to choosing a channel structure based largely on financial considerations[59]. According to him, the process of choosing a trade channel is guided primarily by financial rather than marketing considerations. This is true whether the firm is contemplating shortening the channel, which requires

[59] Eugene W.Lambert, "Financial Considerations in Choosing A Marketing Channel", MSU Business Topics, (Winter 1966) pp.17-26.

more capital, or lengthening the channel, which will make funds formerly used in distribution available for other employment. Lambert's approach serves to highlight the importance of financial variables in deciding the length of channels. The perspective is very appropriate because channel structure decisions are usually long term ones compared to the other decision areas of the marketing mix. The study attempts to analyse here the following hypothesis:

H.2.4.4. "The size and financial strength of the manufacturer as well the brand image of the products determine the length of channels".

4.4.4.9. Empirical Findings

It appears that channel length is inversely related to market power of the manufacturer. Manufacturers of some popular brands have been able to bypass certain links in the channel and introduce shorter channels. For example, the small manufacturer with a premium brand of medicated toilet soap does not have stockists in their channels, although soap distribution is, in general, dominated by the stockist. The leading manufacturer of soap included in the study has few popular brands of washing and toilet soaps which every retail outlet prefers to carry. The company was, therefore, able to introduce direct distribution to wholesalers called "nonredistribution stockists", thus bypassing the regular stockist and adding a shorter channel in the very same territory in which the stockist was operating. The manufacturer of batteries similarly introduced a shorter channel where the product was supplied directly to preferred dealers, who were actually wholesalers, thus bypassing the stockists. Addition of this shorter competitive channel in the stockist's territory was possible because of the popularity of the brand.

4.4.4.10. There were many instances where manufacturers eliminated certain links in their channels when the companies gained marketing exposure and expertise. This had been particularly evident in the elimination of selling agents. Manufacturers of pesticides, transformers, and power tillers eliminated selling agents as the manufacturers acquired marketing and distribution exposure and expertise.

4.4.4.11. Although brand image and marketing expertise of manufacturers appear to influence reduction in the number of levels in the channels, the size and financial capacity do not seem to correlate well with the length of channels. It is often assumed that there is an inverse relationship between the size as well as financial capacity of the manufacturers and its channel length. The large and financially sound firms should have shorter channels compared to smaller firms in the same industry according to this assumption. But this is not in evidence among the firms under study. Empirical analysis reveals that some of the relatively smaller companies have shorter channels compared to the larger firms in the industry. Among three soap manufacturers, the smaller company has shorter channels compared to the larger ones. The two small paint units studied have shorter channels compared to large paint manufacturers in the industry that operate through either manufacturers' sales branches or selling agents at the primary wholesale level. Although the small scale fan unit do not use any wholesale intermediary, many of the national marketers of fan do have a wholesale level. The manufacturers of bread and soft drink covered under the study are large firms. The smallscale units manufacturing such products often sell directly to retailers while the units under study use wholesalers in their dominant channels. In all these cases, other factors which influence shorter channels are at work.

4.4.4.12. In many cases, parity in terms of the length of channels appears to exist among firms of different sizes and financial capacities. Among the pharmaceutical firms the number of levels do not vary significantly.

While the small firms supply directly to distributors in the local market, they use superstockists in distant geographic markets. In the place of the superstockist, the leading firms in the industry use manufacturers' sales branches. Where the biscuit manufacturer uses C & F agents, the leading firms in the industry operate through sales branches. The tyre unit studied is a relatively small firm with severe financial problems, but it does not differ from other tyre manufacturers in terms of length of channels. In size, the two transformer units vary much, but there is no difference in the length of their channels. Similarly, in the other industries covered under the study, the small and large units do not appear to show significant difference in the length of channels.

4.4.4.13. Obviously, the assumption that channel length is inversely realted to the size and financial capacity of the firms in an industry, doesnot receive sufficient empirical support. It is, however, true that in certain cases, the smaller firms use more levels of intermediaries, as the larger firms replace certain primary wholesalers by their sales branches. Further, the available evidence indicate that the degree of brand popularity of a product is inversely related to the channel length.

4.4.5.0. Product Characteristics as Determinants of Channel Length

4.4.5.1. Overwhelming emphasis has often been placed on product attributes as determinants of channel length. Some of the important product variables highlighted by marketing text books include technical complexity of the product, unit value, perishability, bulk and weight, and seasonality of the product. Plausible explanations have also been offered.

4.4.5.2. Technical Nature

Products which are not technically complex are primarily distributed indirectly. Highly technical products are, however, distributed through direct channels. The reason for direct distribution is that the products need technically competent salesmen who are capable of demonstrating and communicating the product's technical features to potential customers; there is also the need for service people, who can provide continuing liaison, advice and service after the sale is made. Many industrial distributors cannot perform these services effectively. Generally, companies marketing highly complex products tend to use direct channels. Tailor-made products usually take direct channels, but as products become more standardised the opportunity to lengthen the channel by including intermediaries increases.

4.4.5.3. Unit Value

High unit value items are more likely to be sold directly than inexpensive products. The high cost of direct distribution is more than offset by the higher margin for distribution costs. When the unit value is low, channels tend to be indirect unless volume is high enough to generate the margin required to support direct channels[60]. The higher the unit cost of the product, the larger is the investment required to provide inventories in the field. It implies that distributors tend to refuse such products. High unit value thus limits the availability of middlemen.

4.4.5.4. Pershability

Products with limited life span, or which are subject to rapid physical deterioration, and those that experience rapid fashion obsolescence caused by changing customer taste or technological changes are considered to be highly perishable. Rapid movement of the product to its final user minimises the risks attendant on high perishability. Naturally, such products tend to take the shorter routes to the market.

[60] Bowersox, et.al., Op.cit., p.205.

4.4.5.5. Bulk and Weight

Heavy and bulky products involve very high handling and transportation costs relative to their value. In order to minimise these costs such products are moved in large lots to the fewest possible points. Consequently, the channel structure for heavy or bulky products tend to be short. The exception perhaps is when customers buy in small quantities and need quick delivery, in which cases it is likely that more intermediaries are used.

4.4.5.6. Seasonal Products

Seasonal products that find unusual demand during particular seasons or are produced only at specific times during the year are usually sold through indirect channels. Products that are sold during only one season of the year may not justify the producer maintaining a fulltime sales force[61].

4.4.5.7. It could also be generalised that convenience goods tend towards long channels while shopping and speciality goods tend to use short channels. In summary, products that are bulky and perishable, have high unit value, or require technical selling or servicing tend to move through shorter channels. Ideas such as these

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[61] J.Taylor Sims, J.Robert Foster and Arch G.Woodside, Marketing Channels: Systems and Strategy, (New York, Harper and Row Publishers, 1977) p.136.

are useful rules of thumb, but their implications need to be challenged. Instead of the implied cause-effect relationship, there is probably a correlation effect[62]. The study attempts to analyse here the widely held hypothesis:

H.2.4.5. "Product characteristics are significant determinants of channel length".

4.4.5.8. Empirical Analysis

Among the products covered by the study, there are some products which are technical in nature requiring either technical selling or services. Transformers, power tillers and electromechanical components are products that belong to this category. Among consumer durables, TV and fan need post-sales services. The dominant channels for most of these products are relatively short, either direct or involving only one or two intermediate levels. The differences in the length of channels could be explained in terms of the differences in the degree of technicality, but only to a limited extent, not completely.

4.4.5.9. Unit value of the product and the length of channels have apparent correlation. Most of the consumer nondurables covered by the study are low unit value items and they take relatively longer channels. But

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[62] Pearson, Op.cit., p.18.

these products, as consumer nondurables, have other characteristics which also call for longer channels. Nor do the length of channels appear to vary in proportion to unit values of the different products.

4.4.5.10. Bread is a perishable product where the channel should be short, but at times it moves through two or three intermediate levels. Though the perishable nature of the product demands shorter channel, the low unit value places a conflicting demand namely, longer channel. Fertilizers and pesticides are seasonal products and, as expected , are moved through intermediaries. Chemicals and cables are heavy and bulky items involving high cost of transport. Obviously the channels have to be short and the dominant channels are direct channels. But the anomaly is that a truck load of biscuit brings much less sales realisation than a truck load of cables or chemicals and therefore, the transportation cost of biscuits is much more than that of cables or chemicals. Obviously, bulk and weight, implying transportation cost, are not the major determinants of direct or short channels in the cases of cables and chemicals.

4.4.5.11. Some of the product attributes - deemed to be determinants of channel length sometimes make conflicting demands on the same product, but at times a combination of factors act in unison towards the same direction. Products with the same length of channels appear to receive varying scores on some of the product characteristics. TV and fan have channels as short as bread and soft drink in certain cases. The dominant channel of fertilizer is as short as the dominant channel for tyre or power tiller. On the whole, some of the product characteristics correlate well with the existing length of channels. However, based on product characteristics alone the rationale for the particular length of a product's channel cannot be established. The cause effect relationship has to be sought elsewhere.

4.4.5.12. Aspinwall's parallel systems theory[63] offers another set of product related variables as determinants of channel length. The theory tries to establish that distribution structure is constrained by the nature of the product. His 'characteristics of goods and parallel systems approach' relates the length of channels with product variables. Aspinwall classifies all products based on five characteristics:

1. Replacement rate - the rate at which a good is purchased and consumed by users.

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[63] Leo V.Aspinwall, "The Characteristics of Goods and Parallel Systems Theories", William Lazer and Eugene J.Kelley(eds), <u>Managerial Marketing</u>, (Homewood, Illinois, Richard D. Irwin, 1962) pp.633-43.

2. Gross margin - the money which is the difference betwen the laid-in cost and the final realised sales price. (This includes all gross margins as products move through the channel, i.e., the sum of these).

3. Adjustment - services applied to goods in order to meet the exact needs of the consumer.

4. Time of consumption - the measured time of consumption during which the product provides the utility desired.

5. Searching time: the time the consumer is ready to spend in search of the product.

Table No.2.24.

Aspinwall's Colour Classification Scheme

Characteristics	Colour Classification		
	Red Goods	Orange Goods	Yellow Goods
Replacement rate	High	Medium	Low
Gross margin	Low	Medium	High
Adjustment	Low	Medium	High
Time of consumption	Low	Medium	High
Searching time	Low	Medium	High

Source: Leo V.Aspinwall, "The Characteristics of Goods and Parallel Systems Theories", William Lazer and Eugene J.Kelley(eds), Managerial Marketing, (Homewood, Illinois, Richard D.Irwin, 1962) p.641.

4.4.5.13. Aspinwall proposes that the channel structures used in the distribution of products are closely related to their "colour" (i.e., the degree to which they possess each of the five characteristics). Instead of the seven colours in a specturm, he takes only three shades. Replacement rate and standardisation are the two most important attributes of the product that determine its distribution structure. As the Table 2.24 shows, red products have a high replacement rate. The high frequency of purchase of red goods enables high degree of standardisation and specialisation in the performance of the distribution tasks. This provides scope for more specialised marketing intermediaries, resulting in long channels for red goods. Convenience goods and operating supplies in the industrial market fit this pattern.

4.4.5.14. It is postulated that red goods take longer channels while the channel length of orange goods would be medium and that of yellow goods short. The replacement rate for orange goods is high enough to offer moderate opportunity for standardisation and specialisation. At least one intermediary is likely to enter the channel. Yellow products are low in replacement rate but high in the other characteristics. This makes the performance of distribution tasks relatively expensive because of the lower opportunity for standardisation and routinisation compared with red goods. Tailor-made products such as industrial equipments are examples of yellow goods which generally call for short channels.

4.4.5.15. Aspinwall's colour classification of product characteristics has been applied to the products under study (Table 2.25). Four of the five variables appear to have significant relationship with the length of channels for many products. However, the presumed relationship between gross margin and length of channels appears to be questionable. Aspinwall's approach helps to highlight product related factors as important determinants of channel length. However, it has serious limitations. Certain significant product related factors such as lot size of a typical purchase, bulk and weight, perishability, and unit value are left out. One of the five factors used in Aspinwall's model, namely, gross margin, appears to have little correlation with channel length. Even if these limitations are ignored, the approach is seriously handicapped by the overwhelming emphasis the model seems to place on product characteristics as the determinants of channel structure. Even with regard to Aspinwall's product attributes, it is

Table No.2.25

Colour Classification of the Products under Study

S. No.	Product	Replacement rate	Gross Margin	Adjustment	Time of consumption	Search Time	Length of* Dominant channel
1.	Soap	H	L	L	L	L	4
2.	Pharmaceuticals	H	M	L	L	L	3
3.	Biscuit	H	L	L	L	L	4
4.	Bread	H	L	L	L	L	2
5.	Jams and Syrups	H	L	L	L	L	2
6.	Soft Drinks	H	H	L	L	L	2
7.	Fertilizers	M	L	L	M	L	2
8.	Pesticides	M	L	L	M	L	2
9.	Cattlefeed	H	L	L	L	L	2
10.	Batteries	H	L	L	L	L	4
11.	Lamps	H	L	L	L	L	4
12.	TV & Radio	M	L	M	M	M	2
13.	Fan	M	L	M	M	M	2
14.	Tyre	M	L	M	M	M	2
15.	Paint	M	M	M	M	M	3
16.	Watermeter	L	L	L	H	M	2
17.	Transformers	L	L	H	H	H	0
18.	Electrical components	M	L	M	M	H	0
19.	Cables	L	L	M	H	H	0
20.	Chemicals	M	L	L	M	H	0
21.	Power tillers	L	L	H	H	H	1

Abbr: L = Low; M = Medium; H = High. * Typical for the industry.

doubtful whether the relationship between these variables and channel length are cause-effect relationship or sheer correlation effect. In fact, most of the critical variables identified by Aspinwall are rather factors more related to the customer and his buying habits than product characteristics.

4.4.5.16. Analysis of the five hypotheses related to the determinants of channel length leads to an important observation: channel length is not determined by any single factor, but by a combination of factors. Although certain attributes of the product are significant, the more critical determinants of channel length are factors related to the customer and the market. Particularly relevant are the customer buying patterns, the market density and the distance between the producer and the customer.

CHAPTER V

INSTITUTIONAL STRUCTURE OF DISTRIBUTION

5.0.1. The structure of wholesale and retail institutions is the main theme of this chapter. 'Description' involves the analysis of the extent of trade specialisation among the various types of wholesale and retail establishments and attempts to evaluate the relative significance of the different types of wholesale intermediaries. Evolution in the wholesale structure, particularly the shift in the predominance of the various intermediaries, and the slow process of evolution in retailing form the content of 'development'. 'Dynamics' deals with issues such as functional adaptations among intermediaries, institutional innovations, trade margins, and cost of distribution. The final part probes the determinants of the relative stagnation in the institutional structure and discusses the perspectives and challenges of rationalisation of wholesaling and modernisation of retailing.

5.0.2. The following are the hypotheses tested in this chapter.

H.3.1.1. There is hardly any trade specialisation among the wholesale intermediaries, particularly specialisations based on product lines, functions, and geographical areas.

H.3.1.2. Product line specialisation is virtually absent in the retail structure.

H.3.2.1. There has not been any change in the institutional structure of wholesaling.

H.3.2.2. The retail structure remains stagnant.

H.3.3.1. There has not been any functional evolution among the intermediaries, either in terms of addition of new functions, or in terms of the efficiency in performing the traditionally defined functions.

H.3.3.2. Trade margins are not low considering the functions the intermediaries perform.

H.3.4.1. Institutional innovations and functional adaptations in the distribution sector are retarded by the small size of the institutions, the absence of professional management, and the lack of outside entrepreneurs entering the field.

5.1.0. Description

5.1.0.1. The study of distribution is the study of institutions and interactions. Analysis of the institutional structure normally follows analysis of functions, for the divisibility and shiftability of functions give rise to functionaries[1]. As Alderson observes, functions are the basic determinants of structure[2].

5.1.0.2. It has been postulated that the degree of trade specialisation varies at different stages of marketing development. Four main types of specialisation have been noted by Revzan: specialisation by (1) product line, (2) functions, (3) geographical adaptation, and (4) classes of customers[3]. Low level economies are characterised by unspecialised trade. There is very little specialisation by commodities. Vertical specialisation in the channel is more or less absent. Cross section analysis of channels in various developing countries, however, led Reed Moyer to conclude that both specialised

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[1] Robert Bartels, "A Methodological Framework for Comparative Marketing Study", Montrose S. Sommers and Jerome B.Kerman (eds), Comparative Marketing Systems, (New York: Appleton-Century-Crofts, 1968) pp.7-8.

[2] Wroe Alderson, Marketing Behaviour and Executive Action, (Homewood, Illinois: Richard D. Irwin Inc., 1957) p.75.

[3] David A. Revzan, Wholesaling in Marketing Organisation, (New York: John Wiley & Sons Inc., 1961) p.61-62.

and unspecialised trade exist in under-developed economies[4], depending on their level of development.

5.1.0.3. Wholesale Specialisation in India

The blurring of distributive functions which appears to be a common phenomenon in all underdeveloped countries was much in evidence when Hirsch[5] analysed the structure of wholesaling in India: no clear cut division between successive stages of distribution process existed; for instance, firms acted as both wholesalers and retailers. Westfall and Boyd also reported the wholesalers combining their wholesale functions with retailing or with manufacturing[6].

5.1.0.4. The absence of product line specialisation was also noticed by Hirsch. It was observed that Indian wholesalers frequently handle a wide range of apparently unrelated products ranging from sugar to precious metals and from textiles to chemicals. Narrow markets often

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[4] Reed Moyer, "The Structure of Markets in Developing Economies", Montrose S. Sommers and Jerome B. Kernan (eds), Comparative Marketing System, (New York: Appleton-Century-Crofts, 1968) p.152.

[5] Leon V. Hirsch, "Wholesaling in India", Robert Bartels (ed), Comparative Marketing - Wholesaling in Fifteen Countries, (Homewood, Illinois, Richard D. Irwin Inc., 1963) p.142.

[6] Ralph L. Westfall and Harper W. Boyd, Jrd., "Marketing In India", Mantrose S.Sommers and Jerome B. Kernan (eds), Comparative Marketing System, (New York: Appleton-Century-Crofts, 1968) p.152.

restrict the type of commodity specialisation possible for a merchant and the scope for enlargement of their present business becomes progressively more difficult. Wholesale merchants who want to expand most often choose new fields[7].

5.1.0.5. The scope of trade specialisation is not limited to the area of wholesaling. It appears that the structure of retailing in a developing economy is characterised by specialised stores which are finally replaced by large mass merchandising institutions as the economy becomes very affluent. Studies on comparative marketing undertaken during the early 1960's had fairly established the relationship between the level of development of the economy and the extent of specialisation in retailing. Speciality stores represented about two-third of the turnover of retail trade in South Africa during the 1960's[8]. The retail structure in Poland consisted of numberous smallscale highly specialised establishments[9]. Retailers in Spain frequently specialise more than in the United States[10]. By US standards, the French retailing system

[7] Hirsch, Op.cit., p.146.

[8] Hugh G.Wales, F.F. Winkle and C.Bak, "Marketing in South Africa, " Journal of Marketing, Vol.27, October 1963) pp.42-47.

[9] J.Hart Walters, Jr., "Retailing in Poland,"Journal of Marketing, Vo.28 (April 1964) pp.16-21.

[10] Edwin H. Lewis, "Marketing in Spain", Journal of Marketing, Vol.28, (October, 1964), pp.17-21.

is highly fragmented and one finds in France many small specialised stores which in America would be combined into one[11]. In Israel, the largest portions of goods of all types are retailed through specialised stores-clothing stores, appliance stores, furniture stores, butcher shops, automobile dealers, hardware stores, and so on[12]. The chronological sequence of the general stores and the speciality stores, followed by large scale mass merchandising institutions in the United States testifies to this dynamics of institutional evolution in retailing.

5.1.0.6. This appears to contrast with the retail scene in India. Trade specialisation in the retail sector is generally presumed to be nonexistent. With the earlier observations on the lack of specialisation at the wholesale sector, the blurring of distributive functions at successive stages in the marketing channels now become apparent. The following hypotheses have, therefore, been set for empirical analysis:

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[11] S.Watson Dunn, "French Retailing and Common Market", Journal of Marketing, Vol.26 (January 1962), pp.19-22.

[12] Yoram Wind, "The Role of Marketing in Israel", Journal of Marketing, Vol.31 (April 1967), pp.53-57.

H.3.1.1. "There is hardly any trade specialisation among the wholesale intermediaries, particularly, specialisations based on product lines, functions, and geographical areas".

H.3.1.2. "Product line specialisation is virtually absent in the retail structure".

5.1.0.7. Meaning of Specialisation

Three aspects of trade specialisation are being analysed here: product line specialisation, functional specialisation, and geographic specialisation. The meanings assigned to these terms in this study have to be specified. Product line specialisation signifies the concentration of selling efforts on a narrow line of products. This enables the intermediary to acquire expertise in performing the distribution functions required for specific products. The lines chosen are related in terms of costomers and/or distribution functions undertaken. Functional specialisation indicates the concentration of distribution efforts on certain tasks so that he can perform them more effectively. Those who do not specialise on functions spread their efforts too thinly over many tasks. This is against the very logic of having different types of institutions in a channel of distribution. Certain types of intermediaries are suited for particular functions. The presence of non-specialised intermediaries indicates an inefficient channel structure. A trader who engages in wholesale and retail selling is not concentrating on either. Similarly an intermediary who undertakes promotion, negotiation, warehousing, transport, credit, and so on is spreading his efforts thinly and inadequately. Geographic specialisation is defined in this study as a situation in which the middleman operates within specific, narrow, geographic territories; he either does not choose to trade anywhere and everywhere, or has agreed to confine his operations to a specific territory. The purpose of limiting the geographic extent of trade operations is to concentrate on particular territories for better coverage of the market area and optimal tapping of the sales potential.

5.1.1.0. Wholesale Intermediaries and Their Trade Specialisation

5.1.1.1. Analysis based on the traditional institutional approach involves a description of an observed structure. The task here is to identify and describe various types of institutions.

5.1.1.2. Selling Agent

Selling agents are used when the manufacturers do not have adequate marketing organisations. A typical selling agent takes the responsibility for distributing the entire output, or a particular line, of a manufacturer throughout the market, or in specified geographic region. He may act either as a merchant middleman by taking title to the product or as an agent who works for a commission, most often the latter. The selling agent maintains his own sales force, and often has a network of branches as well as long established contacts and dealings with a network of intermediaries. Taking over the distribution task from the manufacturer, selling agent often distributes consumer nondurables to wholesale merchants, consumer durables to dealers, wholesale or retail, and industrial goods directly to end-users.

5.1.1.3. Among the thirty firms under study, only two manufacturers use selling agents - a manufacturer of pesticides and a producer of power cables. The selling agent for pesticides is responsible for promotion as well. The agent distributes the product in three ways. He uses subagents who, in turn, supply the product to the market through a network of dealers. The selling agent supplies the product to apex cooperatives which, in turn, distribute the product through primary cooperative societies. The agent serves large customers directly by spraying the pesticide in plantations, using helicopters.

5.1.1.4. Basically a commission agent, the selling agent performs two functions: canvassing orders and collecting payments. Goods are supplied directly from the factory to the subagent or apex cooperative. Usually selling agents do not limit their trading operations to limited lines. The selling agent engaged by the pesticide manufacturer deals in all kinds of agricultural inputs and implements, including other pesticides. The agent operates in the national market and, therefore, lacks geographic specialisation.

5.1.1.5. In the second case, where a selling agent is used for distributing power cables to small volume customers, the agent apparently takes title to the goods and distributes the product through its branches. This agency is infact a sister concern of the manufacturing firm, and therefore, functionally it acts as a company-owned branch network. This type of selling agents remind one of the quaint practice of the days of scarcity when some manufacturers used to transfer the entire stock to a so-called selling agent, nonfunctional and nonexistent, which existed only on paper, but enabled the producer to evade tax. A case of this type has indeed been reported in this study.

5.1.1.6. Regarding functional specialisation, the selling agents perform a variety of operations. The typical selling agent is responsible for advertising and promotion; establishment of dealer network, sales transaction and payment collection; certain services to industrial or institutional customers as in the case of spraying of pesticides. Some selling agents undertake manufacturing operations as well. It is, therefore, difficult to describe a typical selling agent in terms of his functional specialisation. Other types of trade specialisations are also limited.

5.1.1.7. Superstockist

The superstockists are primary wholesalers used by pharmaceutical firms. During the field study, two relatively small pharmaceutical firms have been found using them in order to enter distant geographical markets. They take title to the goods, maintain stock, send goods to the distributors as per orders generated by the company sales supervisors; aided by the company's field executives, they coordinate the work of the distributors.

Initially they help to develop a network of distributors. Sales communication is entrusted to the manufacturers' field salesforce. The superstockist is a relatively new institution. The entrepreneurs who entered the field were originally pharmaceutical distributors and most of them continue to be distributors for some companies although they act as superstockists for certain other firms. Naturally, there is lack of role clarity. However, as superstockists their functions are limited and to that extent there is functional specialisation.

5.1.1.8. A relatively small firm trying to enter a new geographical market may not have sufficient resources or volume to justify the establishment of branch offices and depots. At the same time, the clearing and forwarding agents who perform only physical distribution functions are not sufficient to meet the needs of the manufacturer. The superstockists take relatively more active interest in the development of a distributor network as well as in market expansion. They usually operate at a statewide geographical basis. Except when the different roles of the agency blur its functional specialisation, trade specialisation in its various aspects are much in evidence.

5.1.1.9. Manufacturers' Sales Branches and Offices

These are establishments owned by manufacturers and maintained apart from manufacturing plants, primarily for selling their products at wholesale. Sales offices located at manufacturing plants or at general administrative offices of manufacturers are excluded unless operated as separate establishments. Manufacturers' sales branches are distinguished from sales offices by the fact that the former maintains facilities for storage, handling, and delivering of atleast a portion of the merchandise sold[13]. It differs from the depot which represents the physical facilities for warehousing, because it lacks the salesforce necessary for sales communication. In the field of industrial selling, sales branches frequently install and service machinery, equipment and apparatus sold by them.

5.1.1.10. In the present study, the involvement of manufacturers' sales branches and offices are much in evidence (Table 3.1). Of the 30 firms under study, 15 firms have either sales branches, offices or depots performing the wholesale functions. The distinction between sales branches and offices in terms of the type of industries which use them has also become evident. While the relatively large manufacturers of industrial products maintain sales offices, fairly large producers of consumer goods establish sales branches. Of the eight manufacturers

[13]Revzan, Op.cit., pp.35-36.

Table No.3.1.

Manufacturers' Wholesale Organisation

Company	Sales Branch	Sales office only	Depots only
1. Soap I	x		
2. Soap II	x		
3. Soap III	x		
4. Pharmaceuticals		x	
5. Biscuit		x	
6. Pesticides			x
7. Fertilizers	x		
8. Batteries	x		
9. Lamps & Tubes	x		
10. Radio & TV	x		
11. Tyre	x		
12. Watermeter	x		
13. Transformer		x	
14. Electromechanical components		x	
15. Chemicals I		x	
Total	9	5	1

in the former category, three have networks of sales offices. They are manufacturers of transformers, electromechanical components and carbon black.

5.1.1.11. In the soap industry all three units studied maintain sales branches. In pharmaceutical distribution, most of the large firms maintain sales branches; however, the relatively small firms that were included in the study do not have branch networks. One of these firms has an office network. In the food industry, most of the firms under study are distributing mainly in the local market, and the relatively new biscuit manufacturer who operates in the regional market has already established sales offices. While the manufacturer of fertilizers maintains sales branches, the manufacturer of pesticides has only depots. The manufacturers of batteries and lamps and tubes maintain elaborate branch networks.

5.1.1.12. Among the firms manufacturing consumer durables and semiindustrial goods, the producer of television uses a network of branches while the manufacturer of tyre maintains sales branches and depots. Although the leading manufacturers of paint often maintain sales branches, the smallscale units under study do not have branches or offices. Though a smallscale unit, the producer of watermeter maintains few sales branches. In the case of fan, all leading manufacturers operate through sales branches but the small unit involved in the study, selling its limited output in the local market, doesnot need any internal wholesale network.

5.1.1.13. Of the fifteen firms with internal wholesale networks, nine firms have sales branches, five firms have office networks, and one has only depots. Of the nine firms with sales branches, four firms belong to the category of consumer nondurables, five to consumer durables and semi-industrial products, and none to industrial goods. Of the five units maintaining sales offices, two belong to consumer nondurables and the remaining three to industrial products. Apparently, sales branches figure prominently in the distribution of consumer goods and semi-industrial products, while sales offices are characteristic of industrial products.

5.1.1.14. From the internal wholesale organisations, products move to three destinations: wholesale intermediaries, retail outlets, and industrial or institutional customers. While convenience items such as soaps, fertilizers, batteries, and bulbs move from sales branches to wholesale intermediaries, consumer durables such as TV, radio, fan, and tubes move towards retail dealers; semi-industrial products such as paint and watermeter move to both wholesale and retail destinations, more often to the former. The sales branches perform warehousing and despatch; sales communication and transaction; information feedback to the company; and get involved in product promotion, post sales services, and payment collection. The sales offices on the other hand, do not get involved in any physical distribution function, but facilitate the flow of product, information, and payment between the manufacturing firm and its clients. The depot is primarily for physical distribution functions. Manufacturers' wholesale organisation obviously represents to a high degree trade specialisation in terms of product lines, functions, geographical area, and customer groups.

5.1.1.15. Clearing and Forwarding Agent

The C & F agents are wholesale middlemen who do not take title to the goods; they are primarily involved in the physical distribution. They maintain godowns and the manufacturer makes a stock transfer to the godown where goods are held in the manufacturer's account. The C & F agents receive the goods, arrange the storage and execute the orders received from a defined territory.

Their area of operation is usually an entire state. They arrange onward transport of goods. They sign a transport contract with the company on a per tonne, per mile basis, within which they have to settle their own terms with local transport operators. The C & F agent has to ensure the safety of goods. Processing and invoicing of orders are performed by the C & F agent, unless the company has a sales office. Orders are usually generated by company sales personnel. Cheques from customers are collected by the C & F agent and are remitted in the company's account. By the very nature of their task, the C & F agents can carry diverse product lines, but there is a high degree of functional and geographical specialisation.

5.1.1.16. Stockist

The stockist is a merchant wholesaler who represents a manufacturer in a specified geographic area. He is expected to keep adequate stock, transport it to customers, and offer them credit. He receives goods either from the company directly, or from the sales branch or depot, and distributes to 'wholesalers' and retailers. The stockist does not normally undertake the selling function. Often the manufacturer's salesmen perform the sales communication and order taking. The stockist is expected to deliver the goods at the premises of the wholesale and retail customers, usually in a delivery van, handcart or cycle. For the transportation function he gets a 'van allowance'.

5.1.1.17. The stockist specialises in a few related product lines and represents a few companies, but seldom carries competitive brands. He operates in specific geographic territories and works under the direction of manufacturers with respect to selling price, promotion schemes, and the number of days in a month or week to be devoted exclusively for the sales of the products of a specific manufacturer. Trade specialisation in all its dimensions are evident among the stockists. The field study indicates that these intermediaries are used in the distribution of soaps, biscuits, batteries and electromechanical components. A marketer of lamps and tubes designates its stockists as district stockists, as they operate an entire district while most of the other units use townwise stockists.

5.1.1.18. Distributor

The difference between the stockist and the distributor is largely a difference in the nomenclature, and the two terms are often used interchangeably. However, it appears that the distributors operate relatively larger territories than the typical stockists. The distributors in certain industries undertake the sales transaction and communication functions, where the company do not engage any sales force. Among the firms under study, the pharmaceutical firms and the manufacturer of jams and syrups designate their dominant first line intermediaries as distributors. There is one pharmaceutical company which uses both stockists and distributors; the distributors operate relatively larger territories and sell more volume compared to the stockists.

5.1.1.19. However, the term distributor is often used in a very general sense to denote any wholesale intermediary, except perhaps agents and brokers. This semantic ambiguity is the result of a historical process of change in the area structure of the distributor. Discussions with experienced traders and senior marketing executives revealed that initially, the term was almost a synonym for selling agent, and a soleselling agent was called a sole distributor. Later the meaning of the term was restricted to intermediaries responsible for distribution in a region covering few states or provinces. Subsequetly, a wholesaler distributing a product in an entire State came to be known as a distributor. Some years back, the geographical area of operation of the distributor was further reduced to few districts. Today, the distributor represents the manufacturer in one district or part of it.

With the gradual erosion in his geographical area of operation, the distributor has been pushed down to the role of a secondary wholesaler from that of a primary wholesaler.

5.1.1.20. With market expansion and increase in competition, the territories assigned to the distributors came to be bifurcated repeatedly, and companies started appointing townwise wholesale intermediaries. Some companies designated them as stockists while others continue to call them distributors. Most often the official records of companies prefer to use the term "redistribution stockists" for both stockists and distributors. The term 'redistribution stockist' captures their core function in the sense both agencies are expected to keep adequate stock and perform redistribution of the product to other intermediaries, wholesale or retail, often with the involvement of the manufacturer's salesforce.

5.1.1.21. Wholesaler

The term 'wholesaler' as applied to an agency in the Indian distribution system has undergone specialisation of meaning. It refers to a full line, full service merchant middleman who sells to retailers. Unlike the stockist or distributor, he does not represent any particular manufacturer. In the field of convenience products, he often gets his supplies from the stockist or distributor. He does his own selling and is not aided by the manufacturer's salesforce in getting orders from the retail customers; nor does he transport the goods to the business premises of the retailers. He expects the retailers to come to him. Normally, the wholesaler serves the relatively small and rural retailers whom the stockist does not serve directly; it is not economical for the stockist to cover the dispersed markets in his territory. The small stores and the rural retailers come to the wholesaler for supplies and credit. Even those retailers who are served directly by a stockist, depend on the wholesaler for a number of product lines.

5.1.1.22. The wholesaler is primarily a purchasing agent for his retail customers rather than a selling agent for any particular company. Compared to the stockist, the wholesaler carries a much wider variety of products and competing brands, indicating to an extent, the lack of product line specialisation; nor is there any significant geographical specialisation, although his clients often belong to the rural surroundings. He does not operate in any specified territory. The wholesalers dealing in particular lines are often clustered in certain areas of the town or city. The wholesaler takes title to the goods, warehouses and sells it, and extends credit. Often the wholesaler sells a small portion of his output at retail also, indicating to that extent the lack of functional specialisation. In the present study wholesalers who conform to the above norms are found in the channels of soaps, biscuits, batteries, and lamps. Trade specialisation in all its dimensions are absent.

5.1.1.23. The semantic confusion about the term wholesaler becomes explicit when certain industries use the term for an agency that performs more or less the same functions as those of stockists or distributors. For instance, the 'wholesaler' or 'wholesale agent' used in the distribution of soft drinks performs the same functions as stockists and can be treated as stockist. The wholesaler distributing bread is a typical stockist. The wholesale dealers involved in the distribution of semi-industrial products such as watermeter and paint perform more or less the same functions as stockists, except that they do not deliver or despatch the goods to the retail dealers, unless the latter pay for the transportation. However, their commitment to any particular manufacturer or brand is relatively low and they often carry competing lines.

5.1.1.24. On the whole, it appears that trade specialisations among 'wholesalers' are limited, particularly, specialisations in terms of product lines and functions. To the extent that they sell at retail, in addition to their predominant wholesale functions, they have been called 'subwholesalers' by the western observers[14].

5.1.1.25. Substockist and Subdistributor

The substockists and subdistributors are merchant wholesalers who get their supplies from stockist or distributors, and, in turn, sell to retail institutions and sometimes to 'wholesalers'. The manufacturrers never get involved in any of their distribution activities. They are not extensively used in the channels of all companies. Even when they are used, the volume that is sold through them is very limited. It is apparent that these institutions are only incidental in the distribution systems of the concerned industries. The agency called subdistributors or substockists can hardly be treated as an institution, for it does not have its own distinctive characteristics. For some products or manufacturers, they are distributors, and for others, they are wholesalers.

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[14]Hirsch, Op. cit., passim.

5.1.1.26. In the present study subdistributors have been found in the channels of pharmaceuticals. They get their supplies from the distributors and operate within the territory of the distributors. Some of these subdistributors are 'propaganda cum distributors' for relatively smaller firms. For such firms they offer a package of services including personnel selling, promotion and distribution. They take the role of subdistribotors for relatively larger firms, primarily for the purpose of stretching their own lines of merchandise and adding certain prestigeous brands to make their assortment mix more respectable. Subdistributors are used in the channels of jams and syrups also.

5.1.1.27. Substockists are involved in the distribution of biscuits. They get their supply from the stockists and distribute it among wholesalers and retailers. Especially when a relatively large area is assigned to a stockist, he may not be able to cover effectively the wholesale and retail establishments scattered over a dispersed and predominantly rural market. This is particularly so when the distance between one village and another is considerable and the villagers are cluster in particular residential areas. The stockist divides the dispersed rural markets among a few subdistributors.

There is hardly any indication of trade specialisation, among the subdistributors and substockists, except perhaps in product lines.

5.1.1.28. Semiwholesaler

They are merchant middleman who get their supplies either from the stockists or from wholesalers. Being relatively large retailers who sell a small volume on wholesale also, they can hardly be treated as a wholesale institutions. Although they are retailers predominantly, the manufacturers and stockists consider them as wholesalers because of the volume they take, irrespective of whether they sell at wholesale or retail. Hence marketing managers do not talk about the semi-wholesalers in their channels. Semiwholesalers are involved in the channels of many convenience items, although only one firm, the manufacturer of bread, has treated them separately as semiwholesalers. They take title, stock the product and sell to retailers as well as final consumers. Located in upcountry areas, in large villages or taluk headquarters, they serve the small rural retailers. Just as they get credit, they extend credit to customers. The extent of trade specialisation is obviously limited.

5.1.1.29. Manufacturers' Agent

Manufacturers' agents, usually called 'agents' are found in the distribution channels of both industrial and consumer products. In the present study, manufacturers of transformers, chemicals, and jams and syrups use these agent middlemen. Even a pharmaceutical firm, trying to establish market contact has been found using agents, called 'liaison agents', particularly to get in touch with institutional customers. The agents represent the manufacturers in specified geographical areas. They perform almost the same functions as company salesforce. They contact potential customers, negotiate transactions, provide information feedback to the company, and sometimes speed up payments. They work on commission basis. They are individuals rather than institutions, but may maintain an office. For instance, the agents used by the transformer manufacturers are often retired executives of the manufacturer or similar firms, or even client firms. Specialisations in terms of product lines, functions, and geographical area are evident to a high degree. But in the case of agents involved in the distribution of chemicals, there is hardly any functional specialisation: some of the agents for certain products are wholesale dealers for some other products of the same company. However, in their role as agents, their functions are by and large specific and limited.

5.1.1.30. Broker

There is only one firm that uses brokers in its distribution system. It is a chemical firm and the brokers are in fact incidental in one of its channels. Brokers found in the present study are agent middlemen who negotiate transactions between industrial users and stockists. They get commission from both parties. They do not represent any particular buyer or seller; nor do they specialise in any particular product or product line. However, functionally they are specialists. Often they operate in particular geographic areas and among the customers. In fact, brokers had been playing a dominant role in the distribution of many chemicals for over centuries. The baniyas of yester years who used to work on commission basis continue to be the brokers of today.

5.1.1.31. Consignment Stockist

They are agent middleman who keep an agreed minimum stock for the territory in their godowns in the manufacturer's name. For the warehousing function they are paid by the manufacturer. The consignment stockists in the channels for pesticides and chemicals sell the product to dealers and bulk consumers. They perform the sales negotiation and the collection of payments. They get a small commission for their limited services. A manufacturer of carbon black uses consignment stockists to sell to small volume industrial buyers and also to industrial customers who want frequent replenishments owing to inventory problems. The consignment stockists however, do not form a separate institution because they are often regular wholesale dealers who at times act as consignment stockist. Therefore, analysis of the extent of their trade specialisation is not significant.

5.1.1.32. Dealer

Wholesale and retail intermediaries involved in the distribution of consumer durables and industrial products are generally known as dealers. Most of the dealers involved in the distribution of consumer durables are retailers; for example, the dealers of TV, radio and fan. Tyre dealers also are retailers. For a semi-industrial product such as paint, there are both wholesale and retail dealers. For agricultural inputs such as fertilizers, pesticides, and cattlefeed, there are both wholesale and retail dealers; often the wholesale dealers sell at retail as well. The dealers in the channels of industrial products such as chemicals, electrical components, and power tillers are obviously wholesalers.

5.1.1.33. Wholesale Dealer

The field study indicates the existence of wholesale dealers in the distribution channels of paint, chemicals, electromechanical components, and power tillers. They are often merchant wholesalers, although they at times combine merchant and agency business. They stock the product, perform the sales transaction, and often sell to industrial customers or intermediate markets. Sometimes they extend credit to customers. They operate in specific geographic areas and handle only limited lines of related products. Most of them limit their functions to a few operations involved in buying and selling. The paint wholesale dealers are often hardware wholesalers who get their supplies of paint from manufacturers, either directly or from their sales branches and supply to paint retail dealers who are also hardware retailers most often. They also supply to institutional customers. Although they are wholesalers, cometimes they sell at retail also. Dealers of chemicals get their supplies from manufacturers and sell to industrial users. However, the very same agency which acts as a dealer for one product may play the role of an agent for some other products of the same manufacturer.

5.1.1.34. Dealers of electromechanical components are merchant wholesalers; but they are second line wholesalers and get their supplies from the stockists. They are not directly connected to the company. They represent the stockists in industrial centres where the company is not represented by stockists. They either supply to industrial areas where there are no stockists or dealers for the product. The subdealers take title to the products and sell to industrial customers. Dealers of power tillers are merchant wholesalers who represent the manufacturer in specific geographic areas. Besides buying and selling transactions, they help the manufacturer in local promotion, and sometimes perform local advertising. They are usually dealers of agricultural implements. Specialisation in terms of product lines exists, though not to a high degree.

5.1.1.35. In the field of consumer products, the dealers sell a small quantity at retail also;for example,in the case of agricultural inputs; so also in the case of semi-industrial goods such as paint and watermeter. In the case of industrial goods, they take different roles with respect to different products. Functional specialisation is thus limited. Geographical areas of operations are not specified even when these firms are aligned to manufacturers. On the whole, trade specialisation is not very conspicous.

5.1.1.36. State Agencies

State agencies figure prominently in the distribution systems of many products, especially of agricultural inputs and implements. Government sponsored institutions such as the agroindustries corporations in different States, various agricultural cooperative institutions, the milk marketing federations, etc., are dominant in the distribution of fertilizers, pesticides, cattlefeed, and power tillers. However, the distribution functions performed by these agencies are incidental to their developmental functions in the respective fields. Analysis of the extent of trade specialisation among these institutions, therefore, serves little purpose.

5.1.1.37. Extent of Specialisation

In summary, it can be concluded, that the extent of trade specialisation is limited among the agencies at the wholesale level. As indicated by Table 3.2, of the 10 agencies considered only three show trade specialisation in all the three dimensions; they are the stockists/distributors, the superstockists, and the manufacturers' agents. Among the others, only the C & F agents show specialisation in terms of two dimensions: functional specialisation and geographic specialisation. The broker who specialises in sales transaction function do not follow specialisation in any other respect. The remaining five types of agencies do not follow any kind of trade specialisation and the agencies are selling agents, wholesalers, subdistributors/substockists, semiwholesalers and wholesaler dealers. Among the three agencies that follow

Table No.3.2

Specialisation at the Wholesale Level

Agency	Type of Specialisation		
	Product line	Functional	Geographic
1. Selling Agents			
2. Superstockists	x	x	x
3. Stockist/Distributor	x	x	x
4. Wholesalers			
5. Substockists/ Subdistributors			
6. Semiwholesalers			
7. Wholesale Dealers			
8. Manufacturers' Agents	x	x	x
9. Brokers		x	
10. C & F Agents		x	x
Total	3	5	4

trade specialisations in terms of product lines, functions, and geographic area of operation, two intermediaries, namely, superstockists and manufacturers' agents are not frequently used and are often of incidental significance in the channel structures where they are used. Therefore, the only significant intermediary who shows a high degree of trade specialisation is the stockist/distributor. Thus, there are indeed wholesale institutions where the extent of trade specialisation is limited. However, some wholesale institutions which dominate the scene show high degree of trade specialisation and this evidence is against the hypothesis (H.3.1.1.)

5.1.2.0. Relative Significance of the Agencies

5.1.2.1. Another significant aspect pertaining to the description of the institutional structure is the relative significance of the various types of intermediaries in the distribution structure of manufactured goods. The level at which the agencies appear in the wholesale structure, the importance of the channel in which they appear, and the frequency of their appearance are important indicators of their relative importance in the channel structure (Table 3.3.).

Table No.3.3

Wholesale Intermediaries and their Frequency of Appearance in the Channels

Agency	Industries where they are used and the frequency of occurrence			
	Consumer Nondurables	Consumer Durable and semi-industrial goods	Industrial goods	Total
1. Selling Agent	1		1	2
2. Superstockist	2			2
3. Stockist/Distributor	12		1	13
4. Substockist/ Subdistributor	6			6
5. Wholesaler	6			6
6. Wholesale Dealer	2	3	3	8
7. Wemiwholesaler	1			1
8. Manufacturers' Agent	1		3	4
9. Broker			1	1
10. C & F Agent	1			1

5.1.2.2. In terms of the frequency of appearance, the stockists/distributors are the most significant and they appear in the channels of 13 companies, including the channels for soft drinks and bread, where they are still designated as 'wholesalers'. The wholesale dearlers are used in the channels of eight manufacturing firms. Subdistributors/substockists, and 'wholesalers' are found in the channels of six firms each, while manufacturers' agents are involved in the channels of four firms. Selling agents and superstockists appear in the channels of two firms each, while semiwholesalers, brokers, and C & F agents are used by one firm each. The significant position of the stockist/distributor is quite explicit. Next in importance are the wholesale dealers, substockists/distributors and wholesalers. Other agencies are relatively infrequent.

5.1.2.3. In terms of the importance of the channels in which the agencies appear, the stockist/distributor again occupies the pride of place, followed by the wholesale dealer. Whereever the stockist/distributor is in the channel, the agency appears in the dominant channels and very often in the secondary channels also; frequently they appear in all channels except the direct channels. Wholesale dealers sometimes appear in the dominant channel, but seldom in any secondary channels. The 'wholesaler' is the only other agency who gets involved in the dominant channels. All others are usually involved in secondary channels, except in one company where the manufacturer's agent appears in the primary channel.

5.1.2.4. Among the three wholesale institutions that appear in the dominant channels, the 'wholesalers' do not appear as direct intermediaries or first level intermediaries; only the stockists/distributors and wholesale dealers occupy that position. The significance of the first level intermediary is that some secondary channels also originate from them; the bulk of the goods thus, moves, through them, particularly in the case of the first level intermediaries in the dominant channels. The other first level intermediaries are selling agents, superstockists, C & F agents and manufacturers' agents. However, they are less frequent and are involved in relatively less significant channels. Selling agents, for example, appear only twice in the study, and that too in secondary channels.

5.1.2.5. Obviously, the two important wholesale institutions are the stockist/distributors and the wholesale dealers. The former appear in the channels for consumer nondurables while the latter is involved in the distribution of industrial and semi-industrial products, and agricultural inputs and implements. Although the wholesale dealers often appear as a first level agency, they are often bypassed or pushed aside to the secondary channels, and are much less frequent compared to the stockist. Evidently, no other institution comes anywhere near the stockists/distributors in terms of the frequency of appearance, the dominance of the channels in which they appear, and the primacy of the level at which they appear. In terms of the degree of trade specialisation also they are at a higher place.

5.1.2.6. Many agencies occupy relatively minor positions in the channels in terms of all the above dimensions, including trade specialisation. The broker and the selling agents are often incidental in the channels. The subwholesalers such as subdistributors/substockists and semiwholesalers play only relatively minor roles.

5.1.2.7. Obviously, these findings contradict some of the existing assumptions about the relative role of the various agencies at the wholesale level. "In India . . .

> manufacturers frequently avoid becoming engaged in marketing. Sales are made through selling agents rather than through the manufacturer's own sales organisation. Since agents may not sell aggressively, however, wholesale buyers may seek out merchandise through a broker. This is quite common among smaller wholesalers.

Actually, the roles of Indian wholesalers are not clear-cut"[15].

Probably, these observations were based on the Indian distributive scene of the 1950's and early 1960's, but most of them are no more relevant.

5.1.3.0. Types of Retail Outlets and the Extent of Specialisation

5.1.3.1. The Indian retail structure is still characterised by street vendors, 'market women' and small retailers. Mass merchandising institutions are yet to develop although a beginning has been made in large cities towards establishing department stores, supermarkets and chain stores. Some of the relatively large general stores and speciality shops are, however, often labelled supermarkets, department stores, etc. But these terms are not used in the sense in which they are used in marketing literature, either in terms of product lines and functional specialisations or in terms of size and structure.

5.1.3.2. Based on the degree of product line specialisation, the retail outlets for manufactured products could be classified into two categories: general stores and specialised stores. The typical general store carries a wide range of product lines. Grocery stores, stationery

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[15] Edwin H.Lewis, Marketing Channels: Structure and Strategy, (New York, McGraw-Hill Book Company, 1968) p.58.

stores, and panshops could be treated as general stores. They deal in convenience items. Although the range of product lines are more, the volume of stock in each line is very small. In general the volume of business is also small. Specialised stores are retail outlets that specialise in a limited number of related lines, but the lines are deep with a wide range of product types, brands, and product items in each line. Textile shops, footwear stores, electrical shops, home appliances stores, and TV and radio dealers are some of the common specialised stores. Bakeries that specialise in a few lines of food items can be considered as specialised store based on product line specialisation. Manufacturer-owned retail outlets could also be treated as specialised stores. The general stores and the specialised stores form the two pillars of the Indian retail structure*

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*According to a different line of thinking retail stores could be classified into three categories: general stores, limited line stores and speciality stores. As general stores gradually reduce the lines, they become limited line stores. Those who follow this classification consider grocery stores and hardware stores as limited line stores. (Donald A. Taylor, "Retailing in Brazil", Journal of Marketing, Vol.24, (July 1959) pp.54-58). However, the grocery stores generally found in this country carry too many lines. On the other hand, the hardware stores carry relatively limited lines of related products and hence treated as specialised stores.

5.1.3.3. Retail Outlets for various Products

It appears that convenience products move through general stores while consumer durables and semi-industrial goods are sold through specialised stores. Washing soaps and toilet soaps are usually sold at general stores of all kinds - grocery stores, stationery shops and panshops. Packaged food items such as biscuits, bread, jams and syrups are purchased from general stores of all types as well as bakeries which represent specialised shops. Soft drinks are distributed mostly through general stores, particularly panshops, and partly through hotels. Batteries being convenience items, find their way to the household consumers often through general stores. Electrical bulbs are usually routed through general stores, although at times they find a path through electrical shops.

5.1.3.4. Shopping goods, generally consumer durables, often move through specialised shops. A semi-industrial product such as paint moves to the consumer market through hardware stores and exclusive paint dealers. In the same category, watermeter too moves to the market through hardware stores.

5.1.3.5. Agricultural inputs and medicines too move through specialised stores. Fertilizers and pesticides are sold by private dealers or cooperative institutions.

In both cases, the product lines offered at the outlets are limited and related. Cattlefeed is, however, sold partly at grocery stores, and partly at milk cooperative societies.

5.1.3.6. Apparently, speciality stores are much in evidence in the channels of many products. Table 3.4 considers the relative prominence of the two types of stores in the distribution of the consumer and semi-industrial products under study by classifying them into the two categories. Some product groups are sold through both types of institutions. However, a particular type of store is considered as relevant for a product only if a significant volume is sold through such stores. Of the 16 products under study moving to the consumer market, 13 products are sold through specialised stores (81 percent), while only eight products are moved through general stores (50 percent). The prominence of stores with product line specialisation becomes more significant when it is recalled that among the 16 product groups, at least ten could be treated as convenience items.

5.1.3.7. Retail Functions

There has been increasing divergence between the general store and the speciality store in terms of

Table No.3.4

Type of Retail Outlets - General vs. Specialised Stores for Consumer and Semi-Industrial Products

Product Groups	Type of Retail Outlets*	
	General Stores	Specialised Stores
1. Soap	x	
2. Pharmaceuticals		x
3. Bread	x	x
4. Biscuits	x	x
5. Jams and Syrups	x	x
6. Soft Drinks	x	
7. Fertilizers		x
8. Pesticides		x
9. Cattlefeed	x	x
10. Batteries	x	
11. Lamps and Tubes	x	x
12. TV and Radio		x
13. Fan		x
14. Tyre		x
15. Paint		x
16. Watermeter		x
Total	8	13

* A particular type of store is considered relevant only if a significant volume is sold through such stores.

retail functions. The functions undertaken by the general store has been limited, while the speciality store has been performing more and more functions. Retail functions include the marketing and distribution functions performed by the retailer as a channel participant and the various services rendered to customers. Apart from the typical middlemen functions of buying, stocking and selling, the general store has been extending consumer credit.

5.1.3.8. While analysing retail functions, the specialised stores are to be further classified: stores for consumer durables and stores for consumer nondurables. In contrast to general stores, specialised stores seldom offer consumer credit (with the exception of some co-operative outlets for agricultural inputs which are not distributive institutions primarily). However, certain shops for consumer durables have started offering hire purchase schemes. Speciality stores for consumer durables are functionally distinct from specialised outlets for nondurables: In many respects, the latter are functionally more akin to general stores. Speciality stores for durables offer more product choices to consumers, and provide post sales services. Their relative involvement in the marketing of the products they handle is more active. Their marketing functions include local advertising, product display, sales promotion, effective personnel selling at the store, presale information on products and their use, and feedback to manufacturers on customer reactions.

5.1.3.9. A significant feature of the Indian retail structure is that personal services are characteristic features of all type of stores. In fact, the question of self-service do not arise because the typical size of the store is very small, and even where the store is relatively large, labour is cheap. More significant, perhaps, is the fact that different types of stores do not distinguish themselves on the basis of customer services or functional specialisation.

5.1.3.10. The general stores have indeed been dominating the retail structure. In number and turnover, they far exceed the speciality stores. However, there appears to be a gradual increase in the number of speciality stores. The degree of product line specialisation is also increasing. Thus, product line specialisation is fairly evident in the retail structure although functional specialisation is not yet distinct. The evidence is against the hypothesis (H.3.1.2).

5.2.0 DEVELOPMENT

5.2.0.1. The institutional approach in marketing emphasises the need to analyse how the agencies in the distribution system evolved to their present structure. Since the behaviour pattern of an institution and its structure are influenced by its past and by the forces of its present environment, a study of the historical development of a behaviour system enables one to see all that is important in explaining the form, functions and adaptive behaviour of the system. The continuous interaction between function and structure causes channels to be in a constant state of adjustment[16]. The result is that certain types of participants undergo major changes, while others are replaced by entirely new institutions. Obviously, the institutional structure of distribution never remains static in a dynamic environment. However, the agency structure of distribution in India appears to remain stagnant. Therefore, the study set the following hypotheses for empirical analysis:

H.3.2.1. "There has not been any change in the institutional structure of wholesaling".

H.3.2.2. "The retail structure remains stagnant".

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[16] Donald J. Bowersox, et.al., Management in Marketing Channels, (Tokyo, McGraw-Hill International Book Company, 1980), p.335.

5.2.1.0. Institutional Evolution in Wholesaling

5.2.1.1. Selling Agents

Among the firms under study, a number of manufacturers had been using sole selling agents or selling agents. The manufacturers of transformers and pesticides had soleselling agents, while the producers of power tillers and cables had selling agents. One of the pharmaceutical firms and the producer of fan had selling arrangements with larger firms manufacturing and marketing similar products who acted as selling agents. Even the tyre manufacturer had a sister concern which acted as the soleselling agent. One of the small paint companies also had tried a selling agent initially.

5.2.1.2. Of the eight companies which had been using selling agents to distribute their products in the past, only two firms make use of the services of these intermediaries today. Of these two manufacturers, the selling agent is a sister concern in the case of one company; for the other, the soleselling agent has been reduced to a selling agent, and further, the agency arrangement has been limited to one product, whereas it was for the entire pesticide line in the past; even for this product the agent is retained because the product carries the selling agents' brand name. Obviously, there has been a considerable decline in the significance of the selling agent as a distributive institution.

5.2.1.3. The selling agents had dominated the distribution system in the early phase of industrialisation in the country. The sole supremacy of the selling agent was derived from socioeconomic as well as historical factors. The system was a legacy of the British colonial tradition, and was introduced in the middle of the nineteenth century. Many of the textile pioneers were foreigners with limited knowledge of Indian languages and market conditions, and they required Indian agents to undertake the selling task. Although the system existed for more than a century, it could flourish only with the decline of the managing agents as well as import agents.

5.2.1.4. In the beginning of modern manufacturing in India, selling was the responsibility of the managing agent. Financing, purchasing, and selling were functions which formed the pillars of the managing agency system. Thus selling was literally bifurcated from manufacturing. Naturally, manufacturers never perceived marketing or distribution as their responsibility. The "selling wing" of the managing agency house undertook the distribution of the different products or product lines of the various firms under the same managing agents and firms which broke away from them had to depend on selling agents. Based on a tradition evolved from the managing agency system these selling agents were expected to provide financing and distribution functions.

5.2.1.5. In the early years of independence, the dominant marketing institution in the country was the import agent. Some of the leading trading firms of today such as Voltas, Batliboi and Parry & Company were originally import houses. Often they were soleselling agents or soledistributors for imported items. As domestic manufacturing began to take strides, the import agents in the port towns of Bombay, Calcutta, and Madras who had sales network in the surrounding areas, partly converted themselves into selling agents of domestic manufacturers. Selling agents maintaining branches in several states were sometimes accepted by manufacturers as soleselling agents.

5.2.1.6. The soleselling agents acted as either merchant middlemen or agent middlemen. Agents often worked against a fixed percentage of commission on sales. Selling prices were often fixed by the manufacturers. Usually payments to manufacturers were made immediately against bills, irrespective of whether the goods were sold or not. The soleselling agent had to guarantee the sale of the entire production of the manufacturers whom they represented.

Some companies relied upon more than one agent. As marketing was bifurcated from manufacturing in most cases, the soleselling/selling agents functioned as marketing arms of the factories.

5.2.1.7. The main reason indicated for the elimination of the soleselling agents and selling agents is that they have not been able to perform their role in a competitive market. The selling agents had flourished under conditions of scarcity when the manufacturers defined their prime task as production. These agents were suitable intermediaries who could get rid of the product for the manufacturers. The absence of effective media for advertisement and the problems of transportation and communication were too much for the typical manufacturer.

5.2.1.8. The selling agent's primary functions were financing, sales transaction, and credit risk. They could pass on the product easily to secondary wholesalers or industrial or institutional customers who were eager to get the supply. Naturally, the selling agents were supply oriented, not market oriented. As the conditions of scarcity changed, and as sellers' market changed to buyers' market, they could not effectively cope up with their new role as market developers. While using the selling agents, manufacturers had very little opportunity to get market feedback. Often, they did not even have access to the list of the distributors or industrial customers to whom the selling agents supplied their goods. In general, the manufacturers were not satisfied with the level of promotion, including advertisement, performed by the selling agents. Obviously, the emergence of competitive markets, the need to sell more and more volume as manufacturers were forced to achieve economy of scale with the introduction of large scale production techniques, and the need to introduce new products frequently without any market assurance, forced many manufacturing firms to eliminate the selling agents who failed to meet the new challenges.

5.2.1.9. Provincial Distributors

The provincial distributor is an agency whose role and relevance has almost been lost in the Indian distribution system. In the present study, two firms had been using them: a leading manufacturer of soaps and the manufacturer of batteries. But subsequently, these middlemen were eliminated. They have been replaced by the manufacturers' sales branches. These intermediaries were agent middlemen who represented the manufacturers at the state level. They maintained godowns for their principals, carried stock in the name of the principal, invoiced goods to customers, and received and remitted the payments.

5.2.1.10. During the period of the dominance of the port town importers, and subsequently when they transformed themselves as soleselling agents of domestic manufacturers, the next link in the channel of distribution was the distributors. Sometimes referred to as provincial distributors, these merchant middlemen received goods from the port town importers or soleselling agents and distributed them among relatively smaller wholesalers in their areas. While the soleselling agents or selling agent had an area structure involving the national market, or at least a major part of it, the area structure of the distributors was limited to regional markets, consisting of one or more States.

5.2.1.11. The prime reason for the decline of the provincial distributors appears to have been the increasing tendency on the part of the manufacturers to reach down towards the market for extensive coverage and deeper penetration of the market. Although distributors flourished under conditions of scarcity, they were not able to adapt themselves to the market situation which called for intermediaries who could develop the market. Heavy promotion and branding by manufacturers increased the market power of the manufacturers, and they no longer required the connections and market contacts of the distributors to gain entry into a market area.

5.2.1.12. C & F Agents

Although the C & F agents played a significant role in the distribution systems of consumer products during the past few decades, their relative importance is shrinking in the marketing channels of today. In the present study there are two manufacturing firms which use C & F agents. The relatively new company manufacturing biscuits has not yet established branch depots and, therefore, uses C & F agents in the neighbouring states. The manufacturer of TV and radio has assigned some carrying and forwarding functions to some of their dealers located in the distant and dispersed markets. There is another instance where the national marketer of toilet and washing soaps entrusts certain functions to the C & F agents. This company has a full-fledged sales branch network and has been performing the depot function by itself till recently. As the performance of the staff at the company depot was not satisfactory, the warehousing and transport of goods have been passed on to the C & F agents. However, the C & F agent's operation is closely supervised by the branch and is treated as part of the operations of the sales branch.

Except for these stray instances, no other manufacturing firms under study uses this intermediary.

5.2.1.13. Even where they are used, the C & F agents are only incidental in the channels, and do not seem to play any major role. One industry where they are, however, being engaged increasingly is the pharmaceutical industry. The large and leading pharmaceutical firms that used to maintain fairly large and expensive sales branches now tend to windup their branch networks on account of increasing cost and declining profitability, and entrust the depot functions to the C & F agents; often a skeleton office with few company personnel is located at the premises of the C & F agent. Many firms in the industry, however, tend to use superstockists rather than C & F agents now.

5.2.1.14. There is evidence to believe that the role of the clearing and forwarding agents has declined. They used to play a significant role in the channels of many consumer products. For example, the manufacturer of batteries used to engage the services of C & F agents in areas where the company did not have sales branches, but they were gradually eliminated.

5.2.1.15. **The major reason for their elimination has** been the increase in competition in the market. The C & F agents who continued to perform a 'depot' function could not help manufacturers in developing the market. Manufacturers have been forced to get more actively involved in distribution by dealing directly with stockists or distributors, more often through their sales branches. With the establishment of manufacturers' sales branches, and with the emerging prominence of stockists, the significance of the C & F agents has been reduced considerably.

5.2.1.16. The Broker

In the present study, brokers are found in the channels of chemicals. They mediate transactions between the dealers and their industrial customers. They often represent the buyers and seek out intermediaries for the various supplies required by the industrial customers. Broker has been a traditional element in the channels of chemicals and other industrial supplies. During the days of scarcity, the buyers depended mainly on the contacts of the brokers to get their supplies. With the changed circumstances, of increasing competition among suppliers, the industrial buyers have direct access to intermediaries or manufacturers themselves, and the services of the brokers have ceased to be inevitable.

5.2.1.17. There is, thus, only a single instance in the present study where brokers are used. Even here he is an incidental element in one of the secondary channels used by the firm. Considering the significance of this agency during the days of Hirsch's study, it is now obvious that the broker as a wholesale intermediary has been more or less bypassed. The study by Dixit[17] has also indicated that the broker has become redundant.

5.2.1.18. The Stockist/Distributor

The prominent intermediary at the wholesale level in the distribution system for consumer nondurables today is the stockist. The words 'stockist' and 'distributor' are used interchangeably now, particularly after the decline of the provincial distributors. The term 'distributor' has undergone specialisation of meaning over a period of time. The term was first applied to selling agents, but subsequently it acquired the specialised meaning of regional or provincial distributors. From the state level, their area of operation was narrowed down to a few districts first, then to one district, and

[17] N.R. Dixit, "Study of Channels of Distribution used by Small and Medium Scale Textile Manufacturing Units in South Gujarat", Indian Journal of Marketing, Vol.9, (November 1978), p.19.

now the area structure involves a district, part of a district, or even a town. The stockist who originally performed the limited functions of stocking the goods in his godown in the manufactuer's name, selling them on cash to those retailers who call on them, and then remitting the cash in the company's bank account after deducting his small commission, has now emerged as a merchant middleman. His territorial boundary has traditionally been defined as a district or part of it, or even a town. Obviously, there has been a gradual convergence of the traditional distributors' and stockists' plane, in terms of middlemen status, functions, and area structure.

5.2.1.19. In the present study, these agencies play a dominant role in the channels of all consumer nondurables, except agricultural inputs. This is the position when the wholesale intermediaries in the channels of these products are judged by their functions, though not always by their names. Among the 16 manufacturers of consumer nondurables covered by the field survey, 12 firms use them as their first level intermediary. Of these, nine firms call them either stockists or distributors; they are the manufacturers of soaps, pharmaceuticals, biscuits, jams and syrups, batteries and lamps. The manufacturer of bread and the soft drink bottling units do not use either of these terms, although the agencies have been assigned more or less the same functions as that of distributors and stockists. The bread manufacturer and one of the soft drink units call them wholesalers while another soft drink bottling unit designate them as agents. Some consumer goods manufacturers prefer to call them wholesale dealers, but they draw a distinction between the wholesale dealers and secondary wholesalers, the latter being the traditional wholesalers. In all these cases they are agents of the company under a contractual agreement and take out the goods to the retail and wholesale customers, unlike the traditional wholesalers.

5.2.1.20. The wholesale intermediaries who participate in the channels of consumer durables and semi-industrial products are functionally emerging as distributors. In this study they have been found only in the channels of paint and watermeter. Generally known as wholesale dealers, they represent particular manufacturers in specific territories, order the goods, stock them and sell to industrial users as well as retail dealers, or execute the orders obtained by manufacturers' salesforce. They extend credit to retail dealers and despatch goods to the customers.

There has been an increasing tendency on the part of these dealers to extend cooperation and support to the manufacturers. However, they are yet to undertake the function of getting out of their stores and seeking customers.

5.2.1.21. The stockist has been a significant innovation in the institutional structure of the distribution system for consumer goods in India. This agency evolved from traditional wholesalers and has gained prominence within a span of three or four decades. Indications are that the institution is increasingly being used by more and more firms operating in the consumer market. The distinct advantage for a manufacturer is that these intermediaries are active and relatively more loyal participants in the manufacturers' distribution system by representing the producer in a well defined territory; they enable the producers to come closer to the market and the customers. With the emergence of the stockist, many agencies at the upper levels of the wholesale hierarchy, particularly, the selling agents, provincial distributors and C & F agents, have been forced to recede to the background. However, the immediate casualty in the emergence of the stockist has been the traditional wholesaler.

5.2.1.22. <u>The 'Wholesaler'</u>

The traditional wholesaler who sat on his cushion in his shop and received orders from the retailers has been relegated to a distinctly subordinate position in the distribution system. He has lost his position to the stockist in the field of convenience goods; he has often been bypassed in the channels of consumer durables. The very term 'wholesaler' has become a snarl word in the distribution jargon.

5.2.1.23. The 'wholesalers' do not go out and seek customers. They wait for the customers to come to them. Retailers who are small, or beyond the itinerary of the stockist, usually patronize them. The field survey has indicated that they participate in the channels of soaps, biscuits, batteries and bulbs. The wholesalers in the channels of bread and soft drinks are functionally stockists. As they do not represent any particular manufacturer or manufacturers, their merchandise mix consist of a vide assortment of goods and a variety of competing brands. Basically, they survive in a market where the stockist do not tread. They are losing ground on account of the increasing encroachment to their territory by the stockists.

5.2.1.24. During the days of scarcity, the retailers used to depend on them for merchandise and credit. A wholesaler often decided the merchandise mix and the brands a retailer carried. When the manufacturers were handicapped by the absence of well developed mass media to communicate with the target market, the recommendation of the wholesaler regarding the quality of a product to the retailers with whom he had personal report was a critical influence in the selection of a product brand. The wholesaler was inevitable for the manufacturer. Now that the brands are presold, the wholesale intermediaries in general, and the 'wholesaler' in particular, have lost their significance in the brand choice of the consumer. With a wide array of competing products and brands, the wholesaler is not in a position to create selective demand for any particular brand. However, the stockist with his commitment to particular manufacturers, and specialising in a few, often noncompetitive brands, offers the manufacturer the service of creating selective demand. To the retailer, the stockist renders all the services the traditional wholesaler had been offering, with the added service of delivering the product at his premises. Naturally, in many product lines, there is a growing tendency to bypass the wholesaler completely, particularly in the case of brands in high demand.

5.2.1.25. As an institution, the traditional wholesaler has lost his pre-eminent position in the distribution channels primarily because he has not been able to adapt to the new demands of a slowly emerging buyers' market. He has been replaced by others of his own trade who perceived the need for functional adaptations and were slowly trained by manufacturers to go out like a modern salesman and visit each retailer regularly, solicit orders, and supply the goods on the spot.

5.2.1.26. Industrial Distributors

The field study indicates that wholesale intermediaries are used by a good number of firms producing industrial goods. However, the intermediaries used do not always conform to the concept of the industrial distributor. The manufacturers' agents used by the transformer units are not wholesale intermediaries in the traditional sense. Retired employees of the manufacturing firms or of client firms are being engaged as agents and they work for a small commission. In the case of a producer of electrical cables, a sister concern acts as a selling agent; but this could very well be regarded as manufacturer's sales branch network.

5.2.1.27. Dealers of industrial supplies such as chemicals and components have been a traditional element in the distribution system and they are being used by the manufacturers of chemicals and electro-mechanical components covered by the field study. The dealers of chemicals have been found to evolve with a little dynamism in their search for customers as the scarcity conditions in the market is fast changing. They have been increasingly replacing the agents who are rather passive. The manufacturer of electromechanical components, however, finds it difficult to get suitable intermediaries for their line, although these products are distributed mainly through intermediaries in many advanced economies. The inadequacy of service personnel with their dealers is felt by the manufacturer of power tillers as well.

5.2.1.28. Industrial distributors as a distinct institution appear to be limited in a number and inadequate in terms of functions. In the opinion of trade sources, distributors with adequately qualified and skilled staff for technical selling and services are hard to find, with the exception of few large distribution companies such as Voltas, Batliboi, Parry & Company, and so on, who are the surviving examples of the former soledistributors or selling agents. It has been pointed out that the lack of such institutions leaves only the costly alternative of direct distribution to many industrial goods producers who would prefer to use indirect channels.

5.2.1.29. Subwholesalers

The semiwholesalers involved in the channels of consumer nondurables other than agricultural inputs are relatively large retailers who sell a small volume to petty retailers in rural areas. During the days when the traditional wholesaler dominated the local distri-bution, and the transportation system was inadequate, there was a need to fill the physical distance between the town wholesaler and the petty rural retailer; the semiwholesaler fulfilled the need. With the current emphasis on satellite markets and rural marketing, and the increasing tendency to add more and more stockists by bifurcating existing territories, the distance between the manufacturer and the consumer in the dispersed and rural markets is being narrowed down. As a result, the semi-wholesaler has been losing his relevance and is being phased out from the distribution channels not only of consumer nondurables such as biscuits, jams and syrups, pharmaceuticals, soaps, etc., but also of industrial supplies such as chemicals and components.

5.2.1.30. The dealers of pesticides and cattlefeeds are rather semiwholesalers: they sell partly at retail and partly to retailers and large volume customers. The emerging prominence of the cooperatives at the wholesale levels in the distribution of agricultural inputs, and the growing tendency among manufacturers to establish branch depots, offer serious challenge to the market position of the semiwholesale dealer. Despite these changes in the market environment, there has been hardly any perceivable functional adaptation among these intermediaries.

5.2.1.31. The main dealers involved in the channels of consumer durables are functionally semiwholesalers. They perform certain wholesale functions in these market locations where the manufactuers do not find a sales branch feasible. As the market develops, the manufacturer extends his branch network. Obviously, the main dealer may not get a chance to evolve as a significant wholesale intermediary.

5.2.1.32. Hypothesis Testing

In summary, the changes that have taken place in the wholesale structure of manufactured goods in India, appear to have been spectacular. The pace of change in the institutional dominance of the distribution system has been very fast. The review of the institutional histories of the wholesale intermediaries indicates that the agencies at the upper and lower levels in the wholesale hierarchy (Table 3.5.) have been steadily losing

Table No.3.5.

Shift in the Predominance of Wholesale Intermediaries and the Structure of Wholesale Hierarchy

The Wholesale Hierarchy

1. The sole selling Agent/Sole Distributor
2. The Selling Agent
3. The Provincial Distributor
4. The Clearing and Forwarding Agent
5. The Stockist/Distributor
6. The Wholesaler
7. The Subdistributor/Substockist
8. The Semiwholesaler.

ground. The hierarchical arrangement is based on the relative share of a manufacturer's output that the intermediary has been handling and the geographic extent of his operation.

5.2.1.33. There has indeed been a shift in the predominance of the various wholesale intermediaries. The soleselling agents occupied the pride of place in the channels for quite sometime, but they lost position to the selling agent. The selling agents were gradually eliminated by the state level distributors who, in turn, were reduced to a subordinate position by the district and town stockists and distributors. With the receding of the provincial distributors, there was a need to bridge the physical distribution barriers when manufacturers tried to reach the stockists directly, and the C & F agents met this need and has been in vogue. Improvements in the transportation and communication systems and the establishment of manufacturers' sales branches have reduced the significance of the C & F agents. Now manufacturers prefer to supply the product directly to the stockist or distributor, if the goods involved are consumer nondurables, and to retail dealers, if the product is a consumer durable. Obviously, the stockist has emerged as a strategic intermediary.

5.2.1.34. The forces incluencing change at the top of the hierarchy have been operative at the bottom levels of the wholesale structure as well. As the stockists began to be increasingly engaged by manufacturers, the wholesalers, semiwholesalers, and subdistributors began to lose their relevance.

5.2.1.35. The hypothesis set for analysis postulate that there has not been any significant change in the wholesale structure. The historical review as well as the empirical observations very well indicate that the hypothesis is not true. The saga of Indian wholesaling during the last four decades records the rise and fall of different agencies. There has indeed been a shift in the predominance of wholesale intermediaries, more in favour of the stockist.

5.2.1.36. Further, it appears that different types of wholesale intermediaries come to dominate the distribution system, as a nation moves through different stages of industrialisation and economic evolution. As postulated in McCarthy's model[18], the shift in the predominance of the different types of intermediaries as manufacturers

[18] Jerome McCarthy, "Effective Marketing Institutions for Economic Development", Stephen A.Greyser (ed), Toward Scientific Marketing, (Chicago, American Marketing Association, 1964),pp.393-404.

evolve to higher levels of marketing orientation, getting more and more involved in the distribution process, is very much in evidence.

5.2.2.0. Evolution in the Retail Structure

5.2.2.1. Indian retailing appears to be particularly underdeveloped and primitive with respect to its technical facilities, organisational forms and methods of operation. The retail structure is highly fragmented and is characterised by itinerant traders, village markets, and small general stores. Largescale retail institutions are virtually unknown. Apparently, the retail system has been notoriously slow in adopting the innovations in mass distribution such as large chain stores and self-service supermarkets. The Indian retail structure with its hawkers, village markets, and a multitude of almost minute retail establishments would appear to a casual observer as an exasperating anachronism.

5.2.2.2. The following analysis is partly inferential. As there has not been any census of retailing or wholesaling in India, and since traders are generally reluctant to reveal quantitative data, a precise statistical analysis is not possible. Consequently, the generalisations drawn have been based largely on qualitative information obtained from marketing executives and trade sources.

5.2.2.3. Product line Specialisation

A perceivable trend in retailing, as already noted, is the emergence of the speciality stores. Among the 16 products moving to the consumer market, as many as 13 products are retailed through specialised stores. Product line specialisation of stores is taking place at an increasing pace. There is already a visible differentiation among general stores. In the past a small general store in the village used to carry grocery, stationery items, hardware items, fertilizers, pesticides cattlefeed and so on. Now most of these lines merit specialised dealers. Increasing polarisation between the grocery store and the stationery shop is also evident. Even vegetables have parted company with groceries and fancy articles have left the stationery shop. What is observed is the formation of limited line stores.

5.2.2.4. Increasing specialisation in the retailing of consumer durables have been particularly significant. Fan was sold through electrical dealers, but now it has moved out to the more specialised dealers of home appliances. TV and radio which formed a line in the product mix of the home appliances stores subsequently found exclusive dealers for themselves. Now TV has almost parted company with radio and has moved out to more specialised dealers of electronic equipments. Further, there are now dealers who specialise in selling TV alone. Paint has also gone through such a journey of retailing. Starting at the general store, it came to stay with the hardware dealer and is now being wooed by exclusive paint dealers. Footwear, luggage goods and umbrellas were appendages of textile shops, but now there are exclusive shops for each line. Textile shops themselves have further specialised with shops for readymade garments, for women's wear and children's wear, and so on.

5.2.2.5. Growth in Size

The petty store has grown a little more. It has grown in size more in the cities and towns. Some of the large stationery stores in the cities prefer to call themselves 'supermarkets' although they seldom deal in food items. Consumer durables are being added to their product mix, comprising mainly of stationery lines. Department stores are making their appearance in some of the large cities (Fairly general stores under the cooperatives with few durable items often call themselves department stores). A beginning has also been made in establishing successful chains in a few cities. However, such innovative institutions are not particularly visible in the retail terrain. And direct sales to such retailers is yet to emerge as a matter of distribution policy among manufacturers. The rural retail scene is still dominated by small and medium sized shops. The number of large stores is limited. The few large sized shops consist of retailers engaged in selling general merchandise and cloth[19].

5.2.2.6. Geographic specialisation and dispersion of the specialty store is another perceivable feature of the retail scene. Once confined to the cities and towns, they are now moving towards the suburbs and large villages. Textile shops, electrical stores, hardware stores, medical shops, footwear stores, bakeries, and stores selling plastic goods are all familiar features of the large village bazaars today. The gradual emergence of a mass market seems to have led to the growth of markets in the suburbs and villages and, therefore, there has been a slow movement of the speciality stores towards these new locations.

5.2.2.7. Another emerging trend appears to be the customer specialisation by retailers. The merchandise

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[19] M.C.Kapoor, "Rural Retail Marketing - A Pilot Study, Part 2", Indian Management, Vol.16, (February, 1977), p.25.

mix of the few "supermarkets" and the department stores are meant to attract the relatively affluent customers.

5.2.2.8. The foregoing observations capture a glimpse of the signs of impending changes in Indian retailing. However, these are only stray indications of an extremely slow process of change. The structure of Indian retailing has not been innovative or adaptive, particularly in the context of the retail revolutions that have been taking place in the advanced economies. The field of retailing is still predominantly one of small firms, one in which large organisations have been relatively slow to develop. Thus, there lies at the bottom of the distributive pyramid a broad, marginal and depressed base.

5.3.0. DYNAMICS

5.3.1.0. Functional Adaptations

5.3.1.1. The seeming stablility of the existing distribution structure is an illusion. Channel structure is always changing. The change is, however, slow, frequently invisible in its day-to-day alteration. The slowly evolving institutional structure suggests the possibility that the distribution structure, as we know it today, could well lag far short of an ideal arrangement[20]. The functionalist approach to structure provides some indication that this has occurred. The functionalist view is that functions should determine structure.

> "Functionalism generally recognizes that the operation of a system is likely to change over time and that the essence of science is its dynamic aspect. ... Actually, a sound functionalism in the social sciences concerns itself with the structure of operating systems. Both function and structure are embraced in the subject matter of scientific study; but the functionalist believes that function basically determines structure. ... rather than the reverse . . . /The functionalist/ ... does not feel that he understands /a/ situation if he goes no further than to describe the existing

[20] Martin L. Bell, Marketing Concepts and Strategy, (London, Macmillan and Company Ltd., 1966) p.112.

> structure. He is implelled to find out what functions it is performing and, even more fundamentally how the group will have to function in order to survive."[21]

5.3.1.2. The functional theorist in marketing recognizes that some adaptations in functions may be necessary for effective use of existing institutions. Of course, ultimately a point is reached where a structure becomes absolutely unstable, and at this point drastic reorganisation is usually required. However, the slow process of institutional evolution implies a situation in which existing institutions are forced to change their methods of operation by adopting new functions or shifting the emphasis from one function to another - or even by functional transfers among the institutions, with the result that their earlier characteristics are barely recognizable.

5.3.1.3. However, institutional evolution in distribution appears to be a misnomer in an old and conservative society like that of India where trading activity has been in the hands of a distinct class for centuries. The study, therefore, tests the following hypothesis:

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[21]Wroe Alderson, op.cit., pp.16-17.

H.3.3.1. "There has not been any functional evolution among the intermediaries, either in terms of addition of new functions or in terms of the efficiency in performing the traditionally defined functions".

5.3.1.4. Functional Evolution

One of the important dynamics in the development of trade structure is the functional evolution among the agencies. As market conditions demand new distribution functions, the agencies have to undertake new functions. In case the existing intermediaries do not undertake these functions, either the manufacturer has to absorb them or the agencies have to be replaced by new agencies who can effectively undertake the new tasks.

5.3.1.5. A review of the traditional as well as the relatively new functions performed by the various agencies would, indicate the degree of dynamism of the existing middlemen. Studies on the functional specialisation among the agencies and the changes in the institutional structure have already indicated the various functions performed by particular agencies. Analysis based on classification of functions would provide more insight into the dynamics of institutional evolution.

There are indeed many ways of classifying distribution functions and the schemes of classification varies with the objectives of analysis. Only some of the critical functions have been analysed here.

5.3.1.6. Physical Distribution

Almost all intermediaries except manufacturers' agents and brokers are expected to provide physical distribution services. All merchant middlemen, clearing and forwarding agents, and consignment stockists, are the relevant intermediaries, irrespective of whether the merchant middlemen get the product directly from the manufacturer or from a wholesale intermediary. Invariably all these agencies perform the physical distribution functions of warehousing. Only the stockists/distributors undertake to deliver the goods at the premises of the party at the next level in the channel without realising the cost of transport from the customer. Even in these cases, the cost of transport is borne by the manufacturer, though not always fully. Hence, the primary physical distribution function performed by the intermediaries in general is warehousing.

5.3.1.7. The stockist or distributor provides the additional service or arranging local transport. The very fact that the manufacturer provides a van allowance to these intermediaries indicates that these agencies do not as yet accept the function of local transport as their legitimate distribution task, although they take title, finance the inventory, extend credit to customers, and accept the risk involved in transport. However, since the manufacturer who has imbibed the spirit of the marketing concept considers it a marketing function to deliver the product at the premises of his retailer customers, he has absorbed these functions. The stockist of today has evolved from the institution of the traditional wholesaler, and his business philosophy has not changed drastically from that of the traditional wholesaler, although he has been forced by the manufacturer to undertake a few additional functions. Basically, he still defines his role in terms of the traditional functions of the wholesaler and is reluctant to absorb the new functions. The traditional wholesale functions have been defined under the conditions of scarcity, and the intermediaries including the stockist do not appear to be fully aware of the significance of the change that has come about in the market environment.

5.3.1.8. It is to be noted that the reluctance of the stockist to take the product out to the customers has forced him to limit the geographic structure of the market. The manufacturer has reacted in two ways: he continues to bifurcate the stockist's territory as market expands; he supplies direct to wholesale or semiwholesale intermediaries in the dispersed and rural markets - agencies who would otherwise be the stockist's customers. The stockist does not seem to realise the significance of the behaviour of the manufacturer.

5.3.1.9. Financing, Credit and Credit Risk

Customer credit has been traditionally hailed as one of the major functions performed by marketing intermediaries, both at wholesale and retail levels. However, not all intermediaries extend credit to customers, intermediate or final.

5.3.1.10. It is taken for granted that retailers extend credit to customers. The generalisation is based on some convenience items sold at the general stores. Among the products covered under the study, there are 16 products that move through retailers. Inquiries at the retail end confirmed that only some of these products are usually sold on creidt. When the private retail trade is considered, only six product lines are generally sold on credit to customers (Table 3.6.). Consumer durables such as TV and fan, and semi-industrial product going to the consumer market such as tyre, paint and watermeter, are usually not sold on credit. Among consumer nondurables, pharmaceuticals and agricultural inputs moving through private dealers are not sold on credit. Soaps, batteries, and bulbs, and some of the packaged food items such as bread, jams and syrups and biscuits are, however sold on credit. Even for these products retailers extend credit only sometimes, not always.

5.3.1.11. At the same time, for all the 16 product lines the retailers get credit, either from the wholesale intermediaries or from the manufacturers. (Table 3.6.). It is evident that while retailers get credit for all the product lines considered, only few product lines are sold on credit at the retail end.

5.3.1.12. Just the reverse happens at the wholesale level In all the product categories where merchant wholesalers are involved, invariably they extend credit to their customers - retail, institutional or industrial (Table 3.7). All these wholesalers, however, do not get credit from the manufacturers. Of the 23 firms selling direct t merchant wholesalers, only 18 firms extend credit to thei intermediaries. The firms that do not extend credit to

Table No.3.6

Retailers and Credit

Product	Retailers getting credit (mark)	Retailers (private trade) giving credit to customers (mark)
1. Soap	,/	,/
2. Pharmaceuticals	/	
3. Biscuit	/	/
4. Bread	/	/
5. Jams & Syrups	/	/
6. Soft Drink	/	
7. Fertilizers	/	
8. Pesticides	/	
9. Cattlefeed	/	
10. Batteries	/	/
11. Lamps	/	/
12. Fan	/	
13. TV	/	
14. Tyre	/	
15. Paint	/	
16. Watermeter	/	
Total	16	6

Table No.3.7

Credit to Merchant Wholesalers

Product Categories	Number of firms selling to merchant wholesalers in each product category	Number of firms giving credit to merchant wholesalers.	Number of firms whose merchant wholesalers give credit to customers.
Soap	3	1	3
Pharmaceuticals	3	3	3
Food	5	3	5
Agricultural inputs & Equipments	4	4	4
Batteries	1	1	1
Lamps	1	1	1
Paint	2	2	2
Watermeter	1	1	1
Electrical components	1	0	1
Cables	1	1	1
Chemicals	1	1	1
Total	23	18	23

wholesale merchants include two soap manufacturers, two manufacturers of food products, and a producer of electromechanical components. All other firms extend credit to their wholesale customers. It is, however, relevant to note that while the manufacturers who extend credit sell almost entirely on credit, their wholesalers do not always sell their entire volume on credit.

5.3.1.13. Financing

One important implication of credit extension by wholesale intermediaries is that they are financing the transaction; that is, they finance inventory and receivables. However, it has already been noted that for most of the products they get credit from the manufacturers. Generally, only those manufacturers with market power refuse to extend credit to their merchant wholesalers. This has been the case for all but one firm in this study. The implication is that these manufacturers have at least certain products in their lines that enjoy high brand popularity. For such products, the distributors usually do not extend credit, while they offer credit for other lines.

5.3.1.14. The implication is that distributors give credit for those products that they get on credit. Manufacturers are often forced to adjust the credit period depending on the credit period that the distributors allow their customers, and distributors often limit their inventory to the minimum. The net result is that an efficient distributor hardly ever finances completely his own inventory and receivables; they are financed to a great extent by the manufacturer. A typical distributor finances only part of his inventory and receivables.

5.3.1.15. Credit Risk

Risk bearing has traditionally been considered as an important reseller function. However, where the manufactuer's selesforce undertakes the responsibility for selling the product to retailers, there is hardly any risk for the distributor with regard to selling the product; the risk bearing function has been more or less absorbed by the manufacturer. Otherwise it could be passed on to the retailer who, in turn, avoids risk by stocking only brands that are presold through manufacturer's promotion. The real function of the distributor is relatively easy for the manufacturer; but it is because of the high rate of retail mortality. Credit risk is obviously more for the distributor. This is, however, hardly true for industrial distributors.

5.3.1.16. At the retail end, it is the general stores selling consumer nondurables that offer credit. But their inventory and receivables are partly financed by some one else in the channel. The specialised stores, hardly ever extend credit, although they get credit from the manufactuers. Hence, their inventory is financed by the manufactuer or wholesalers to a great extent. Obviously, the agencies which take the credit risk are the distributors of some consumer nondurables and the general stores.

5.3.1.17. Forward Financing

It has often been suggested that the intermediaries in India not only finance backward by extending credit to customers, but also finance forward to the manufacturers[22]. There is no instance in this study where the intermediaries finance the manufacturers. The middlemen, on the other hand, get credit from the manufacturers.

5.3.1.18. Market Communication

All market intermediaries are, by definition, involved in sales communication, irrespective of the fact that whether they are agent middlemen or merchant middlemen. However, the issue is the extent of their involvement in the market communication and sales negoti-

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[22]Hirsch, Op. cit., p.149.

ation process. Many agencies who performed these functions quite passively have been eliminated from the channels. The supply oriented institutions such as soleselling agents, selling agents and provincial distributors have been bypassed mainly because they failed to undertake active search for new customers necessary for market development. Supplying to intermediaries with whom they had traditional contact was not quite sufficient for a manufacturer operating in a buyer's market. More market communication with intermediate customers was required. The traditional wholesaler who refused to go out in search of retailers was replaced.

5.3.1.19. The clearing and forwarding agent was originally expected to be an effective link in the company's communication with the distributors and stockists. The performance of this function by the agency was found quite inadequate; particularly in the context of increased competition, manufacturers were forced to get involved more actively in this communication process by engaging the company salesforce in sales negotiations and market development. This led to the establishment of sales branches which replaced the C & F agent. Thus, the C & F agent was bypassed in the channels of some products, not because of any inadequacy in his performance of the physical distribution task, but because he failed to perceive the need to undertake the new task of effective communication with the intermediate market, necessitated by changes in the market environment.

5.3.1.20. This new need has not been effectively met by any agency so far. The wholesale intermediaries do not define their task as going out and meeting their retail customers; so do most of the industrial distributors and dealers of industrial supplies. Obviously, they do not find the need for engaging their own salesforce. Wholesalers' salesmen are conspicuous by their absence. Even the most innovative institution among the wholesalers, namely the stockist, has not developed an effective salesforce. The result is that the manufacturers have absorbed this distribution function. Most often they engage their salesforce to sell to the retail trade.

5.3.1.21. Manufacturers' salesmen play a predominant role in the distribution of consumer nondurables such as soaps, biscuits, batteries, soft drinks and pharmaceuticals. The distributors of semi-industrial products such as paint and watermeter depend on manufacturers' salesmen to a great extent in getting orders from retailers. The problem does not arise in the case of consumer durables because the products often move to the retail dealers directly. For industrial goods, the dominant channels are direct channels, and even when industrial supplies such as chemicals and components move through intermediaries, the manufacturers do not get involved in the sales transactions of their intermediaries.

5.3.1.22. The extent of manufacturers' involvement in retail selling on behalf of the stockist or distributor has been empirically analysed. Nineteen firms covered by the study distribute directly to wholesale intermediaries such as stockists or distributors (Table 3.8.). Of these, 12 manufacturers use the company's salesforce to take orders from the retail customers on behalf of their wholesale clients. The seven firms not engaging salesmen for selling to the retail trade on behalf of their wholesale intermediaries include the three manufacturers of agricultural inputs, the manufacturer of bread, the producer of jams and syrups, the smallscale soap unit, and a leading marketer of lamps and tubes.

5.3.1.23. What is most striking is the distributors' belief that it is the duty of the manufacturer to generate orders from the retailers. This belief is reinforced by the fact that the manufacturer assigns sales target not to the distributor but to the salesman. Though specific targets are not fixed for the distributors

Table No.3.8

Retail Selling by Manufacturers on behalf of Wholesale Intermediaries

Industry	Number of manufacturers having wholesalers who sell to retailers.	Number of manufacturers engaging salesforce to take orders from retailers on behalf of the wholesale intermediary.
1. Soap	3	2
2. Pharmaceuticals	3	3
3. Biscuit	1	1
4. Bread	1	-
5. Jams & Syrups	1	-
6. Soft Drinks	2	2
7. Fertilizers	1	-
8. Pesticides	1	-
9. Cattlefeed	1	-
10. Batteries	1	1
11. Lamps	1	-
12. Paint	2	2
13. Watermeter	1	1
Total	19	12

they are expected to meet a minimum target or show better results from the previous period. However, the distributors take it for granted that pushing the product to the retailers is the primary responsibility of the company salesman. There are, of course, stray instances where some of the leading manufacturers have been able to persuade their distributors to undertake the sales communication with the retailers, using the distributors' salesman. This has been achieved by gradually reducing the number of days when the manufacturer's salesman will be available to the distributor for selling to the retailers.

5.3.1.24. Promotion by Dealers

Product promotion by the intermediary is conspicuous by its absence. Local promotions are still performed by the manufacturer. Even for consumer durables there is little dealer-shared advertisement. Promotion is not yet treated as a legitimate distributive function to be undertaken by the intermediary.

5.3.1.25. Technical Service

There are only two products in this study where the dealers have to provide technical services associated with the product; the products are TV and power tiller. In both cases the service function involved is essentially after sales service. Generalisations based on two instances are not possible. However, in both these cases, after sales services are now being rendered more often by the technicians engaged by the manufacturers.

5.3.1.26. Information Feedback

Market information is vital, particularly in a developing market. The feedback of performance data concerning sales and services of both the manufacturer and his middlemen is highly useful. Performance data need to be supplemented with attitudinal data relating to reseller reactions and customer responses. This information is critical to manufacturers for adjusting the market offering. Intermediaries may be the only source of information on changing consumer preferences and competitive conditions available to many manufacturing firms. Even when company salesmen are in constant touch with the resellers and the market, the manufacturer may prefer to have another dependable source for at least certain type of information which the salesforce may not be able to provide adequately.

5.3.1.27. Empirical Analysis

Executives were asked to comment on the level of performance of the information feedback function by the first level intermediaries in their dominant channels (Table 3.9). Of the 29 respondents, only five felt that

Table No.3.9

Information Feedback by First Level Intermediaries in the Dominant Channels - Executives' Response

Industry group	Number of respondents	Information feedback		
		Provide adequately	Provide, but not adequately	Do not provide
Consumer nondurables	16	2	2	12
Consumer durables and semi-industrial goods	6	-	1	5
Industrial products	7	3	3	1
Total	29	5	6	18

their intermediaries were providing adequate information feedback. Six others felt that their intermediaries were providing some feedback, but not enough. The remaining 18 felt that their intermediaries were not performing the function at all. Of the five cases where adequate information feedback was provided, three of the intermediaries concerned were manufacturers' agents - two engaged by the producers of transformers and the other engaged by the manufacturer of jams and syrups.

5.3.1.28. It may be recalled that the manufacturers' agents are used primarily for market information and market communication. Only the other two are merchant middlemen - the stockist engaged by the manufacturer of electromechanical components, and the distributor engaged by the marketer of lamps and tubes. It is relevant to note that the stockist/distributors who represent the company in defined territories by and large do not provide this service. It appears that the function is being performed at least to some extent by the distributors of industrial products. The level of performance of the function is felt most inadequate in the distribution of consumer nondurables and semi-industrial products, and only four out of the 16 manufacturers of consumer non-durables seem to get some feedback from the intermediaries.

5.3.1.29. One reason for the lack of information feedback by middlemen is that whereever company salesmen are used for selling the product to retailers, the salesmen perform the function. Naturally, manufacturers do not insist that their intermediaries should provide this service. Even where the manufacturers do not engage any salesforce, the wholesale intermediaries do not seem to perform this function. It appears that the intermediaries do not, as yet, consider this as one of their legitimate distribution functions.

5.3.1.30. Demand Creation

Opinions of the executives were elicited regarding the extent to which the first level intermediaries in their dominant channels undertake demand creation functions. The functions included local promotion and sales communication at the wholesale level, and two more additional functions of display and communication at the retail level. Of the 29 respondents, only three felt that their intermediaries took adequate efforts in this regard (Table 3.10). Fourteen of the respondents (48.3 percent) felt that the intermediaries took some effort, but 12 respondents (41.4 percent) felt that hardly any demand creation efforts were being made by their intermediaries. Demand creation efforts of

Table No.3.10

Extent of Demand Creation by the First Level Intermediaries in the Dominant Channels - Executives' Response

Industry group	Number of respondents	Level of Demand Creation		
		Adequate effort	Some effort	Hardly any effort
Consumer nondurables	16	2	6	8
Consumer durables and semi-industrial goods	6	0	4	2
Industrial goods	7	1	4	2
Total	29	3	14	12
Percentage		(10.3)	(48.3)	(41.4)

intermediaries are felt most inadequate in the channels of consumer durables. Intermediaries involved in the channels of other products appear to take some effort, though not in all cases. However, with 90 percent of the respondents reporting inadequate performance of this function by their intermediaries, the overall picture appears to be very bleak.

5.3.1.31. Adaptations and Efficiency

During the survey, executives were asked to comment on any additional function other than the traditional ones performed by any agency in their channels. The responses were invariably negative except in one case (Table 3.11). Information feedback is the additional function undertaken by the distributors of the one respondent who gave the affirmative response. It is significant to note that the respondent represented a leading marketer of consumer and industrial products where the company expects the distributors to engage their own salesmen to perform the selling to resellers.

5.3.1.32. Regarding efficiency of the intermediaries in performing the distribution functions, the executives had a more favourable response. Five of the respondents perceived a significant improvement in terms of selling effort. Compared to the past, many intermediaries are

Table No.3.11

Functional Adaptations and Performance Efficiency of Intermediaries - Executives' Response

Total Respondents - 29

Type of change	Function	Number of companies reporting change	Industries	Type of intermediary
Functional Adaptation	Information Feedback	1	Lamps	Distributors;
Improvement in Efficiency	Selling effort	5	Lamps, Batteries, Biscuit, TV and Electro-mechanical components	Dealers, Stockists/ Distributors.

taking a more active role in seeking customers, local promotion of the product, display, demonstration at the retail store, etc. This tendency has been particularly visible in the channels of TV, electromechanical components, lamps, batteries and biscuits, judged by the background of the respondents. The reference is obviously to stockist/distributors and TV dealers.

5.3.1.33. Analysis of the functions performed by the intermediaries in the foregoing discussions in this chapter is indicative of the limited functions performed by the middlemen. Among the physical distribution functions, warehousing has been traditionally accepted as a distribution function by merchant wholesalers as well as C & F agents. Although financing and customer credit had been widely accepted as distribution tasks, today the role of the intermediary has been reduced with regared to these functions. Financing the intermediary's inventory and receivables has been largely absorbed by the manufacturer. Earlier the middlemen undertook the function of risk bearing. Since many manufacturers presell the brands through advertising and perform the retail selling on behalf of distributors or stockists, the risk bearing function has been absorbed by the manufacturer in many cases. A genuine function performed by the distributors in certain industries is credit risk. In the past, sales negotiation was a legitimate distribution function performed by all intermediaries. However, part of this function has been absorbed by the manufacturer who now engages a salesforce to perform this function on behalf of his intermediaries.

5.3.1.34. Although demand creation functions such as local promotion, display, demonstrations and more effective personnel selling at the retail counter have been largely ignored in the past, some of these functions are increasingly being performed by the intermediaries, though not to the satisfaction of many manufacturers. With regard to information feedback, the manufacturers depend more on their salesforce than on the intermediaries. However, where the manufacturers insist, not all intermediaries are reluctant to perform this relatively new function.

5.3.1.35. It appears that most of the intermediaries are supply oriented rather than demand oriented. Making available the product for sale continues to be their primary role. This was quite sufficient under conditions of scarcity. Without realising the need for redefining their role, many of the agencies continue to perform their traditionally defined functions.

5.3.1.36. Evidently, the distribution functions performed by the intermediaries are rather limited; market communication, information feedback and post sales services are not yet treated as legitimate distribution tasks. Selling efforts on the part of the intermediaries are rather limited and manufacturers are forced to maintain field salesforce. Obviously, there has not been any progressive evolution in terms of the number of functions performed by the intermediaries. However, some improvement in efficiency in the performance of certain traditionally defined functions is evident.

5.3.2.0. Trade Margins

5.3.2.1. There is a widely held notion that trade margins are low in India. The implication is that the cost of distribution is, therefore, low. In one of their studies, Westfall and Boyd observed:

> "Retailers' margins in India are extremely low, probably about 10 percent, and wholesalers' margins are less than half as much. Both figures are well below those in the United States, even so, marketing in India must be considered inefficient."[23]

5.3.2.2. Often retail and wholesale margins in underdeveloped economies are lower than in highly developed economies. Incomplete but relevant information about these marketing systems indicate that these low margins result from differences in the role of markets and marketing in less developed economies compared to their role in developed economies[24]. Low margins are often the result of using low-cost resources, particularly labour, whose marginal productivity is low and whose productive alternatives are limited. Further, the range

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[23] Ralph Westfall and Harper W. Boyd Jr., "Marketing in India", C.Robert Patty and Harvey L. Vredenburg, Readings in Global Marketing Management, (New York, Appleton-Century-Crofts, 1969) p.389.

[24] Edna Douglas, Economics of Marketing, (New York, Harper and Row, 1975), pp.607-608.

of services offered by the distributive institutions are relatively high in developed economies. The low margin in developing economies appears to be the result of the limited marketing functions. As Douglas points out,

> "even though margins may be low, the absence in underdeveloped economies of many services associated with the marketing of goods in highly developed economies may mean that marketing costs are in fact high".[25]

A study on the channels of distribution for small industry products in India referred to the manufacturers' complaint that the middlemen often absorbed huge margins, disproportionate to the value added by their services. The study noted that the commission to traders varied between 10 to 25 percent, and concluded: "One gets a prima facie impression that the intermediaries retained substantial margins."[26]

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[25] Ibid., p.608

[26] Small Industry Extension and Training Institute, Channels of Distribution for Small Industry Products, (Hyderabad, 1974) pp.20-22.

5.3.2.3. Trade margin alone is not a measure of efficiency in distribution. To test the efficacy of a marketing channel, trade margin should be judged in relation to trade functions. Further, trade margin is not solely determined by trade discount, but also by incentive discounts and the difference between the prescribed price and the price actually charged by the intermediary. Viewed in its totality, neither the distribution margins nor the cost of distribution appears to be low. The study, therefore set the following hypothesis for empirical testing:

H.3.2.2. "Trade margins are not low, considering the functions the intermediaries perform."

5.3.2.4. The field study apparently confirms the earlier assumptions about the low trade discounts in India. For the products in the category of consumer nondurables covered by the study, the average trade discount for retailers is 12.2 percent and to the wholesalers, 7.5 percent (Table 3.12). For the six product lines covered under the category of consumer durables and semi-industrial goods, the average trade discount is 12.5 percent at the retail level (Table 3.13). Based on the distribution patterns of the firms under study, only two of these products move through wholesalers,

Table No.3.12

Average Trade Discount - Consumer Nondurables

Industry	Intermediaries and their Trade Discounts (in percentage)		Total
	Stockist/Wholesaler	Retailer	
1. Soap	5	5	10
2. Pharmaceuticals	8	18	26
3. Biscuit	8	12	20
4. Bread	6	8	14
5. Jams & Syrups	12	16	28
6. Soft Drinks	10	36	46
7. Fertilizers	2	5	7
8. Pesticides	7	5	12
9. Cattlefeed	5	5	10
10. Batteries	5	14	19
11. Lamps & Tubes	9	19	19
Average	7	12.2	19.2

Table No.3.13

Average Trade Discount -
Consumer durables and Semi-industrial goods

Industry	Trade Discount		
	Whole-saler	Retailer	Total
1. TV		5	5
2. Radio		10	10
3. Fan		17	17
4. Tyre		12.5	12.5
5. Paint	12.5	20	32.5
6. Watermeter	12.5	10.5	22.5
Average	12.5	12.5	

and the average trade discount is 12.5 percent. In the industrial goods category, there is vide variation among different product lines in the trade discount at the wholesale level, and the average is 6.8 percent (Table 3.14).

5.3.2.5. Consumer Nondurables

Trade discount for different product lines within each of these categories varies. For instance, the average retail trade discount for soft drinks is as high as 36 percent, while it is only five percent for soaps. (Table 3.12). For pharmaceutical products, the average retail trade discount is around 18 percent, while that of jams and syrups 16 percent, batteries 14 percent, biscuit 12 percent, and lamps 10 percent. For bread, the average trade discount at retail level is eight percent and for the agricultural inputs five percent. Retail trade discount appears to be very low for soaps, bread, and agricultural inputs.

5.3.2.6. Where a particular product group is represented by only one firm in the study, the average trade discount mentioned is the average trade discount for the different products within the particular line of the selected company. Where more than one company have been included in the survey, the average of the trade

Table No.3.14

Average Trade Discounts - Industrial goods

Industry	Discount to wholesale Intermediaries
Transformer	1.5%
Electrical components	20
Cables	3
Chemicals	2
Power tillers	7
Average	6.8%

discounts for the different products in the particular line of each of the selected companies has been calculated, and then the average for all firms have been computed. At the wholesale level, the range in the trade discount is wide among the various product categories, with 12 percent for jams and syrups, and two percent for fertilizers. The wholesale trade discount for soft drink is on an average 10 percent, while that of lamps and tubes is 9 percent, pharmaceuticals and biscuits eight percent each, pesticides seven percent, bread six percent, and soap, battery, and cattlefeed five percent each.

5.3.2.7. While computing the wholesale trade discount, it is the dominant channel that has been considered in most cases. Channels involving superstockists and C & F agents have been kept out. Hence the wholesale trade discount here refers to the trade discount allowed to stockists, distributors or other dominant wholesale intermediaries with whom the company has direct contact. Usually, where the distributors or stockists sell to traditional wholesalers, subdistributors, or semiwholesalers, they share a part of their commission with such subwholesale institutions. For example, where a soap manufacturer allows a trade discount of five percent to the stockist, he allows two percent to the wholesaler out of his five percent discount. So does the distributor of biscuit, where the wholesaler gets three percent from the eight percent discount allowed to the distributor. Similarly, the semiwholesalers, subdistributors or subdealers get a part of the trade discount allowed to their suppliers by the manufacturers. Obviously, the distributors' trade discount covers the trade discounts for all intermediaries at the wholesale level, except when the company fixes a separate margin for certain primary wholesalers such as superstockists or C & F agents who often get a trade discount of two or 2.5 percent each.

5.3.2.8. In the field of consumer durables, four of the six manufacturing firms sell direct to retailers, while the other two producers use wholesalers as well. The firm under study allows only five percent trade discount on TV for dealers while some other TV manufacturers extend upto ten percent. For radio, the company allows a margin of 10 percent (Table 3.13). For tyre, the margin varies for different lines and for different companies, but the average retail trade discount has been computed as 15 percent. For paint, the average wholesale trade discount is around 12.5. percent while the retail discount is 20 percent. Trade discount for watermeters is 12.5. percent on an average at the wholesale level and 10 percent at the retail level.

5.3.2.9. Among industrial products, transformers, power cables and chemicals have relatively low trade discounts, with an average of 1.5, 3 and 2 percent respectively (Table 3.14). For electromechanical components, it is as high as 20 percent and for power tillers, seven percent.

5.3.2.10. Trade discount for a particular product does not vary considerably among the different manufacturers of the same product line. However, within a product line, the discount for different brands and product items of the same manufacturer may vary. In each industry there appears to be a certain general norm based on which trade discounts for specific types of products are allowed. The trade discounts have been computed here based on the invoice prices.

5.3.2.11. Subwholesalers

Wholesale intermediaries who get their supplies from stockists or distributors get a relatively low trade discount. In fact their suppliers share with them a part of the trade discount allowed to these direct wholesalers. The wholesalers get two percent trade discount for soaps and batteries, three percent trade discount for biscuits, and five percent for lamps. Usually they get around two percent trade discount. Subdistributors also get more or less at the same rate. For biscuits it is two percent, and for jams and syrups it is 2.5 percent. Semiwholesalers often get a trade discount of one percent. Thus, trade discount is relatively very low for the subwholesalers. As they share the discount allowed to their suppliers, their presence in the channel does not seem to increase the cost of distribution.

5.3.2.12. Obviously, the average trade discounts appear to be low: for consumer nondurables it is 12.2 percent at the retail level and seven percent at wholesale level; for consumer durables and semi-industrial products 12.5 percent each at wholesale and retail levels, and for industrial products 6.8 percent. The total of the wholesale and retail trade discounts represents the entire trade discount allowed to all the participants in the dominant channels of the particular products, irrespective of the number of levels involved. The average of the total trade discount is 19.2 percent for consumer nondurables, 16.7 percent for consumer durables and semi-industrial products, and 6.8 percent for industrial goods.

5.3.2.13. <u>Incentive Discounts</u>

Discounts other than trade discount are quite prevalent. Of the 26 relevant firms, 22 firms offer incentive discounts of one type or another. As Table 3.15 indicates, quantity discount, cash discount, and product discount are quite common. In many cases two or more incentive discounts are offered by the same company. Quantity discount is the most frequent one. Twelve firms (46.2 percent) offer quantity discount, while seven firms (26.9 percent) extend product discount. These two discounts are functionally the same because they depend on the volume of a single purchase. While in one case a reduction is allowed on the list price, in the other, additional units of the product is offered free. Although these two discounts are not mutually exclusive, the total of 19 occurrences among the 26 relevant firms indicate high frequency. Cash discount is another incentive that is not quite unusual. Eight firms (30.8 percent) offer it. Relatively less frequent are seasonal discount, turnover discount, promotion discount, and target discount (Table 3.15).

5.3.2.14. Sometimes the incentive discounts are much more than the trade discount. A soap manufacturer offering a product discount('scheme' in trade jargon) of one cake per dozen is actually offering 8.3 percent discount to the retailer. One cake of toilet soap per two dozens is not an unusual scheme and the retailer has a benefit equivalent to 4.16 percent trade discount. For washing soaps it goes as much as 25 percent; six

Table No.3.15

Incentive Discounts

Relevant firms - 26

	Type of Incentive discount	Frequency	Percentage
1.	Quantity	12	46.2
2.	Cash	8	30.8
3.	Product	7	26.9
4.	Seasonal	5	19.2
5.	Turnover	2	7.7
6.	Promotion	2	7.7
7.	Target	1	3.8
8.	No Incentive Discounts	4	15.38

half bars for a case of 24 half bars. Product discounts are very frequent for soaps, biscuits, jams and syrups and pharmaceuticals, to mention only the products covered by the study. Usually the benefit is not less than five percent for the retailers, judged by the schemes that were being offered at the time of the study. However, such schemes are not offered for all products; nor are they offered always. Nevertheless, they add to the retail margin.

5.3.2.15. Relatively more permanent is the quantity discount. It is primarily aimed at the wholesale intermediary, and judged by the practices of the firms under study, it varies from one percent to three percent. This is usually offered by the manufacturers of consumer nondurables and industrial supplies.

5.3.2.16. Another relatively stable offer is cash discount. The rate varies from one to three percent, but often it is around two percent. Though the practice is prevalent among manufacturers of lamps, batteries, watermeter, chemicals, paints, food items and pesticides, the maximum rate is being offered by the manufacturers of paint. The other types of discounts(seasonal, turnover, promotion and target) are not as common as these three, but they also contibute towards the trade margin.

5.3.2.17. Cost of Distribution - Some aspects

A comprehensive analysis of the cost of distribution is indeed much beyond the scope of this study. Further, the sheer absence of proper cost accounting, particularly in relation to marketing operations, inhibits the collection of necessary data. However, an attempt is made here to get a glimpse of the issue, based on available data. The phrase 'cost of distribution' is not used here in the sense of marketing costs; distribution cost is only one of the elements in marketing cost, and in the computation of distribution cost here, components of marketing cost such as advertising and sales promotion expenses, marketing research expenses, etc., have been kept out. Three of the most important aspects of the cost of distribution pertaining to certain products of eight consumer goods manufacturers have been computed, and they are presented in Table No.3.16. Cost of the branch operation and/or field salesforce, cost of transportation, and the total trade discount with respect to the dominant channel are the three variables of cost considered. Information regarding the incentive discounts and the overhead cost of head office operations in relation to distribution have been difficult to quantify and, therefore, they are not included in the analysis. The total of the three costs considered does not give the cost of distribution, but indicates the approximate cost, though much less than the actual.

Table No.3.16

Some Aspects of Distribution Cost - Consumer Products

Product/Company	Cost of Branch operation and/ or salesforce	Transportation	Total Trade Discount	Total
(1)	(2)	(3)	(4)	(2+3+4)
1.Soap III	7	4	10	21
2.Pharmaceutical III	20	2	23	45
3.Biscuit	1	3	20	24
4.Bread	1	5	14	20
5.Soft Drink I	1	3	46	50
6.Pesticide	2.5	1.5	12	16
7.Battery	3	1	19	23
8.Radio	8	1	10	19
Average				27.25

(2) & (3) As percentage of sales realisation
(4) Data relates to the dominant channel.

5.3.2.18. Table 3.16 shows the wide variations, in terms of each cost item, that exist among the channels for different products. The cost of branch operations appears to vary widely with the products. In pharmaceuticals distribution, the cost of the branch operation appears to be very high. Even for a relatively small firm it accounts to 20 percent of the manufacturer's sales realisation. However, one of the leading manufacturers of soaps incurs only seven percent of its net sale for branch expenses. While for other firms in the category of consumer nondurables the cost varies from one to three percent, for a durable item sold directly to retail dealer (radio) it is eight percent of the manufacturers turnover. Essentially, this cost reflects the extent of the manufacturers' involvement in the distribution process.

5.3.2.19. Transportation cost appears to reflect more or less the bulk and weight of the product rather than the area of operation and the distance involved. For instance, among the eight products considered bread has the maximum transportation cost. Its market area is much limited compared to that of soap, battery or radio which are distributed in the national market. While for radios and batteries the cost of distribution is only one percent, bread takes five percent. Again, while pesticides, distributed in a regional market, takes only 1.5 percent of the turnover for transportation, biscuits and soft drinks take three percent each and pharmaceuticals take only two percent. •The total trade discount for the various products, considering both wholesale and retail trade discounts, also indicates a wide range, with soft drinks having as high a rate as 46 percent (approximately) of the turnover. Trade discount is indeed the major cost component, and for most products, it is several times greater than the other cost elements.

5.3.2.20. The sum of the three costs comes to 50 percent of the approximate turnover for soft drinks, 45 percent for pharmaceuticals, and 24 percent for biscuits. Nearest to biscuits is batteries which takes approximately 23 percent of the turnover to cover these three aspects of distribution cost. The relatively lower rates for bread (20 percent) radio (19 percent), and pesticides (16 percent) reflect the comparatively lower distribution cost of these products. Since all elements of distribution cost have not been included, and since a certain percentage of the list price is usually added as retail trade discount which has not been adjusted in this computation, the actual distribution cost is definitely more than the sum of the three cost components presented here. The indication is that the data do not confirm the general belief that cost of distribution is very low in India, a belief largely derived from the apparently low trade discount for particular intermediaries. Here the sum of the three cost components range from 16 per cent to 50 per cent, and the average is 27.25 percent, evidently not a low rate.

5.3.2.21. If the low trade discount leads to a reduction in the distribution and marketing costs, there is obviously a net social gain. The study has already revealed that for certain products the trade discount for intermediaries at certain levels are rather low. However, the low trade discount for particular institutions does not lead to reduced marketing cost. The trade discount is low for certain middlemen because the total trade discount earmarked for channel operations is shared by intermediaries at different levels. Even where the combination of wholesale and retail trade discounts appears to be low, the channel cost is not reduced, as it includes the cost incurred by the manufacturer in supplementing the distribution functions of the intermediaries.

5.3.2.22. Low Margin

Unless trade discount is viewed in relation to the costs as well as the functions it represents, computation of the trade discounts does little purpose, or may lead to plausible conclusions regarding low trade margins and low distribution costs. Postulate regarding the extremely low trade margins in India is a case in point. Addressing this issue, Westfall and Boyd drew a comparison between trade margins in India and the United States: "Indian retail margins are usually small as compared with the 30 percent and larger margins common in this country".[27]

5.3.2.23. Incomparables

Incomparables are being compared here. There is very little similarity between the retail institution in the United States and the retail establishments in India, in terms of size, functions, and cost structure. In the advanced economy a large mass merchandising institution such as a supermarket, department store or chain store combines in itself wholesale and retail operations. With the elimination of the wholesale structure in many product lines, the large retailer has come to share with the manufacturer the distribution functions once performed by the wholesalers. This has significantly enlarged the cost of large scale retailing. Since trade discount is related to trade functions and the costs of performing these functions,

[27]Westfall and Boyd, Op.cit., p.394.

the large retailer who combines in himself wholesale and retail functions naturally deserves a combined trade margin earmarked for wholesale and retail functions. Trade discount is extended only to one agency and the retail trade discount represents the entire trade discount earmarked for the whole channel operation. Where the trade discount is shared by intermediaries at successive levels in the channel, the discount for any particular intermediary has to be relatively small. In India many links in the channel share the trade discount, just as they share the trade functions.

5.3.2.24. The functions performed by the intermediaries are rather limited. While the wholesaler in the United States engages his own travelling salesmen, here the manufacturer employs his salesforce to negotiate the transaction between the wholesaler and the retailer. Unlike in the advanced economy, here there is hardly any private brand and the brand promotion task is seldom performed by the distributor or retailer. Nonselling services rendered by the wholesaler to the retailers are conspicuous by their absence. When functions are not performed, cost are not incurred. Further, the labour cost and other establishment expenses of the tiny distributive institutions in India are comparatively much lower than those of their U.S. counterparts. The inevitable relationship between trade discount and the cost of trade functions leads to relatively lower trade discounts in India.

5.3.2.25. Trade discount alone is not an adequate measure of trade margin. Incentive discounts are to be added to this. Further, the gross margin is often enhanced by the higher prices that the intermediaries charge. The actual selling price at the retail or semiwholesale levels are often more than what is prescribed by the manufacturer. The manufacturer can watch the price of the product only to the extent of his direct contact with the intermediaries through field salesforce. Particularly at the retail end, many consumer nondurables are sold at higher prices. Enquiries at the retail counter during discussions with the trade sources revealed that some of the products and brands covered by the study are seldom sold at the recommended prices and that the retail price increases as the products percolate into the rural markets. The provision for'local taxes extra' and the frequent price changes offer convenient cover for the trader to charge a higher price. The concept, 'wholesale prices fluctuate less violently and more often than retail prices' is very much valid in the case of the consumer items under study.

When prices are raised by manufacturers, there is a sudden increase in price at the retail level, but when prices are reduced by manufacturers, there is hardly any reduction at the retail end.

5.3.2.26. Executives' Responses

On the issue of trade margins, the views of the executives were quite revealing. They were asked to comment on the trade margins in relation to the functions the middlemen performed. Thirtyone percent of the respondents felt that the margins taken by the intermediaries were more, compared to their services (Table 3.17). The remaining 69 percent did not subscribe to this view. Their responses to this issue were counterchecked by another question. They were asked to comment whether their intermediaries took undue profit. Again 27.6 percent of the respondents gave affirmative responses. Only in two cases it was pointed out that the trade margins were inadequate for the services they rendered.

5.3.2.27. What is significant is not to find the majority opinion; the survey reveals that there is a substantial number of respondents who believe that the intermediaries do not earn their share; that their functions do not justify the trade margins. Their reactions

Table No.3.17

Trade Margins in Relation to Trade Functions - Executives' Response

Total respondents : 29

Issues for comment	Response: Affirmative		Response: Negative	
	Frequency	Percentage	Frequency	Percentage
1. Trade margins are more compared to the services the intermediaries render	9	31	20	69
2. Middlemen take undue profits	8	27.6	21	72.4

sound bitter when they comment that the traders take undue profit. The agencies specifically mentioned by this category of respondents included retailers, selling agents, C & F agents and traditional wholesalers.

5.3.2.28. In summary, trade discounts in certain lines are quite low as they are shared by the many links in the channel. However, trade discount is not an adequate measure of trade margin. Incentive discounts and higher prices increase the gross margin. What is significant is not the gross margin but the net margin. As distributive functions are limited, cost of trade functions are reduced. Obviously, the traders' margins are not low considering their trade functions and their costs.

5.4.0 DETERMINANTS

5.4.1.0 Modernisation of Distributive Trade - Perspectives and Challenges

5.4.1.1. In the midst of a rapidly changing manufacturing environment and an emerging consumer market, the fragmented and tradition-bound distributive institutions continue to perform traditionally defined functions rather than identifying new needs and developing capabilities to fulfil these needs. The most serious challenge is a basic reassessment of the role and functions of each of the key institutions as they do not seem to have kept pace with the progress achieved in manufacturing. The intermediaries are still oriented towards trading surpluses rather than expanding markets. The absence of functional adaptations and institutional innovations in the distribution sector tends to retard or dissipate the potential progress in the manufacturing sector. Perhaps the most critical determinants of the state of the art in distribution are the natural tendency among traders to resist change and the apathy of public policy towards the trade sector.

5.4.1.2. Resistance to Change

Resistance to change is particularly strong among institutions involved in trade and many inefficient institutions persist for long periods of time. The status quo is the preferred state of affairs among channel participants. Once an institution is successful, complacency sets in and a commitment to a certain business procedure is protected at all costs. McCammon[28] identifies four major reasons for resistance to change among distributive institutions - reseller solidarity, entrepreneurial values, organisational rigidity, and the firm's channel position.

5.4.1.3. Reseller Solidarity

Traders often function as a highly cohesive group, barganing with suppliers and adjusting to their environment collectively as well as individually. Resellers 'organised' on the basis of particular trades often maintain internal harmony and a workable consensus. Consequently, they tend to support traditional trade practices and long established institutional relationships. The presence of a strong professional or trade association tends to reinforce conservative group behaviour. Group solidarity within the structure of marketing

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[28] Bert C. McCammon, "Alternative Explanations of Institutional Change and Channel Evolution," Bruce J Walker and Joel B. Haynes (eds), Marketing Channels and Institutions: Readings on Distribution Concepts and Practices, (Columbus, Ohio, Grid Publishing Inc., 1973) pp.83-87.

tends to inhibit the rate at which innovation is acceptable and thus slows down the diffusion process.

5.4.1.4. Entrepreneurial Values

Relatively large distributive institutions are interested in growth and are more inclined to accept change. Small traders often have a different set of values and tend to have relatively static expectations. They are interested in reaching and maintaining a given scale of operation and reject opportunities for growth beyond this point. They are extremely reluctant to invest additional funds in their businesses, almost irrespective of the profits involved. Instead, they prefer 'secure' investment outlets such as real estate. To them innovation means risk, fear of failure and possible loss of status in their communites. They will resist innovation because they 'value' stability more highly than growth.

5.4.1.5. Organisational Rigidity

A firm, because of organizational rigidities, prefers to respond incrementally to innovation. A well-established firm is an historical entity with deeply entrenched patterns of behaviour supported by sunk costs in systems and procedures developed to perform a known set of functions efficiently. As a result most firms absorb innovation gradually or react to innovative competition through a series of incremental adjustments[29].

5.4.1.6. <u>The Firm's Channel Position</u>

There is a dominant channel for most lines of products. It is comprised of 'insiders', those who have made a commitment to the dominant channel and wish to perpetuate it, and 'strivers', those outside the dominant channel who strive to become members of that channel. Surrounding the dominant channel are 'complementors' who take the leftover markets from dominant channel members and thus want the dominant channel to survive. The 'transients' engage in deviant competitive behaviour but do not have enough commitment to any product line to innovate.

5.4.1.7. None of the four types of firms are likely to introduce major marketing innovations. The insiders and the strivers are primarily interested in maintaining existing institutional arrangements. The complementators also have a vested interest in the status quo, and the transients are not sufficiently dependent on the product line to develop an entirely new method of distribution. McCammon, therefore, suggests that a firm completely

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[29] <u>Ibid</u>., pp.83-84.

outside the system will introduce basic innovations and historically this has often been the case. Consequently, a fifth category of outside innovators is required to explain major structural realignments[30].

5.4.1.8. Institutional innovation, particularly in retailing, has historically occurred outside the established power structure. To them, the potential benefits of innovation far exceed the possible loss associated with failure. The premise that the institutional innovator is likely to come from outside the established power structure in the traditional distribution system is also inherent in the wheel of retailing concept which is the most comprehensive theory of innovation yet developed in marketing. McCammon further explains that innovating industries employ proportionately more professionals than do noninnovating industries. Within a given industry, the firms with comparatively more professionals innovate more rapidly than those with fewer. Significantly, wholesaling and retailing are classified as 'stagnant' industries and the payrolls of these types of firms contain fewer professionals[31].

5.4.1.9. Hypothesis

Three important variables that perpetuate

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[30] *Ibid*., p.85.
[31] Ibid., p.87.

stagnation in distributive institutions emerge from McCammon's analysis: small size of the institution; low level of professional management, and lack of innovative outside entrepreneurs entering the field. These factors seem to explain the triumph of the forces of inertia, tradition, and myopia in the Indian trade sector. The study, therefore, set the following hypothesis:

H.4.4.1. "Institutional innovations and functional adaptations in the distribution sector are retarded by the small size of the institutions, the absence of professional management, and the lack of outside entrepreneurs entering the field".

5.4.2.0. Innovations in Wholesaling

5.4.2.1. Size of the establishment

As there has not been any census of wholesale and retail institutions in India, there is no reliable data available to analyse the size of a wholesale intermediary in terms of sales turnover. However, a vague idea could be obtained by looking into the annual trunover of a manufacturing firm and the total number of wholesale intermediaries engaged by the manufacturer. The average turnover per intermediary can be calculated from this. A typical distributor will be representing few such manufacturers. Table 3.18 gives an approximate idea of a particular company's share in a distributor's total turnover. Only four companies and their distributors are represented here. These are companies with one major product line each, distributed mostly through indirect channels; further, the bulk of the output in each case moves through the agencies mentioned. When the average annual turnover for the individual intermediaries from the products of a particular company is considered, it is found that with respect to three manufacturing firms, a typical distributor has an annual turnover of less than five lakhs, only one firm has more than five lakhs (Table 3.18).

5.4.2.2. In fact the average turnover of the agency, as computed here, is an inflated figure, because the manufacturers' annual turnover includes the value of sales through direct chanel also, except in the case of biscuits. However, the companies studied are either small or medium firms and such firms usually get comparatively small intermediaries at the wholesale level.

5.4.2.3. Usually a distributor represents only four or five manufacturers, except perhaps in the pharmaceutical line. Asssuming an average sales of rupees five lakhs from one manufacturer, a distributor representing

Table No.3.18

Average Annual Turnover for a Wholesale Intermediary with Respect to One Manufacturer

Product	Manufacturer's Annual Turnover* Rs.	Type of Intermediary	Approximate No. of the particular intermediaries used by the company	Average Annual Turnover per intermediary Rs.
Pharmaceuticals III	150	Distributor	40	3.75
Biscuit	250	Stockist	50	5.00
Bread	400	Wholesaler	45	8.80
Soft Drink I	100	Wholesaler	25	4.00

*Turnover for the year 1983-'84.

five different manufacturers will have an annual turnover of Rs.25 lakhs. Given an average trade discount of four percent (after deducting the discount allowed by the distributor to other wholesale intermediaries), the gross margin available for a distributor from his annual operation is only one lakh. To the extent the assumptions made here are near approximations of reality, the turnover and the margin are relatively very low. However, the size of the distributor's operation increases with the size of the manufacturers and the number of manufacturers represented by the distributor. Even then the overall picture is not drastically different.

5.4.2.4. The direct indication of the limited scale of operation of a typical distributor is the manufacturers' tendency to bifurcate sales territories assigned to distributors or stockists. As demand increases for a manufacturer's products in a particular area, the typical distributor finds it difficult to stock more, and cover his territory more intensively. This is partly because of the limited resources of the wholesaler. The manufacturer is therefore forced to divide the existing territory and add another stockist. The resource constraint at the level of the traditional wholesaler is indicated by the fact that these intermediaries sometimes sell at slightly less than their cost for immediate payments. The motive behind this 'under cutting' is to trade on the cash thus generated for the 30 days' credit period. The tendency to sell a part of their volume at retail further indicates the small scale of operation of the traditional wholesaler.

5.4.2.5. Management and Entrepreneurship

The typical wholesale institution being essentially a one man operation, the capital available to the wholesale intermediary is limited to the financial capacity of the entrepreneur or his family. In terms of capital and personnel, the wholesale establishment is an extension of the family. With the capital market and the commercial credit sources oriented more towards manufacturing than trade, the availability of capital and credit for wholesale operation is a serious constraint. Public policy is highly discriminative with respect to trade, and investment and new entrepreneurship in trade is seldom encouraged. In the wholesale business only very few people are employed from outside the family. Even when the enterprise expands, it does not represent more manufacturers or add more lines than what the individual entrepreneur and his family members can directly supervise and control. In this process taking up more distributive functions for the existing lines becomes the most serious casualty. If the entrepreneur has been quite successful, he will diversify into manufacturing rather than enlarging his wholesale business by engaging professionals. The few large national distributors often engage professional managers. However, the typical wholesale establishment seldom employs professionals. The very concept of entrusting their trade operations "full of secrets and confidentiality" to outsiders is still alien to the traders.

5.4.2.6. There has always been a social stigma attached to trade, and a merchant who is successful has the natural tendency to move into manufacturing which increases his prestige and social status, for manufacturing is more glamorous. Further, incentives offered by public policy are really alluring. Particularly, the new generation of entrepreneurs from traditional trading classes prefer to enter manufacturing. The diversification of primary wholesalers into manufacturing has been very significant. The net result is that capital and entrepreneurship, innovative entrepreneurs in particular, are diverted from trade to manufacturing. Thus, innovations and adaptations in wholesale trade are inhibited by the small szie of the typical establishment and the lack of new entrepreneurship and professional management.

5.4.2.7. Organised Action by Traders

Trade associations are strong at the wholesale level. There are associations for the distributors specialising in particular product lines. The association of the pharmaceutical distributors is a case in point. The bargaining power of these associations are such that a manufacturer cannot appoint a new distributor in a given area without the consent of the existing distributors of the manufacturer. Common issues affecting all members are, however, the prime concern of the association. There were instances where certain manufacturers had been boycotted on a national level. There are associations for distributors and stockists irrespective of the particular lines that they carry. Trade associations take united action on issues that affect all members - issues such as trade discount. They sometimes pressurize manufacturers on matters affecting individual members, for example, if a company tries to terminate the distributorship arrangement with an individual distributor, the trade association intervenes. Their pressure tactics include prohibiting others from accepting the distributorship. There are even instances of trade associations formed by the dealers of a particular company where major issues are negotiated between the dealers' associations and the manufacturer. Trade associations by nature, exert a negative influence on innovations and adaptations in the distribution sector.

5.4.2.8. Modernization of Wholesaling

As an economy becomes more prosperous the role of the wholesaler also changes. The short industrial history of India has already recorded the demise of certain types of wholesale intermediaries. Manufacturers in many fields are trying to do away with the wholesaler by taking over some of his functions.

5.4.2.9. In a developing economy there exist wholesalers whose principal trading advantage has been that they have access to scarce goods of some type and specialise in bringing the buyer into contact with the manufacturers, as much as a broker would. Some of them have been geographically stationary and completly supply oriented. Such intermediaries have a significance in an economy of scarcity. Once the supply of goods builds up and manufacturers begin actively looking for markets, some of these wholesalers are certain to be displaced. There are wholesalers whose primary function is to extend credit, either to manufacturers or to resellers or both. In the absence of adequate credit sources, particularly in a capital short, scarcity economy, this credit policy is important for the overall functioning of the economy. Here the role of wholesaler is by far more important. However, as a capital market develops or as more and credit sources open up for both manufacturers as well as merchants, the intermediary and his lending functions tend to be bypassed by middlemen who can perform marketing functions.

5.4.2.10. Another situation is the multi-stage wholesale system under which a large urban wholesaler sells to small wholesalers in smaller towns, who in turn, sell to neighbouring retailers. Under conditions in which the small town and the rural market have very limited potential, this may have been a justifiable method of distribution. But as the market develops and large aggressive, urban wholesalers who are needed to serve the new markets emerge, this multi-stage wholesaling also will gradually disappear.

5.4.2.11. One of the major shortcomings of the Indian wholesale sector has been the lack of aggressive sales promotion. Wholesalers too frequently prefer to be order takers and tend to consider their function simply to be the supply of items requested by the customers. They do not see the need to sell aggressively. Selling effort is obviously very limited among wholesale merchants and they do not engage travelling salesmen as their counterparts do elsewhere. Considerable burden is placed on the retailer to search out sources of supply. The wholesalers do not see the need to recommend one brand over another, nor give active promotional support to create selective demand to any particular manufacturer's products. Dissatisfactions on these grounds have led some manufacturers to bypass certain types of wholesalers.

5.4.2.12. These factors explain the mortality of the broker, the selling agent , and the provincial distributor, and even the vulnerability of the traditional wholesaler and the subwholesaler. The number of links in the multi-stage wholesale structure has been reduced and in certain industries the wholesale stage itself has been bypassed. In the distribution of many consumer durables, the wholesaler is no more significant. Fan, refrigerator, electric iron, stove, cooking range, TV, radio, tyre, travel goods and so on are often passed on directly to retail dealers by manufacturers. Distributors were used for some of these products earlier. The same has happened in the distribution of agricultural inputs and implements such as fertilizers, pesticides, power tillers, motors, pumpsets, generators and so on. Many passive intermediaries such as brokers and agents have been replaced or bypassed in the channels of industrial goods as well.

5.4.2.13. Some wholesalers had indeed kept pace with, or rather followed, the changing pattern of trade from general line to limited line. This was in response to the need for stronger selling. General line wholesalers shifted to limited line distributors or stockists. This reduction in the lines permitted the wholesaler to sell his remaining lines more effectively. However, these intermediaries are yet to realise that sales promotion must receive greater attention as the manufacturers struggle for an increasing share of the expanding market. Further, wholesalers in general are yet to appreciate fully the need to work more closely with manufacturers on new products and special promotions. The awareness of these needs would lead to better trained wholesale selling organisations, thus taking over the selling and market feedback functions from the manufacturers.

5.4.2.14. A dynamic market environment demands not only more effective promotional job from the wholesale intermediary, but better services to retail and industrial customers as well. Furnishing of technical services to the latter, and a host of services to the retailers would be of critical importance. Better knowledge of his own market is as vital for a wholesaler as for a manufacturer. Wholesale trading area data are scarce and the knowledge of market potential is sketchy at best. Unfortunately for themselves and for the marketing structure as a whole, wholesalers generally are the last among the marketing organisations to adopt sound techniques of marketing research. As physical distribution costs are an important part of the wholesaler's cost structure, more attention need to be given to warehousing and order filling costs. Warehouse layout, use of materials handling equipment and inventory management are all particularly significant. Office procedures such as order processing, invoicing, accounting and credit follow up are similarly areas that need improvement. In summary, the wholesaler who cherishes to move with the expanding Indian market will find it necessary to reorient every facet of his operations and to introuce greater efficiency at all levels of his business.

5.4.2.15. In order to bring this near revolution in wholesaling, manufacturers have to work more closely with wholesalers. Manufacturers can aid the wholesaler in training his sales force - perhaps the most urgent need. This can be achieved by group training programmes sponsored by the manufacturer or through field training aided by the manufacturer and his field staff. In the field of technical selling and services, adequate technical training and advice can be given by the manufacturer to the distributors' or dealers' technical staff. Under a policy of selective distribution the manufacturer and his wholesalers can become a highly cohesive and coordinated team.

5.4.2.16. As the level of industrial production increases in the country, and as standards of living in the urban and rural areas gradually improve, there is a basic need for expansion of the wholesale function. Innovations in retailing are to be expected and the wholesale sector may respond with corresponding innovations. It is not possible to bypass the wholesale function, at least in the distribution of some kinds of goods. What is possible is the rationalisation of wholesaling. The wholesaler will not dies; but he will be different. He will find it essential to strengthen his services to both manufacturers and retailers, and to seek ways of performing his basic functions more efficiently.

5.4.3.0 Innovations in Retailing

5.4.3.1. The field of retailing is still predominantly one of small stores, one in which large institutions are yet to develop. The multitude of minute, marginal stores with little capital, low turnover, and high mark-up lead to an inefficient distribution system. The small retail establishment is characterised by poor business practices. The store layout is haphazard; there is hardly any stock control and even the most elementary accounting records are often not kept. The only account book generally known to the trade is the one where consumer credit is recorded. The prevalence of the small stores with poor procedures leads to high cost of distribution and this coupled with the philosophy of low volume and high mark-up means higher cost to the customer. There is little incentive to reduce prices because the upper class is ready to buy at any price, the middleclass market, except in cities, is small, and the price cut necessary to bring the lower class into the market is too large to be considered. Again, the middle class in the cities, though unhappy over high prices, manage to buy them. The neo-middle class - husband and wife working - also go for premium priced, prepacked products.

5.4.3.2. Many reasons have been offered for the large array of small stores: the surplus of manpower, the difficulties in transportation, the customer habit of buying small quantities very frequently from the nearest store, and the small amount of capital generally required for entry. Retailing is frequently regarded as a field for unemployment relief. As unemployment causes some people to turn to subsistence farming, it encourages some to open what they hope will be subsistence retailing. Even the inadequate income of a small retailer is better than none, and it may be helpful to supplement other incomes.

5.4.3.3. Entrepreneurs too often enter the field with scanty capital and insufficient experience. Retail mortality rates are naturally very high. Entry is so easily accomplished and the competitive struggle among too many small stores so severe, that there is a continuous seething occurring in the cauldron of trade. Thus, there is a continual flow of hopeful and enthusiastic individuals into retailing, replacing another group of sadder but wiser men. The existence of the small stores tends to be 'poor, nasty, brutish and short'.

5.4.3.4. The retail structure is indeed changing, but the change is slow. With increasing urbanisation and improvement in general economic conditions of the people, limited line stores and speciality stores are emerging. In sparsely populated rural areas, the only type of shop available is the general store with a wide variety of products such as hardware, food, utensils, cloth and fancy articles, all in limited quantities at the same place. They change the product mix very often depending upon seasonal variations in availability and demand and also their stocking capacity. Large part of the business done by the general store is on credit. Payment is usually made after the harvest and hence the consumer is constantly in debt to the local retailer. In more populous and prosperous centres such as towns and large villages, the general store is gradually pruning the lines giving rise to limited-line stores. Together the general store and the limited line store still dominate the retail structure. With eighty percentage of the population living in the villages, these stores occupy a numerically more important position. Further specialisation is found in large metropolitan centres. Speciality stores are also found in suburbs, but the depth of stock in such locations are limited, and specialisation in such areas are not always economical. Increasing specialisation of stores indicates improvements in size and business practices.

5.4.3.5. Retailing in India appears to develop in line with the general economic conditions. Population density and economic level seems to relate well with the size of the store and sales per establishment. In regions of lower economic levels, the number of establishments follows density of population without regard to purchasing power, and this increases the mortality of the store.

5.4.3.6. Transplanting Mass Merchandising Institutions

Marketing policies employed in a mass consumption economy cannot be transferred to less-developed economies without a great deal of change[32]. A modern factory can be transplanted from the United States to

[32] Harry A. Lipson and Douglas F. Lamount, "Marketing Policy Decisions Facing International Marketers in the Less-developed Countries", Journal of Marketing, Vol. 33 (October, 1969), p.24.

Asia, Africa, or Latin America. The machines will function the same way and the products will be identical. The American distribution methods - developed to a high degree of sophistication in an intensely competitive market place - cannot be directly transplanted[33]. Social customs, business institutions, education, individual attitudes and government controls in the developing countries differ markedly from those that form the base for methods in the advanced countries.

5.4.3.7. Such differences of application of innovative distribution concepts have prompted one market analyst to go so far as to state:

> "Tropical Africa is unlike any other part of the world, and the problem of understanding the commercial system of the area can be frustrating. Some physical, economic, and sociological factors lead to marketing procedures that can be radically unusual"[34].

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[33]Micheal Michaelis, "Distribution in Developing Economics", R. Clifton Anderson and William P. Dommermuth (eds), Distribution Systems - Firms Functions and Efficiences, (New York, Appleton-Century-Crofts, 1972), p.389.

[34]Edgar P. Hibbert (eds), "Statutory Marketing in Developing Economy", Europen Journal of Marketing, Vol.6, (Autumn, 1972), p.156.

5.4.3.8. Marketing from the beginning has been an extremely dynamic culture component[35]. Distribution practices and institutions are created by certain social and economic factors at a certain period in the history of a nation's economic development, and are modified by the changes which subsequently take place[36].

5.4.3.9. In a society where wants are relatively simple and where basic biological needs are still not adequately met, the job of selling requires little sophistication; the customers must have the goods and, if these are consumable, the demand is perpetual. Once a society has achieved a certain standard of living in excess of biological needs, then marketing problems are introduced. The higher the standard of living and the more capital-intensive the means of production, the more intense the problem[37].

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[35] Wroe Alderson, "A Normative Theory of Marketing Systems", Reavis Cox, Wroe Alderson and Stanley J. Shapiro, Theory in Marketing, (Homewood, Illinois, Richard D. Irwin, Inc., 1964), p.92.

[36] Dentsu Incorporated, Marketing Opportunities in Japan, (London, McGraw-Hill Book Company (UK) Ltd., 1978) p.54.

[37] B.G.S. James, Integrated Marketing, (London, B.T. Batsford Ltd., 1967), pp.14-15.

5.4.3.10. It is often argued that there is great waste in human resources in a marketing system characterised by street vendors, market women, and small retailers, with their pitifully small sales volume. In the absence of suitable alternatives, these marketing activities fill a place in the lives of the people engaged in them. Attempts to introduce mass marketing and other changes in the marketing system will need to take them into account, or innovations will be resisted. A more modern system, involving additional processing and services should provide many new employment opportunites, but people will need to be trained to fill them[38]. It has, however, been pointed that the fragmented and expensive marketing arrangements which exist for many commodities in developing countries are, simply, an aspect of underdevelopment which will pass away with time and the progress of modernisation as a whole[39].

5.4.3.11. Local Adaptations

Any technology that is transplanted from one culture and economic milieu to another is likely to

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[38] Martin Kriesberg, "Marketing Food in Developing Nations - Second Phase of the War Hunger", Journal of Marketing, Vol.32, (October, 1968), p.59-60.

[39] Walt W.Rostow, "The Concept of a National Market and its Economics Growth Implications", Peter D. Bennet (ed), Marketing and Economic Development, (Chicago, American Marketing Association, 1965) p.15.

require local adaptation and change. Modern large scale retailing methods are almost exclusively of US origin and their transfer to a developing economy encounters several serious barriers[40].

> "Marketing is concerned with subleties, slight peculiarities in the cultural, social, economic and geographic composition of its markets".[41]

It is precisely these oft-hidden subleties that make the difference between India and the United States. They might hardly be noticed in many business or other situations. But in marketing they are maginfied and their impact becomes critical.

5.4.3.12. The Japanese economy provides a brilliant example for the successful transplantations of mass merchandising institutions. The emerging Japanses distribution system is becoming increasingly similar to the

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[40] Edward W. Cundiff, "Concepts in Comparative Retailing", Journal of Marketing, Vol.29 (January, 1965), pp.59-63.

[41] W.J. Dixon, "Just a Little North ... Just a Little Bit Different", Sales Management, The Marketing Magazine, Vol. (September 21, 1962), p.116.

patterns found in other mass consumption societies, particularly in the United States. The pattern of retail innovations in Japan has been enormously influenced by the American models; however, the process required far more than simple copying.

> "And even though environmental differences between the two nations have been gradually narrowing, they are still substantial, requiring considerable modification if American concepts are to be successful. The entrepreneurs have introduced American techniques, concepts and institutions selectively, and they have been largely successful in adopting them to fit the needs of the Japanese environment"[42].

5.4.3.13. Supermarkets in a Less Developed Economy

The transplantation of the supermarket into Spain in the late 1950's provides another classic example. The experiment was a failure and Guerin has provided a brilliant analysis of the socio-economic factors that led to the failure[43]. The supermarket promises more

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[42] M.Y. Yoshino, The Japanese Marketing System: Adaptations and Innovations, (Cambridge, Massachusetts, The MIT Press, 1971)p.281.

[43] Joseph R. Guerin, "Limitations of Supermarkets in Spain", Journal of Marketing, Vol28, (October 1964), pp.22-26.

efficient retailing with lower prices for consumers in the upper layers of the income pyramid, but the supermarket as we know it, is not viable where incomes are extremly low. The several socio-economic factors that decide the number of supermarkets in a society include:

1. Population density;
2. Consumer income;
3. Consumer preferences and traditions regarding types of retailing services; and
4. The extent to which the existing food stores are able to survive competition from the new supermarket.

5.4.3.14. The feasibility of a large retail food outlet is determined by the number of people who, considering their geographic location relative to the outlet, could possibly be customers of that outlet. The limit of the geographic areas comprising a store's potential customers is set by the transportation facilities available to the buyers and their responsiveness to the price and nonprice advantages of the store compared with traditional stores.

5.4.3.15. Rural communites, lacking both high population density and transportation facilities, provide almost no market at all for supermarkets. Even in a heavily populated area, a supermarket will not enjoy adequate sales volume if the typical purchase is in small quantity, because of the limited income of the consumer; nor will a large volume of such traffic produce adequate profits if purchases are limited to low-margin items encouraged by loss leader strategy. To choose the advantages of a supermarket (lower prices, greater selection of goods, quicker service, freedom to choose) the customer must be ready to giveup the advantages of dealing with the traditional outlet: nearness, credit for the poor, many services and personal rapport with the store keeper.

5.4.3.16. A significant cultural factor is that in a society where the housewife is not gainfully employed outside the home and who lacks other social contacts, the daily shopping offers a welcome opportunity to meet neighbours. The cold efficiency of the supermarket with strange people and minimum personal contact appears to be a less attractive place than the friendly neighbourhood store. Further, for a buyer who depends on the credit extended by the local grocer, the supermarket is ruled out regardless of its other advantages. However, with increasing income and increasing urbanisation, economic and cultural conditions presently influencing preferences away from supermarkets will tend to disappear.

5.4.3.17. First in the Metro

Although a low level economy cannot absorb innovative retail institutions on a large scale, the urbanised and affluent segments of the society can initially support and sustain the mass merchandising institutions. With improvements in economic and social conditions, such innovations in distribution may percolate into other areas. A marketing institution that works on a very extensive scale in a developed economy is viable on a limited scale in a developing economy because some small segments of the developing economy have the same characteristics of demand and productive ability common to the developed economy[44]. This explains the reasons for the appearance of large scale retail institutions first in the metropolitan centres.

5.4.3.18. Effect of Modernisation*

There is an apprehension that modernisation of distributive trade which follows economic evolution inevitably leads to displacement of labour rather than increase in employment. Developing economies are characertised by large number of traders who subsist on a very small volume of business. Most of these intermediaries

[44] Ibid.,

*Certain paragraphs in this part dealing with the effect of modernisation of distributive trade on employment, formed part of an article published earlier: G. Antony, "Marketing Made in U.S.A.: Modernisation of Distributive Trade", The Economic Times, (March 10, 1984).

are poor, and smallscale distribution requires comparatively little capital and training. Distributive trade, therefore, tends to be labour intensive. It is assumed that small scale, labour intensive trade is technically primitive. The ability of an excessive number of persons to subsist in commercial occupations has been interpreted to imply that the cost of marketing is higher than necessary and thus the final prices are increased and the expansion of demand retarded. It has, therefore, been suggested that the "elimination of redundant commercial employment may well be a requisite of vigorous development based on market principles in such economies"[45]. This kind of reasoning leads to the conclusion that "there is no escape from modernisation and mechanisation in marketing"[46].

5.4.3.19. But what happens to the displaced workers or to the employment level in the economy when redundant labour is eliminated by modernisation of trade?

> "The traditional reply that cost reduction leads to increased real demand, and hence employment, depends implicitly

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[45]Lee Preston, "The Commercial Sector and Economic Development", Reed Moyer and Stanley C. Hollander (eds) Markets and Marketing in Developing Economies, (Chicago, American Marketing Association 1968), p.20.

[46]Hannan Ezekiel and Madhoo Pavaskar, Second India Studies - Services, (New Delhi, Macmillan, 1976) p.42.

on the reabsorption of displaced labour. If this latter does not occur, the increased real income of consumers is offset by the decreased real income of the displaced"[47].

Modernisation does not necessarily mean mechanisation; nor does it imply largescale substitution of capital for labour. Even if capital intensive distribution methods prove more efficient in a narrow sense, they may do little good unless adequate opportunities exist for the displaced trade workers.

5.4.3.20. The concept of modernisation in distribution is quite ambiguous. For instance, it could refer either to an increase or to a decrease in the volume of services rendered to the ultimate consumer, if we analyse the American pattern as the model. Again, specialisation is generally regarded as a feature of modernisation, but the supermarkets and department stores in the West are, in some way, the opposite of specialisation[48]. It is

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[47] Lauchin Currie, "Marketing Organisation for Under-developed Countries", Reed Moyer and Stanley C. Hollander (eds), Markets and Marketing in Developing Economies, (Chicago, American Marketing Association, 1968) p.125.

[48] P.T. Bauer, "Some Aspects and Problems of Trade in Africa", Reed Moyer and Stanley C. Hollander (eds), Markets and Marketing in Developing Economies, (Chicago, American Marketing Association, 1968) pp.66-67.

of course, economically desirable that trade should be modernised in the sense that it uses resources most productively and, at the same time, in a way that is conducive to economic growth. However, the economic desirability of adopting new methods is essentially a matter of costs and returns and it depends on factor supplies, technological conditions, the pattern of consumer wants, and institutional arrangements.

> "There is no special merit in adopting capital-intensive or technologically advanced methods if these absorb a larger quantity of valuable resources in satisfying consumer wants than would simpler methods"[49].

5.4.3.21. As an economy evolves, the importance of marketing as a field of employment tends to grow and it grows more rapidly than the average rate of economic growth. This paradigm has its theoretical basis in the "Clark-Fisher hypothesis"[50]. One of the assumptions in

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[49] Ibid., p.67

[50] Allan Fisher, "Marketing Structure and Economic Development - Comment", Quarterly Journal of Economics, Vol.68, (February, 1954)pp.151-54, P.T. Bauer and B.S. Yamey, "Economic Progress and Occupational Distribution", P.T. Bauer and B.S. Yamey, Markets, Market Control and Marketing Reform - Selected Papers, (London, Weidenfeld and Nicolson, 1968) pp.10-13., Lee E. Preston, "The commerical sector and Economic Development", Reed Moyer and Stanley C. Hollander (eds) Markets and Marketing in Developing Economies, (Chicago, American Marketing Association, 1968) pp.19-20.

this hypothesis is that as income increases, consumption shifts away from goods to services. This is because the income elasticity of demand for services is higher than that for products. Consequently, demand for services, including marketing services, increases relatively more rapidly with economic progress. Increased specialisation in production also makes pressures on the distribution sector to expand its operations. As labour productivity in the trade sector does not keep pace with increase in productivity in other sectors, and as technical progress is relatively slower in the trade sector, the proportion of occupied labour in distributive trade is supposed to rise with economic progress.

5.4.3.22. Another important proposition underlying the Clark-Fisher formulation is that changes in the composition of goods consumption, made possible by increasing income, tend to increase the relative scale of marketing activities. The higher the per capita income, the greater is the variety of products offered and consumed; the wide range of items demanded increases the assembly and dispersion functions. The more specialised the production function in the face of an increasingly diversified demand, the greater is the marketing task to bring these into equilibrium. Further, as consumption reaches higher levels, producers rely more on nonprice competition devices such as product differentiation, brand promotion and market segmentation, thereby increasing the marketing activities.

5.4.3.23. There are other factors which contribute to an increase in marketing employment. Since increase in production makes specialised marketing operations viable, marketing functions become increasingly segregated from nonmarketing functions. Marketing emerges as an important part of the economy during the expansion period partly due to the sheer fact of its identity, which remained less clear when small agricultural and manufacturing units performed their own marketing functions. The overall increase in marketing activities opens up new avenues for employment in this sector. The Clark-Fisher proposition, based partly on analytical reasoning and partly on statistical evidence has, of course, been challenged[51]. There is, however, an empirically verified tendency for marketing employment ratio to be positively related to per capita income.

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[51] Bauer and Yamey, Op.cit., pp.12-13.

5.4.3.24. Analysis based on employment data provided in the Sixth Five Year Plan shows that in India the rate of growth of employment in trade has been much higher than the rate of growth in any other division of the organised sector[52]. Apparently, this evidence supports, at least partially, the validity of the employment growth paradigm.

5.4.3.25. Innovations in marketing may call for the introduction of more capital intensive techniques to improve efficiency and reduce spoilage. But in developing economies capital intensive methods in one sector would perhaps mean less capital intensive process in another. It is relevant to recall here Bauer's appeal not to confuse technical efficiency with economic efficiency. While large scale substitution of capital for labour is a characteristic feature of trade in advanced economies, distributive trade in emerging economies is more labour intensive than many other activities outside the subsistence sector. This is partly because unskilled labour can be substituted more readily for capital in small scale distribution than elsewhere. Further, small scale trading represents one of the overflow activities into which are forced those who cannot secure employment in other sectors.

[52] Antony, Op.cit.

5.4.3.26. There is no reason for disparaging labour intensive marketing channels in emerging economies. Although labour intensive distribution methods are technically primitive compared to those in advanced societies, they are not wasteful in conditions of developing societies. Marketing techniques which are economically efficient in one society need not be efficient in another where the resource structure and the socio-cultural backgrounds are different. In developing economies where capital is scarce, modernisation of marketing institutions might well emphasise effective merchandising and salesmanship, new organisational forms, and improved management, instead of innovations requiring substitution of capital for labour.

5.4.3.27. Role of Government

The traditional distribution structure in India has come under serious strains and tensions as a result of the dynamic socio-economic changes. Until recently, the Indian distribution system was adequate to serve the needs it had to fill. However, the significant changes that have been taking place during the past few decades are now making new demands on the distribution structure, calling for a basic reassessment of functions and restructuring.

5.4.3.28. The visible hand of the Government has been guiding the modernisation and rationalisation of the distribution sector in many countries. To cite but few examples, marketing innovations were encouraged and protected by general government policies in the United States[53]. In Italy the government has been deeply involved in distribution by aiding existing wholesalers and retailers to modernise their operations[54]. In Israel, the Ministry of Commerce and Industry does grant government assistance to the trade sector. Investment in marketing organisations is recognised as an approved investment, and 5-year development budget loans upto 50 percent of the total investment are granted[55].

5.4.3.29. In Japan, the Government has become more responsive to the needs of the distribution sector. This interest partly originated from the concern for the welfare of the small scale sector, in which marketing

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[53] Joseph Cornwall Palamountain, Jr., _The Politics of Distribution_, (Cambridge, Massachusetts, Harvard University Press, 1955), p.255.

[54] David Carson, "Marketing in Italy Today", _Journal of Marketing_, Vol.30, (January, 1966) pp.10-16.

[55] Wind, _loc. cit._, (April 1967) pp.53-57.

intermediaries comprise an important part. Further, when rising consumer prices developed into one of the most sensitive political issues, the Japanese government was forced to adopt policies and programmes to renovate the outmoded wholesale and retail establishments. The recent emphasis has been on building a viable and efficient national distribution system by the modernisation of the nation's entire distribution structure[56].

5.4.3.30. The obsolete and highly fragmented distribution system in India refuses to evolve to meet the demands of an emerging mass production economy; characteristically, they lack financial and managerial resources to generate meaningful change. Unlike manufacturing firms, the marketing intermediaries are not favoured by extensive Government assistance in their modernisation efforts. If ever they try to grow or innovate, they have to carry the entire burden themselves.

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[56] Yoshino, Op. cit., pp.253-71.

CHAPTER VI

HORIZONTAL STRUCTURE AND VERTICAL RELATIONSHIPS

6.0.1. The extent of channel coordination and control depends on the number of channel members at each level and the vertical relationships among the various levels. The topics of discussion in this chapter include the strategies of exclusive and selective distribution, the degree of vertical integration and the behavioural process in the channels. The first part devoted to description, identifies the extent to which selective or exclusive distribution policies are followed at the wholesale and the retail levels, and looks for vertical marketing systems among the industries under study. Developing a channel involves selection of channel members at various levels and the relevant issues are the choice criteria, the availability of suitable channel members, the pre-emption of intermediaries by leading firms, the bifurcation of territories and the addition and replacement of channel members. The discussion of the dynamics is limited to the legal constraints on distribution, and the issues involved are territory restrictions, exclusive dealing, full-line forcing, and resale price maintenance. The last part deals with the determinants of vertical integration and the factors influencing, or inhibiting, the emergence of vertical marketing systems.

6.0.2. The following are the hypotheses tested in this chapter.

H.4.1.1. Exclusive and selective methods of distribution are used more at the wholesale level than at the retail level.

H.4.1.2. Vertical marketing systems are rare in the context of the manufacturing firms under study.

H.4.1.3. Manufacturers deal only with the next level in the channels and not with all levels.

H.4.2.1. Availability of intermediaries for participation in limited distribution is a function of the size and market power of the manufacturer.

H.4.2.2. Suitable intermediaries are pre-empted by the large and leading firms in the industry.

H.4.2.3. Financial strength and experience in trade are the two factors that manufacturers look for in their prospective channel members, and vital factors such as sales strength and managerial capability are seldom treated as relevant choice criteria.

H.4.2.4. In response to market expansion, new channel members are added, but the existing intermediaries are seldom replaced.

H.4.3.1. The policy of limited distribution leads many firms to adopt restrictive trade practices such as territory restriction, exclusive dealing, full-line forcing, and resale price maintenance.

H.4.4.1. The extent of vertical integration in marketing channels is a function of the size of the manufacturer.

H.4.4.2. Marketing channels are not managed as organised behaviour systems.

6.1.0. DESCRIPTION

6.1.0.1. This study attempts to analyse the horizontal structure and vertical relationships in the distribution channels from a systems perspective. The discussion on the horizontal structure largely relates to the number of intermediaries at each level, with reference to a particular market area. The question of the number of wholesalers or retailers in a given geographic territory leads to the policy regarding the intensity of distribution. The horizontal structure, in turn, influences or is influenced by the vertical relationships among the channel participants.

6.1.0.2. Channels as Organised Behaviour Systems

To comprehend the structure and dynamics of channels of distribution in the right perspective, it is necessary to view the marketing channel as a system. The institutional components of the channel such as retailers and wholesalers have received considerable attention in the literature, particularly in the institutional approach to the study of marketing. This approach visualised channels of distribution as a sequence of institutions. The approach tended to degenerate into a description of various marketing channels prevalent in specific industries[1]. The present study has viewed the channels of distribution as a sequence of functions, rather than institutions, in a systems framework.

6.1.0.3. The concept of channels of distribution is one of the most original, enduring, and fundamental concepts in the marketing literature[2]. Attempts to understand interfirm relationships within the channels and to generate strategies for their management have traditionally been viewed in terms of economic theory. From this perspective, firms join together in trading arrangements because of cost and revenue considerations. A more recent approach to marketing channel analysis is characterised by the view that channels are social systems, the performance and ultimate success of which are based not solely on economies and costs, but also upon the nature of channel members' perceptions of each other and their system[3].

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[1]James A.Constantin, Rodney E.Evans and Malcolm L. Morris, Marketing Strategy and Management, (Dallas, Texas, Business Publications Inc., 1976) p.273.

[2]Louis W. Stern, Distribution Channels: Behavioral Dimensions, (Boston, Houghton Mifflin Company, 1969) p.1.

[3]James L. Weik, "Discrepant Perceptions in Vertical Marketing Systems", Fred C.Allvine (ed), Marketing in Motion: Relevance in Marketing, (Chicago, American Marketing Association, 1971) p.181.

6.1.0.4. The importance of this orientation has been stressed by Ralph Breyer. He noted:

> "One must examine the channel from a total channel point of view - not just the manufacturer's or the wholesaler's, or the retailer's. Without this commitment to the study and management of channels as a whole, little progress can be made toward the optimising of distribution. It is entirely wrong to view a channel from the stand point of the manufacturer only"[4].

6.1.0.5. Ridgeway argues that a marketing channel is an operating system with an identifiable and distinctive pattern of behaviour. Despite the independent identity of the participating institutions, their activities must form one extended system - a fact usually ignored in administrative and organisational theory[5].

6.1.0.6. Alderson notes that marketing functions are discharged by behaviour systems or by individuals

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[4] Cited in Reavis Cox and Thomas F. Schutte, " A Look at Channel Management", Bruce J. Walker and Joel B. Haynes (Eds), Marketing Channels and Institutions: Readings in Distribution Concepts and Practices, (Columbus, Ohio, Grid Publishing Inc., 1973) p.19.

[5] Valentine F. Ridgeway, "Administration of Manufacturer-Dealer Systems", Administrative Science Quarterly, (March 1957) pp.464-467.

acting within systems. The type of system of interest here is classed as an ecological system because of the peculiar nature of the bond among the components. Institutional components are sufficiently integrated to permit the system to operate as a whole, but the bond is loose enough to allow for the replacement or addition of components[6].

6.1.0.7. It is, however, naive to typify channels of distribution solely as a series of markets extending from production to consumption with exchange activities concentrated between firms at adjacent structural levels. The institutions and agencies in a channel are involved, basically, in a cooperative endeavour, and efforts to achieve intensified functional integration among them are readily observed. The relevance of the systems concept to channel analysis has been widely accepted; and a distribution channel is now perceived as a set of components interacting with each other to achieve common objectives.

6.1.0.8. The designation of the distribution channel as a system has a number of implications, according to Louis Stern: (1) each member of a distribution channel is dependent upon the behaviour of other channel members;

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[6] Wroe Alderson, Marketing Behaviour and Executive Action, (Homewood, Illinois, Richard D. Irwin, 1957) p.32.

(2) a behaviour change at one level in the channel causes change throughout the channel; and (3) the whole channel must operate effectively if the goals of any one member are to be realised. These implications derive from the central characteristics of all systems - mutual dependency among components. This interdependence demands the unification of the increasingly diverse and multiple elements in the system[7].

6.1.0.9. Perception of the channel as an organised behaviour system has several advantages. This approach recognises the fact that a channel is a purposive and rational assemblage of firms rather than a random collection of enterprises. Second, it emphasises the existence of cooperative as well as antagonistic behaviour within the channel. Third, the channel is perceived as a unique social organism that reflects the hopes, goals and aspirations of its participants. Fourth, the marketing channel is recognised as a basic "unit of competition". Systems theorists point out that a firm can fail not only because of its own imperfections,but also because

[7] Stern, Op. cit., p.2.

it is a member of the wrong system. Fifth, the notion that a channel is an operating system provides a basis for identifying dysfunctions that are system-generated; perhaps these could not be discovered if the operations of individual firms were analysed separately rather than collectively.

6.1.0.10. The degree of vertical alignment and coordination directly influences the horizontal structure. The strategy of selective or exclusive distribution, for instance, calls for a relatively high degree of vertical alignment, while intensive distribution is associated with conventional channels. The horizontal structure and the vertical relationships are mutually dependent. Logically, an analysis of the horizontal structure should be followed by an analysis of the relevant features of the vertical alignment.

6.1.1.0. Number of Intermediaries at each Level

6.1.1.1. The horizontal structure of distribution is defined by the number of middlemen at each level. This aspect of the channel structure is traditionally designated as the 'intensity of distribution'. The number of intermediaries at each level is decided to a great extent by the degree of market exposure and channel control desired by the firm.

6.1.1.2. Broadly, there are two market exposure strategies: mass distribution and limited distribution. The more frequently used term for mass distribution is intensive distribution; it is sometimes referred to as general distribution. Limited distribution has been further divided into exclusive distribution and selective distribution. There are, thus, three major strategies for market exposure: (1) intensive distribution, (2) selective distribution, and (3) exclusive distribution.

6.1.1.3. Intensive distribution occurs when the firm attempts to sell through the maximum number of outlets possible at each level in the channel. The strategy provides the maximum exposure for the product. Selective distribution involves limiting the number of outlets that may carry a product in a market area. This strategy provides product exposure to a large market, but not to the largest. In exclusive distribution, the manufacturer selects only one outlet in a given market area and, therefore, the strategy restricts the market coverage.

6.1.1.4. The degree of distribution intensity is decided not only by the degree of market coverage envisaged for the product, but also by the extent of channel control the producer wants to exercise. However, the twin objectives of market exposure and market control have an inverse relationship: the more intensive the distribution, the lower the degree of channel control.

6.1.1.5. Intensive Distribution

Intensive distribution aims at offering the product through as many retailers or wholesalers as possible, because convenience is the primary factor influencing the customer. Many convenience goods and industrial supplies fit this category. The consumers seek a product they can locate with a minimum of effort. Such consumer products as soaps, batteries, bulbs and biscuits require the most intensive distribution possible. Unless the product is flooded in all available outlets there is the possibility of substitutes capturing the taste of the consumers. In an age of product proliferation, there are innumerable competitive products competing for the limited channels of distribution. By and large, the retailers, owing to lack of facilities and resources, are reluctant to add to their merchandise all the available products and brands. Entry to the channel is restricted particularly for lesser known brands. The drawback of intensive distribution is that market control is weakened precisely because the product is available everywhere and in all types of outlets. Middleman may show little interest in a product distributed intensively. They may carry it in their lines, but they will make no special effort to push it.

6.1.1.6. Selective Distribution

The policy of selective distribution indicates that not all intermediaries available at a particular level are used, but rather those included are carefully chosen. By carefully selecting the agencies, the manufacturer can concentrate on potentially profitable accounts and can develop solid working relationships to ensure that the product is displayed and sold in the desired manner. Further, the number of outlets may be restricted if the product requires specialised servicing or sales support[8]. The selective policy tends to generate a much closer relationship. The selected outlet is likely to feel that it has a stake in the manufacturer's success, and that it will be worthwhile to cooperate in carrying out the producer's marketing programmes. The selective relationship is much closer than the intensive one, and affords the manufacturer much more control over the field of distribution[9].

[8] Donald J. Bowersox et.al., Management in Marketing Channels, (Tokyo, McGraw-Hill International Book Company, 1980), p.203.

[9] Ralph S. Alexander, James S. Cross and Richard M. Hill, Industrial Marketing, (Bombay, D.B. Taraporevala and Sons, 1972) p.269.

6.1.1.7. The fact that the welfare of the selected intermediary is closely tied to that of the manufacturer tends to ensure the manufacturer a higher quality of marketing service. This manifests itself in more aggressive selling effort by the outlet, greater willingness to carry adequate and representative stocks, more active cooperation in promotional programmes, and greater willingness to equip himself and his sales people to render necessary services, technical and otherwise. The selective policy enables savings in marketing costs. The salesman has fewer accounts to call on than under intensive distribution, and can usually spend more of his call time in constructive effort to move the product and less of it in the struggle to get an order. Since the outlets are fewer, the average order is likely to be larger, with resulting reductions in order processing costs. In essence, a policy of selective distribution envisages that only that number of wholesalers and/or retailers is used which is required to give the desired market penetration, and enables the manufacturer to reach his market objectives.

6.1.1.8. The more a middleman limits his distribution, the closer his interests and those of the intermediaries. The fewer middlemen there are in any particular market, the greater will be the size of the market and the marketing opportunities for each of them; consequently, their interest in the product will be enhanced. The middleman renders more sales support to the product not only because of the market opportunities, but also because the producer expects a higher level of turnover from him. The manufacturer will be assured of a high degree of co-operation from these middlemen and this, in turn, will give him a considerable degree of control over the market[10]. The manufacturer gets dealer push, particularly where products require explanation, demonstration and service.

6.1.1.9. The factors that make selective distribution attractive can be summarised as follows:-

1. Selective distribution enables the manufacturer to reduce selling costs.
2. Selective distribution permits the manufacturer to choose dealers who will work closely with him.
3. Selective distribution results in increased sales because of more frequent calls upon the better customers[11].

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[10] H.J. Kuhlmeijer, Managerial Marketing, (Leiden, H.E. Stenfert Kroese B.V., 1975) p.167.

[11] Delbert J. Duncan, "Selecting a Channel of Distribution", Richard W. Clewett (ed) Marketing Channels for Manufactured Products (Homewood, Illinois, Richard D. Irwin, 1954), p.375.

6.1.1.10. Drawback

The serious drawback of the selective distribution policy is that the manufacturer puts all his marketing eggs in one or two baskets in each area. The intermediary who looks good initially may not prove his mettle, but by then the manufacturer is stuck with him. Usually, it is not possible to get the best intermediaries in every market. In some areas, it may not even be possible to get good ones. The quality of the manufacturer's marketing performance in an area depends almost entirely on the excellence of his selected distritbutor. Under intensive distribution policy, he can expect to enjoy a fairly uniform distributor performance everywhere, since in almost every market there are both poor and efficient intermediaries[12].

6.1.1.11. The selective method may not go far enough in satisfying the user's preferences. Goods may not be available where consumers expect to find them. Limited distribution also carries the risk of leaving distribution gaps in the market from which competitors may take advantage. Another drawback is that distributors who have been excluded may do everything in their power to arrange the supply of similar products from competitors[13].

[12] Alexander, Cross and Hill, Op.cit., p.270.
[13] Kuhlmeijer, Op.cit., p.168.

6.1.1.12. Selective distribution is used at the wholesale level for a wide range of consumer and industrial products. At the retail level, this policy is used primarily for speciality goods, sometimes for shopping goods and rarely for convenience goods[14].

6.1.1.13. Exclusive Distribution

In exclusive distribution a single intermediary is given an exclusive franchise to sell the product in a geographic area. Products which enjoy a high degree of brand loyalty can be distributed in this manner, provided the consumer is ready to take extra effort to reach the single outlet. The speciality goods - speciality store combination is the ultimate in exclusive distribution. Exclusive policy is desirable for certain shopping goods, when sales of the concerned product through speciality stores would enhance the product's image[15]. This strategy enhances the manufacturer's control over the resale of his product beyond the immediate sale. He can expect the distributor to carry sufficient stocks of the entire line, give effective promotional support, follow suggested pricing practices, and perform the necessary

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[14] Edwin H. Lewis, Marketing Channels: Structure and Strateg (New York, McGraw-Hill Book Company, 1968) p.67

[15] Bowersox et.al., Op.cit., p.203.

service activities. If the product is in high demand and is sought by middlemen, the manufacturer can expect compliance with his policies as one condition for retaining the franchise. The more the middlemen can be dissuaded from handling competing products, the greater the loyalty which will accrue. If the product range enjoys good brand image, it is easier for the manufacturer to insist on certain restrictive covenants than it would be if the brands were unknown.

6.1.1.14. Franchising

Over the years, the concept of exclusive distribution has been extended to the franchise system of distribution. Franchising means that a seller gives a retailer the exclusive rights to market the seller's product; in return, the reseller agrees to follow policies desired by the seller and not to sell competing products[16]. It involves a continuous and contractual relationship in which a franchiser provides a licensed privilege to do business. In general, franchises can be placed into two basic categories. The first category is the product distributorship. The second category consists of trade-mark licensing system. Franchising offers the manufact-

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[16] Glenn Walters, Marketing Channels, (Santa Monia, California, Goodyear Publishing Company Inc., 1977) p.138.

urer the advantage of rapid entry into new markets without the capital investment required for establishing direct distribution network. At the same time, the franchisor can withdraw from unsuccessful markets with the minimum of risk. The franchisee, in turn, receives the benefit of marketing and management aids which have been tried and tested by others. In order to retain the franchise he is expected to follow the terms and operating procedures very carefully, often to the letter.

6.1.1.15. Most of the disadvantages of selective distribution applies to exclusive distribution also. Further, exclusive territorial arrangements, have frequently come under court scrutiny. Exclusive franchises are in a sense a monopoly for the product in the particular territory. Many manufacturers in the United States have switched from them to nonexclusive dealership. Where the store with the widest selection is more likely to make a sale than the one carrying only a single brand, the strategy is not effective.[17]

6.1.1.16. In summary, limited distribution strategy can be adopted where:

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[17] Martin Zober, Marketing Management, (New York, John Wiley & Sons Inc., 1964) p.120.

1. aggressive selling by intermediaries is desired,
2. increased control over distribution is deemed important,
3. distributors are expected to carry a full line of the manufacturer's products,
4. intermediaries are expected to perform the sales and post-sales services,
5. middlemen have to support the manufacturer's promotional programme at the local level,
6. middlemen are expected to furnish useful market data,
7. resale price has to be controlled,
8. manufacturer has to work more closely with the intermediary;
9. limited distribution enhances the prestige of the product.

The policy of exclusive distribution is followed more frequently at the wholesale level. At the retail level it is probably effective for speciality lines and shopping lines, but not satisfactory for convenience products, which by definition, must be available at many locations within easy reach of consumers. Selective distribution strategy is generally recommended for shopping goods at the retail level.

6.1.1.17. <u>Hypothesis</u>

In India the typical manufacturer's contact with the market appears to be limited to the first intermediary in the wholesale sector. Since the retail structure is weak characterised by a large number of small stores, it appears that the policy of limited distribution at the retail level is not feasible. The study sets the following hypothesis for empirical analysis:

H.4.1.1. "Exclusive and selective methods of distribution are used more at the wholesale level than at the retail level".

6.1.1.18. <u>Empirical Analysis</u>

Data pertaining to the intensity of distribution at the wholesale and retail levels (Table 4.1) support the hypothesis. Of the 26 firms engaging wholesale intermediaries, the middlemen used by three can hardly be treated as regular intermediaries, for two firms use their retired employees as agents, and another firm uses a sister concern as selling agent. Since the analysis concerns the issue of coordination and control of middlemen, there is hardly any significance in including these agents in the analysis. There are, thus 23

Table No.4.1.

Limited Distribution vs. Intensive Distribution At Wholesale and Retail Levels.

No. of firms : 29

Factors	Frequency
1. No. of manufacturers using wholesale intermediaries	26
2. Firms engaging regular* wholesale intermediaries	23
3. Firms following limited distribution at wholesale level	22
4. No. of firms selling through retailers	22
5. Firms following limited distribution at retail level	2

* Two manufacturers engaging retired employees as agents and one firm using a sister concern as selling agent are not treated as regular wholesalers.

firms that engage regular wholesale intermediaries. As reported by the firms, 22 of these firms follow the policy of limited distribution at their first levels in the wholesale structures. Although 22 manufacturers sell through retailers, only two firms follow limited distribution at the retail level.

6.1.1.19. Table 4.2 indicates that out of the 23 relevant companies considered, 13 firms (56.5 percent) follow exclusive distribution at the wholesale level, while nine firms adopt selective policy. More or less the reverse happens at the retail level. Of the 22 relevant manufacturers, 20 firms, (almost 91 percent) resort to the practice of intensive distribution at the retail stage, while the remaining two adopt the strategy of selective distribution.

6.1.1.20. More pertinent information could be derived from an analysis based on industry group classification. Among the 13 firms following the strategy of exclusive distribution at the wholesale level, 12 firms are producers of consumer nondurables (Table 4.3). In this category, three firms adopt selective distribution at the wholesale level and they are the manufacturers of agricultural imputs, and only one firm follows intensive

Table No.4.2

Intensity of Distribution at Wholesale and Retail Levels

Mode of distribution	Number of firms	
	Frequency	Percentage
<u>At Wholesale Level</u>		
Exclusive	13	56.5
Selective	9	39.1
Intensive	1	4.3
Total	23	100.0
<u>At Retail Level</u>		
Exclusive	0	0
Selective	2	9.1
Intensive	20	90.9
Total	22	100.0

Table No.4.3.

Intensity of Distribution at Wholesale and Retail Levels

Consumer Nondurables

Company/ Product	Wholesale			Retail		
	Exclu-sive	Sele-ctive	Inten-sive	Exclu-sive	Sele-ctive	Inten-sive
1.Soap I			/			/
2. Soap II	/					/
3.Soap III	/					/
4.Pharmace-uticals I	/					/
5.Pharmace-uticals II	/					/
6. Pharmace-uticlas III	/					/
7. Biscuit	/					/
8. Bread	/					/
9. Jams and Syrups	/					/
10. Soft Drinks I	/					/
11. Soft Drinks II	/					/
12. Fertilizers		/				/
13. Pesticides		/				/
14. Cattlefeed		/				/
15. Batteries	/					/
16. Lamps	/					/
Total	12	3	1	0	0	16

distribution at wholesale stage and this is done by the small soap manufacturers marketing a strong brand enjoying high demand. At the retail level, all manufacturers of consumer nondurables follow intensive distribution.

6.1.1.21. In the category of consumer durables and semi-industrial products only three out of the six firms have the wholesale stage at all. Of these three firms, only one, the manufacturer of watermeters, follows exclusive distribution, while the two smallscale paint units follow selective distribution at the wholesale level (Table 4.4). Four of the six firms in this category use intensive distribution at the retail level. The manufacturers of TV and radio and fan who do not engage wholesale intermediaries, sell their products through selected dealers at the retail level.

6.1.1.22. In the field of industrial distribution, firms generally follow selective strategy (Table 4.5). All the four relevant firms under study select one or few dealers in geographic areas where the customers are clustered. (The firms not considered for analysis include the two manufacturers of transformers who engage agents and the other a producer of electrical cables who uses a sole selling agent).

Table No.4.4

Intensity of Distribution at Wholesale and Retail Levels

(Consumer Durables and Semi-industrial Products)

Company/ Product	Wholesale Exclusive	Wholesale Selective	Wholesale Intensive	Retail Extensive	Retail Selective	Retail Intensive
TV and Radio					/	
Fan					/	
Tyre						/
Paint I		/				/
Paint II		/				/
Watermeter	/					/
Total	1	2			2	4

Table 4.5

Intensity of Distribution - Industrial Goods*

Company/ Product	Exclusive	Selective	Intensive
1. Electro-mechanical components		/	
2. Chemicals I		/	
3. Chemicals II		/	
4. Power Tillers		/	
	0	4	0

* Companies with agents and selling agents not considered.

6.1.1.23. On the whole, it appears that manufacturers of consumer nondurables, generally follow exclusive distribution at the wholesale level and intensive distribution at the retail level, except in the case of agricultural inputs where the selective policy is followed at the wholesale level. Selective distribution at the wholesale level is followed by manufacturers of industrial goods. It appears that consumer durables are often sold direct to selected dealers in each market area, and for semi-industrial products such as water-meter wholesale dealers have exclusive representation, although retail distribution is intensive. This is the usual pattern for paint as well, but since the firms under study are relatively small units, it is difficult to get wholesale dealers to represent specific territories.

6.1.1.24 It is relevant to note that selective policy at the retail level is followed only where the products move through specialised stores, as in the cases of TV, radio, and fan. In such cases, the tendency has been to bypass the wholesale intermediary. Particularly in the case of consumer durables, this has happened in India. Travel goods, household appliances, cooking range and so on are generally sold through selected (authorised) dealers of speciality lines. Here, direct distribution to retailers is the norm. Of course, in certain cases sister concerns of the manufacturing firms perform the wholesale distribution, but functionally they are not different from the manufacturers' sales branches. In big cities some of the manufacturers have their own retail showrooms. However, direct distribution to selected speciality stores appears to be the pattern of distribution for durable consumer goods.

6.1.1.25. The need for selective distribution seems to have forced many manufacturers to bypass certain wholesale intermediaries. In the case of consumer durables and agricultural implements, distributors or main dealers were extensively used in the past. However, increased competition in the market created the need for greater control over the dealers and many firms wanted to retain the right to appoint dealers and sub-dealers even when they were using distributors and main dealers. The conflicts that ensued were frequently brought before the MRTP Commission and the decisions were more in favour of the intermediaries. The manufacturer's need for selective distribution has led to the direct distribution of these products to dealers, thus bypassing the wholesale level in many cases.

6.1.1.26. Empirical observations lead to the conclusion that the general pattern at the wholesale level is exclusive distribution for convenience goods and selective distribution for industrial products. For consumer durables, selective distribution at the retail end is the normal pattern and to achieve this, the wholesale intermediaries are often bypassed. The general notion about intensive distribution for convenience products at the retail level is confirmed.

6.1.2.0. Vertical Relationships

6.1.2.1. Based on the vertical relationships among the channel participants, distribution channels have been classified into three broad patterns:

1. Vertical Marketing Systems (VMS)
2. Free Flow Channels
3. Single Transaction Channels[18].

Vertical Marketing Systems consist of networks of horizontally coordinated and vertically aligned establishments which are managed as a system. Establishments at each level operate at an optimum scale so that marketing functions within the system are performed at the most advantageous level or position[19]. The participants both acknowledge and desire interdependence. They are motivated by long term benefits resulting from participation in what is described as a behavioural channel system, the channel member must accept a role. One of the members in the vertical marketing system must be acknowledged as a leader. The dominant firm

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[18]Bowersox et.al., op. cit., p.9.

[19]William R. Davidson, "Changes in Distributive Institutions", Journal of Marketing, Vol.34, (January 1970) pp.7-10.

which has the greatest relative power within the channel is accepted as the leader. Although dependence is the cohesive force in a channel system, at times it becomes a source of conflict. Channel leader is naturally expected to resolve conflict and maintain stability for the channel. Many organised marketing systems are classified as vertical marketing systems because they enjoy the common feature of functioning as integrated combines of two or more independent enterprises.

6.1.2.2. Vertical marketing systems have been further classified into three major types of distributive systems: corporate, contractual and administered systems. Corporate System: The corporate channel system is one that owns and operates two or more traditional levels of the marketing channel. Such vertically integrated channels are formed when successive stages of production and distribution are combined under a single ownership. The process of combining separate levels of distribution and production under a single ownership is called vertical integration[20].

6.1.2.3. Contractual System

In contractual channel system, the acknow-

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[20] *Ibid*.

ledgement of dependence exists in a formal contract. Unlike the corporate system, here arrangement lacks ownership. The operating arrangements are clearly stated in the contract. Independent firms at different levels agree to coordinate their programmes and policies in order to achieve increased market impact and economy in operations[21].

6.1.2.4. Administered System

The system illustrates the advantages of mutual recognition and cooperation without any formal contractual arrangement or centralised coordination based on ownership. The channel participants acknowledge the existence of dependence and adhere to the leadership of the dominant firm. The leader influences or controls the behaviour of firms at adjacent levels. The attainment of joint rewards enables the system to retain operational stability over an extended period of time. The reseller is dependent on the manufacturer for product development and preselling the product through advertisement. To protect the common interest of the manufacturer and the reseller the independent reseller aligns himself primarily with a single manufacturer[22].

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[21] Taylor Sims, Robert Foster and Arch G. Woodside, Marketing Channels: Systems and Strategies, (New York, Harper and Row Publishers, 1977) p.181.

[22] Ibid., p.180.

Although the manufacturer-reseller relationship has been a historical fact, there has been recent intensification of such relationships by means of manufacturer sponsored comprehensive programmes for distribution through the entire channel.

6.1.2.5. Free-flow Marketing Channels

This is the conventional pattern of distribution where channels are unintegrated. The participants do not reach the level of dependence, characteristic of vertical systems. These channels are a loose coalition of autonomous institutions. Such a channel is hardly an integrated system of action, but rather a vertical series of independent markets that happen to be on the route taken by a product to the market[23]. The participants do not become fully committed as members of a behavioural marketing system, even when they seek to improve marketing efficiency. The reason for cooperation in the conventional channel is the perception of the members that they are enjoying a satisfactory arrangement. The stability of the free-flow channel is quite vulnerable.

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[23]Davidson, loc. cit.

[24]Bowersox, op cit., p.11-12.

6.1.2.6. Single Transaction Channel

Here the transactions are unplanned and there is no expectation to perpetuate the business relationship. Channel arrangements of lasting duration are seldom required by parties in a single transaction channel. This type of distribution involves a full or partial search for a buyer or seller for each transaction[24].

6.1.2.7. The perception of the distribution channel as a behaviour system is of recent origin. Marketing channels have traditionally been viewed as fragmented, potentially unstable, networks in which vertically aligned firms bargain with each other at arm's length, terminate relationship with impunity, and otherwise behave autonomously[25]. The unintegrated marketing channels appear to remain 'loose coalitions' rather than as integrated systems. Channel members too often act in an almost completely independent manner rather than as part of a system. When each member attempts

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[24] Bowersox, Op.cit., p.11.12.

[25] Bert C.McCammon, Jr., "The Emergence and Growth of Contractually Integrated Channels in the American Economy", Peter D. Bennet (ed), Marketing and Economic Development, (Chicago, American Marketing Association, 1965) p.496.

to operate at his most efficient level to meet his own objectives, the effectiveness and the efficiency of the entire system and each of its parts are diminished.

6.1.2.8. As Philip McVey pointed out a long time ago, integrated action up and down a channel still remains a rare luxury in marketing[26]. In India today, the 'channel of distribution' still remains a concept that is principally academic in usage and unfamiliar to many firms selling to and through these channels. Instead of a channel, a manufacturer seems to concern himself merely with the next link in the channel; for, dealings are not with all the links in the channel but only with those immediately adjacent to him. The manufacturer may little know, nor care what becomes of his products after they reach the hands of some merchant middleman. A manufacturer may not even consider himself as standing at the head of a channel, but only as forming a link in a channel. The systems perspective of distribution channels appears to be quite alien to the Indian reality. The study, therefore, sets the following hypotheses:

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[26] Philip McVey, "Are Channels of Distribution What the Text Books Say", Journal of Marketing, Vol. 24, (January 1960), pp.61-65.

H.4.1.2. "Vertical marketing systems are rare in the context of the manufacturing firms under study".

H.4.1.3. "Manufacturers deal only with the next level in the channels and not with all levels".

6.1.2.9. Empirical Analysis

Dependence and willingness to participate on a more or less formal basis as a member of a behaviour system are the main features that characterise a vertical marketing system. The member firms acknowledge the leader, and view their best long term interest. Empirical analysis, as reported in Table 4.6., reveals that marketing channels that conform to these characteristics are rather few. Only firms that have at least one 'level' between the manufacturer and the consumer have been considered for analysis. Except one of the manufacturers of power cables* all other firms qualify for analysis. All levels, including retail level, have been considered while judging the type of channel. A

*This firm does not have even a single person exclusively for marketing, sales, or distribution, and sells its entire output directly to institutional customers.

Table No.4.6

Channel Classification* Based on Vertical Relationship

Company	Type of Channels				
	Single transaction	Free-flow	Vertical Marketing Systems		
			Administered	Contractual	Corporate
1. Soap I		/			
2. Soap II		/			
3. Soap III		/			
4. Pharmaceuticals I		/			
5. Pharmaceuticals II		/			
6. Pharmaceuticals III		/			
7. Biscuit		/			
8. Bread		/			
9. Jams & Syrups		/			
10. Soft Drink I		/			
11. Soft Drink II		/			
12. Fertilizer		/			
13. Pesticide		/			
14. Cattlefeed		/			
15. Battery		/			
16. Lamps		/			
17. TV & Radio				/	
18. Fan		/			
19. Tyre		/			
20. Paint I		/			
21. Paint II		/			
22. Watermeter		/			
23. Transformer I			/		
24. Transformer II			/		
25. Electromechanical components		/			
26. Cables II				/	
27. Chemicals I		/			
28. Chemicals II		/			
29. Power tillers				/	
Total		24	2	3	

* Relates to the Indirect Channels only.

channel relationship cannot be judged not on the basis of the relationship that exists between two levels, but the relationship among all the various levels have to be considered.

6.1.2.10. Of the 29 firms, only five firms have channels that can be considered as vertical marketing systems. They are the firms producing TV and radio, power tillers, cables and transformer. All the remaining firms have channels which can be described as free-flow channels. It is pertinent to note that among the firms which fall into the categories of consumer nondurables and semi-industrial product, there is not even one firm that participates in channels that could be treated as vertical marketing systems. Since distribution at the retail level for most of the other firms are intensive, there is no possibility of establishing vertical marketing systems for these firms. In the case of consumer durables, the retail strategy of the small scale fan unit is selective, However, the resulting channel cannot be treated as a vertical marketing system,because dependence and leadership are seldom acknowledged by the participants. The manufacturers of TV and radio appear to have a channel that can be described as a vertical marketing system.

6.1.2.11. Of the five firms with channels that qualify for the title of vertical marketing systems, four are manufacturers of industrial products. Of these, the concerned channels in two organisations involve manufacturers' agents and in another the selling agent involved is a sister concern. In the fourth concern, the vertical marketing system involves dealers. Of the four instances of vertical marketing system, the channels used by the two transformer manufacturers cannot be considered as vertical marketing systems, because the agents or representatives of the manufacturers can hardly be treated as market intermediaries or distributive institutons. Thus, only in three of the five firms, the channels appear to qualify for the title 'vertical marketing systems'. The concerned channels in the three companies are vertical marketing systems of the contractual type. In all the three cases, there is only one intermediate level between the manufacturer and the consumer.

6.1.2.12. The distribution system for TV is treated as a contractual vertical marketing system for the following reasons: (1) the manufacturer has direct contact with the dealers; (2) the relationship is formalised through a written contract; (3) the leadership of the manufacturer is acknowledged by the dealers (as evidenced by the restrictive covenant of 'exclusive dealing' where the dealers agree not to deal in competing brands). The channel for power tillers is also treated as a contractual system for the same reasons. In the case of the manufacturer of power cables, there is, however, a difference: the selling agent (who sells the product through his own branch network) is a sister concern of the manufacturing firm. However, theoretically the relationship is contractual. For each of the three firms, there is only one intermediary between the manufacturer and the consumer. Further, the number of dealers is also limited; the manufacturer of power cables engaged only one selling agent; for power tillers the number of private dealers for the entire national market is only 12, for TV, however, the number of dealers are much more, more than 1000 in the southern states of India. For the two other firms that apparently follow administered systems, namely, the manufacturers of transformers, the agents are less than a dozen in each case. Thus, the manufacturers involved in vertical marketing systems seem to have two favourable factors: there is only one intermediary between the manufacturer and the consumer, and the number of channel members is few compared to other firms.

6.1.2.13. It appears that a few firms participate in channels that claim the title of vertical marketing systems. The norms used here to judge these systems are inadequate. Keeping in view the spirit of the concept, norms regarding levels of channel member cooperation and commitment to systems goals have to be applied. Judged by these norms, hardly any of these channels can be treated as vertical marketing systems. These observations support the hypothesis (H.4.1.2.). It has already been noted that where wholesale intermediaries are used, most of the manufacturers use the strategy of exclusive or selective distribution at the first level (excluding the wholesale branch). But the manufacturers have hardly any contact with intermediaries beyond the first level. As discussed in Chapter IV, all firms under study except three, in the categories of consumer nondurables and consumer durables and semi-industrial products have multilevel channels with intermediaries. Obviously the manufacturer deals only with the first intermediary in the channel, and not with all levels. This observation supports the hypothesis(H.4.1.3.).

6.2.0 DEVELOPMENT

6.2.0.1. Selection of Channel Members

Development of the horizontal channel structure involves the identification of specific intermediaries to be included in the channel. The effectiveness of the policy of limited distribution depends on the efficiency of individual members selected. Under a policy of limited distribution formation of the channel group is a comparatively well thoughtout and carefully applied process. However, emphasis is not as much on channel formation as on the individual trading concerns or units to be included. This is true because the trading concern or trading unit is the primary 'activating' unit and provides a closely knit specialised organisation with central direction and control[27].

6.2.0.2. The guiding principle of centrally coordinated channels is that the agency that designs the channels thinks not solely in terms of its own operations within the channel, but rather in terms of relationships of its own operations to the operations

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[27] Ralph F. Breyer, "Some Observations on 'structural' Formation and the Growth of Marketing Channels", John C. Narver and Ronald Savitt Holt (eds), Conceptual Readings in the Marketing Economy, (New York, Holt, Rinehart and Winston Inc., 1971) p.166.

of all other agencies within the channel. The prime concern is that everything done by everybody in the channel adds upto effectiveness at the point where the final user chooses the product offered,over the offerings made to him by competing channels.

6.2.0.3. In a conventional channel, the trading concerns can and readily do switch their sources of supply or their outlets with minimum inconvenience and cost. A substantial part of all consumer goods marketing, especially that of frequently purchased, low unit value items, is characterised by flexible trading relations with changes in suppliers and outlets relatively frequent and widespread. However, the situation is different where more or less continuing trading relations prevail over a considerable span of time. Such stability may be due to franchise arrangements and exclusive distribution agreements. But where such agreements exist, the qualifications of both middlemen and manufacturers are carefully examined in advance; fairly detailed stipulations regarding operations are usually set forth in a written agreement; and substantial commitments respecting selling methods, advertising, service, merchandising help, etc., are made. These tend to cement the relationship more firmly, so that dissolution of the channel by abrogation of the agreement is less easily accomplished, and channel formation is generally a slower process[28].

6.2.0.4. Selection of individual channel members is the final step in channel design. However, selection decisions are often independent of channel design decisions. For example, when a firm needs more coverage in existing territories, new members are to be added. Even when the basic channel structure remains unchanged in terms of number of levels, institutional types, or intensity of distribution, the firm may still need to add additional outlets to allow for growth. Another reason for selection decision, independent of channel design decisions, is to replace intermediaries. Further, the firms that follow intensive distribution do not engage in an elaborate process of selection of particular outlets even though they design their channels.

6.2.0.5. Availability of Middlemen

Competition for channel members is often more intense than competition for end users.

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[28] *Ibid.*, p.161

> "When a manufacturer competes for the purchase of his product by the consumer or end-user, he is in competition with other manufacturers of the same product. When he competes for the attention and support of the distributor, he is up against all other manufacturers whose products are carried by that distributor"[29].

6.2.0.6. In many situations, however, the manufacturer can realistically be regarded as the channel captain. It is rather usual for the manufacturer to select the intermediaries when he is large and powerful, when he has developed high public status by his demand creation activities, when he finds it feasible to use a limited number of distribution outlets, and when distribution outlets operate under the terms of a franchise and would be seriously handicapped by the withdrawal of it. Large manufacturers often try to make their plans and policies effective by taking the initiative for coordinated action. As to the medium and small manufacturers which truly characterise any industrial structure, the power position is speculative, vacillating and ephemeral.

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[29] Benson P. Shapiro, "Improve Distribution with Your Promotional Mix," Harvard Business Review, Vol.55, (March-April, 1977) p.119.

6.2.0.7. In any case, the opportunity of any firm is contingent upon the willingness of others to use it as a link in the channel. Only occasionally will a middleman accept any product he is offered. The requirement that he should invest his own money and effort forces him to be selective in terms of probable outcome or profit. Many manufacturers are primarily oriented towards selling to the middleman. Nearly every comprehensive campaign of consumer advertising allots substantial effort to dealer promotion. Much consumer advertising is primarily aimed at stimulating effect upon middlemen. It is common practice for manufacturers to force the acceptance of a new product with heavy consumer advertising, introductory high-mark offers, cooperative advertising schemes, and so on. These may have the effect of "mesmerizing" middlemen[30].

6.2.0.8. The manufacturers' freedom to select among conceptually available alternatives is practically limited by conditions and attitudes prevailing among middlemen. The manufacturer finds that the most desirable types of outlets have already been pre-empted by strongly entrenched competitive organisations. The middleman, already using his space and capital resources to the

[30]McVey, Loc. cit.

maximum, is reluctant to add additional items to his line[31]. Channel selection is not a unilateral undertaking, but one requiring the agreement of both manufacturers and intermediaries. Distributors also have their say in this process. Wholesalers and retailers are continually on the lookout for sources of supply suitable to their own purposes. The approach taken by the intermediary is quite different from that of the manufacturer. Since middlemen tend to prefer certain manufacturers more than others, one is left with the question as to whether the manufacturer chooses the distributor, or the distributor the manufacturer. The best intermediaries may already be served by one or more competitors, so that the next best will have to be used. The issue of channel selection and the question of choosing or being chosen is not determined by market factors alone, but has to be seen in the context of the whole chain of distribution and the existing vertical power structure between manufacturers on the one hand and intermediaries on the other. Generally, three different situations can be singled out:

i) Industry dominates,

ii) Distribution dominates

iii) A situation of countervailing power

[31] William R. Davidson, "Channels of Distribution - One Aspect of Marketing Strategy", Bruce J. Walker

exists, with the dominant procedures controlling captive outlets on the one hand and dominant distributors controlling captive producers on the other. These two systems, totally different in structure, are continually locked in a competitive struggle with each other[32].

6.2.0.9. A small producer trying to enter a market with a new product or unknown brand might find that his freedom to choose dealers has been severely restricted by the existing restrictive covenants of other established competitors[33]. The small manufacturer may find that the most desirable types of outlets have already been pre-empted by strongly entrenched competitive organisations. The middleman, already using his space and capital resources to the maximum, is reluctant to add additional items of small and medium manufacturers to his line, since such proliferation poses serious

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and Joel B. Haynes (eds), Marketing Channels and Institutions: Readings on Distribution Concepts and Practices, (Columbus, Ohio, Grid Publishing Inc., 1973), p.9.

[32] Kuhlmeijer, Op. cit. p.156-57.

[33] B.G.S. James, Integrated Marketing, (London, B.T. Batsford Ltd., 1967), p.242.

problems, particularly in terms of available display space, warehousing space, capital required for inventory investment, and so forth.[34]

6.2.0.10. As a result of the lack of sufficient promotion for small manufacturers' products, middlemen are reluctant to accept distributorship. The pricing or discount structure on the items may not be sufficiently attractive to induce middlemen to devote promotional effort adequate to ensure product movement. Distributors often limit their operations to brands that are presold through advertising, and often shy away from new products even when the products are introduced by large firms whom they represent. However, in the case of leading firms, most often the products are presold, and, therefore, the wholesalers and retailers have to do little selling. That is not the case with produce from relatively unknown producers of smaller size who can afford very little preselling.

6.2.0.11. Hypothesis and Empirical Analysis

The availability of suitable intermediaries is a primary requirement for the implementation of a strategy of selective or exclusive distribution. It

[34] Davidson, "Channels of Distribution--One Aspect of Marketing Strategy", loc. cit.

has already been noted that the degree of vertical alignment among the firms under study is relatively low. The existing industrial structure in the country is dominated by comparatively small and medium scale firms, (a situation that has been deliberately duplicated while selecting firms for the study) and characteristically such firms are at an obvious disadvantage in selecting channel members, if the theoretical postulates presented in the foregoing paragraphs are to be accepted. In case the assumptions about the nonavailability of suitable intermediaries for relatively smaller firms is true, it would provide an insight into the relatively low degree of vertical alignment in the channels of the industries and firms under study. The study, therefore, attempts to verify the following hypotheses:

H.4.2.1. "Availability of intermediaries for participation in limited distribution is a function of the size and market power of the manufacture".

H.4.2.2. "Suitable intermediaries are pre-empted by the large and leading firms in the industry".

6.2.1.1. <u>Empirical Results</u>

Many of the assumptions about selection of intermediaries appear to be far removed from reality. Of the 29 firms using indirect channels, 26 firms have wholesale levels. However, only 23 manufacturers engage regular wholesale middlemen and 22 of these firms follow limited distribution at the wholesale level (6.1.1.18). The assumption is that all these firms select their intermediaries, on the basis of some rational criteria, but the assumption appears to be fallacious.

6.2.1.2. This is particularly so where the strategy adopted is selective distribution. Among the nine firms that follow selective strategy at the wholesale level, three are manufacturers of consumer nondurables and four of industrial products (Table 4.7). None of the three manufacturers of agricultural inputs really chooses intermediaries based on rigid norms. Actually, the process of considering a number of agencies available in a specific geographic area, evaluating these agencies on the basis of some predetermined criteria, and accepting some intermediaries who meet the distribution objectives and requirements of the manufacturers, is non-existent. It may be recalled that for the fertilizer marketer state agencies such as agro-industries corpo-

Table No.4.7

Exclusive and Selective Distribution Among Industry Groups

Industry Groups	No. of firms in the group following direct distribution	Wholesale Level		Retail Level	
		Exclusive	Selective	Exclusive	Selective
Consumer Non-durables	16	12	3	0	0
Consumer Durables and Semi-industrial goods	6	1	2	0	2
Industrial Goods	7	0	4	NA	NA
Total	29	13	9	0	2

rations and apex cooperative societies act as wholesale intermediaries; the very concept of limited distribution is hardly applicable here since there is little choice available to the seller in engaging these institutions. Any such institution which is ready to deal in the products is welcome, although such institutions are limited in each state. The only restriction with regard to engaging intermediaries is that the distributorship is not open to private traders. Similarly, the manufacturers of pesticides and cattle-feed do not seem to choose prospective channel participants from among the many middlemen available and willing to carry these lines in specific localities. Whoever is available and willing is normally accepted, although the number of intermediaries finally engaged is not very many.

6.2.1.3. Manufacturers of industrial goods like-wise restrict the number of intermediaries in specific areas, but do not apply rigorous choice criteria, nor select their channel members from among many. The number of middlemen is indeed limited; but the practice seldom implies that the market exposure is deliberately curtailed. Channel members required to serve the whole national market is not more than a dozen or two. There is hardly any relevance in attributing selective policy to these producers of industrial goods. However, when these firms appoint dealers, they look for certain attributes in their intermediaries. The two small paint units similarly do not really choose their wholesale intermediaries, but they are being chosen by the intermediaries,; distribution is considered selective here, only because in a fairly large market area they engage only few intermediaries; since specific areas are not earmarked for particular intermediaries, the distribution is not treated as exclusive. In fact, these manufacturers have little choice in accepting intermediaries. Their problem is not whom to choose, but how to be chosen.

6.2.1.4. There is very little 'selection' of intermediaries in all these cases. Channel members who are willing to participate are accepted; and application of rigid norms for screening prospective channel members seldom occurs. These firms that are deemed to follow selective distribution at the wholesale level hardly ever select intermediaries, but rather accept those agencies who meet certain minimum requirements.

6.2.1.5. At Retail Level

Only two firms really follow selective distribution at the retail level (Table 4.7): they are the manufacturers of TV and fan. The dealers engaged by the manufacturers of pesticides and cattlefeed sell partly at wholesale and partly at retail; the subdealers for their products sell more at retail, but the manufacturers have little contact with these agencies. Therefore, there is hardly any limited distribution at the retail level. The manufacturer of fertilizers seldom makes any deliberate attempt to reduce the number of dealers at the retail level, although dealers are to be approved by the manufacturers. Limited distribution at the retail level is thus limited to the two firms, producers of TV and radio and fan who sell directly to retail dealers. Even among these, only the producer of TV and radio has any real choice of intermediaries; the manufacturer of fan is too small to attract competent dealers.

6.2.1.6. Thus, although 29 firms engage intermediaries, often many levels of intermediaries, only very few firms select their middlemen, at least at one level (Table 4.8). Among the 26 firms that use wholesalers, only 13 firms really limit the market exposure for their products at the first level in the wholesale structure; the scope for selection of intermediaries is limited to these firms. At the retail level, only two firms have any opportunity for selecting intermediaries although there are 22 firms

Table No.4.8

Limited Distribution and Selection of Intermediaries

Factors	Frequency
1. Firms engaging wholesalers	26
2. Firms engaging regular wholesale institutions	23
3. Firms with selective distribution at wholesale level	9
4. Firms with exclusive distribution at wholesale level	13
5. Firms that appoint intermediaries	11
6. Firms selling through retailers	22
7. Firms that follow selective/ exclusive distribution at retail level	2
8. Firms that have real choice of intermediaries	6

engaging retailers in their channels. Even among the firms that have the opportunities for selecting middlemen, not all manufacturers seem to get enough alternative outlets, so that they can choose the appropriate channel members.

6.2.1.7. At the wholesale level, selection of intermediaries is limited to the 13 firms that follow exclusive distribution. Of these, two are franchisee bottlers of soft drinks who sell through wholesalers selected by the franchisers. Thus, the option for selecting wholesale intermediaries is available only to 11 firms. Among them, the three pharmaceutical companies are relatively small firms, and they are not able to attract competent distributors; so also one of the soap manufacturers. The manufacturer of biscuits and the producer of jams and syrups are relatively small units who have to persuade distributors to accept their products. The firms that really enjoy the power to select distributors at the wholesale level include the manufacturers of lamps and tubes, batteries, bread, watermeter and the leading manufacturer of soaps. At the retail level the single firm that selects the intermediaries is the producer of TV and radio. Thus, only six firms really have the choice to select channel members. Others who limit the number of channel members at certain levels have to satisfy themselves with the available intermediaries who often have to be persuaded to carry the lines. With respect to these firms, it is the intermediary who actually selects the manufacturer.

6.2.1.8. Choice - A Privilege

Choice of intermediaries is a privilege of the large and leading firms. Where the manufacturer enjoys brand popularity, the distributors or dealers wish to join its channels. In all other cases, the manufacturers are forced to seek middlemen and persuade them to carry their lines. Among the six firms that appear to enjoy some market power, five are relatively dominant firms in the respective industries - dominant in terms of size, sales turnover, breadth and depth of product mix, and brand image. Only the manufacturer of batteries is small in size compared to other firms in the industry; however, the market power of the firm is not very low as the brand has been enjoying good image till recently. The manufacturer of soaps is one of the national leaders and has certain popular brands of washing and toilet soaps that every retail store would like to carry. The manufacturer of bread is the biggest producer of bread in its market area, and is a subsidiary of the biggest national firm in the industry; the demand for the brand is so high that the firm is not able to meet the demand. The manufacturer of lamps and tubes is a subsidiary of a leading marketing and manufacturing corporation in the country and the products enjoy very good brand image. The producer of watermeter is a leader among the small scale units in the industry. The firm that produces TV enjoys a good image in the local market and its television has been enjoying good demand. In sum, all the six firms enjoy market power. The other firms under study, with the exception of the manufacturer of electromechanical components are comparatively weak in terms of size and market power. The market power of the six manufacturers seems to correlate well with the degree of freedom these firms enjoy in choosing their channel members. The opportunity for selection of middlemen appears to be a function of the size and market power of the manufacturer.

6.2.1.9. Selection of intermediaries takes place only in the context of limited distribution, not in the case of intensive distribution. Even if a firm desires to follow selective or exclusive distribution, the scope for following limited distribution is curtailed to the extent suitable intermediaries are not available. The availability of channel members for participation in limited distribution appears to be a function of the size and market power of the manufacturer.

6.2.1.10. Middleman's Choice of Manufacturers

The question of availability of middlemen was raised during the field study to the executives of manufacturing firms as well as the traders. The opinion of the traders were much in favour of the hypothesis. Just as manufacturers select intermediaries, middlemen select manufacturers.

6.2.1.11. The decision to add a new line to the existing business of a typical distributor appears to be the result of an elaborate, though not scientific, analysis of a host of factors. Traders analyse both the product line and the manufacturer. Starting with the general demand for the product type, they seem to consider a lot of product variables. Compatibility of the new line with the existing lines is as important for the trader as for the manufacturer; the complementarity of the new product with existing lines is analysed with reference to the type of retail and wholesale customers they cater to. More than the total turnover from the product during a given period, they are more concerned about the number of times the capital invested turns over during a given period. Another important consideration is the extent of credit usually given.

6.2.1.12. The relationship between the unit value and the bulk of the product is yet another significant factor. As physical distribution is one of the primary functions of a typical distributor, the likely turnover from a van load of the product is very importand for the trader. The percentage of trade discount in itself is not a serious concern for the intermediary; it is judged in terms of the other factors mentioned above. Thus, the choice criteria used by a trader to judge a product include the general demand for the product, the extent of credit that has to be given to the customers, the speed of movement of the product, the bulk and unit value of the product, and finally, the all comprehensive measure of return on investment.

6.2.1.13. Once the product line is acceptable, the trader turns to the brand image of the product and the promotion policies of the manufacturer. This is very much linked to the corporate image of the producer. Traders generally prefer to be associated with the large and leading firms in the industry. Even when other things do not remain the same, they prefer to participate in the channels of the dominant firms; trade discount may be less, credit facilities may not exist, restrictive covenants might be more exacting, and the performance standards more demanding. A presold brand from a well known manufacturer solves many problems for the trader: the extent of trade credit is reduced, the risk of unsold inventory is limited, and turnover increases with the brand image of the product. Membership in the channels of leading manufacturers offers the trader profit with low risk and, perhaps more, prestige and respectability. The suspicion of traders towards any one who attempts to put in black and white, information about their business, dissuaded the researcher from trying to analyse quantitatively the vital data pertaining the traders' choice criteria for products and manufacturers. However, significant insight could be obtained from the proud claim of most of the traders that they distribute only popular brands of leading manufacturers.

6.2.1.14. Availability of Intermediaries and the Extent of Choice

The response of marketing executives can, however, be presented quantitatively. The executives were asked whether their respective firms had real choice in selecting the best intermediaries at the wholesale or retail level in the channels. The responses are presented in Table 4.9. An element of bias in the response was anticipated because the executives responsible for managing distribution channels would try to

Table No.4.9

Do the Manufacturers have real choice in selecting the intermediaries at the next level?

Category of responding Firms*	No. of responding firms	Response	
		Affir-mative	Negative
Dominant	9	9	-
Small	12	3	9
Total	21	12	9

*Firms are categorised on the basis of their size as well as market power.

exaggerate their companys' image among the traders. As expected, a fairly large number of the respondents claimed that their firms had real choice in selecting the best intermediaries. However, it is significant to note that out of the 21 respondents*, all of them representing consumer goods and semi-industrial products, only 12 felt that they had the option to choose the middlemen. Nine respondents, on the other hand, felt that they did not have the real choice.

6.2.1.15. What is more pertinent is that all the nine respondents represented relatively small firms. Of the 21 respondents, 12 belonged to dominant firms, and nine represented comparatively smaller firms. All respondents who represented the dominant firms reported that they had the real choice, while only three representing the smaller firms reported so. Of the 12 executives representing relatively small and medium firms, three felt that they had the choice, while all others felt the opposite. Thus, while all executives representing the dominant firms felt that their firms had enough

*Sine the industrial goods producers need only very few distributors, their responses are likely to bias the results, and therefore, their responses have been excluded from the analysis.

intermediaries willing to participate in the channels, most of the executives from relatively weak firms felt that they did not have the choice. The implication is that suitable or satisfactory middlemen are not available to the relatively small and medium firms. The empirical evidence supports the hypothesis (H.4.2.1).

6.2.1.16. An important implication of the observation is that the formation of vertically integrated channels is decided to a large extent by the size and power position of the manufacturer. Even if a relatively small firm wants to follow the policy of selective or exclusive distribution, it may not be able to do so unless suitable members at various levels are responsive. Since the purpose is control, and the acceptance of control of the leader by the other members is determined by the reward and the market power of the leader, manufacturers with low market power may not be in a position to ensure the participation of other members in a limited distribution arrangements. As leadership is not possible for the weaker firms, the opportunity for channel coordination by the manufacturer is further reduced. Consequently, contractual or administered vertical marketing systems with the leadership of the producer is beyond the scope of a medium or small producer.

6.2.2.0. Pre-emption of Intermediaries

6.2.2.1. The issue of the pre-emption of intermediaries was raised during interviews with executives. The question is not simply whether the best intermediaries already represent the leading competitors, the real issues are whether these intermediaries are generally willing to accept new lines from comparatively new and small firms, and whether these firms are barred from dealing in the new and competing brands. It is only natural that the intermediaries who generally shy away from demand creating and selling efforts seek products that are presold through advertisement, and brands that enjoy good image and demand.

6.2.2.2. The implication is that the middlemen who meet the exacting norms of the market-oriented firms would be chosen by the market leaders. Once an intermediary represents a leading firm, the chances are that he may not be available for other firms in the industry because of the exclusive dealing covenants, overt or covert, of the manufacturers; this is particularly significant at the wholesale level. The breadth and depth of the product mix of a leading manufacturer is such that a typical intermediary is usually not in a position to meet the distribution requirements of the manufacturer in the given territory, largely because of his limited resources. The problem is acute because the market keeps on developing and the manufacturers go on adding products and increasing volume. The manufacturing sector is favoured to expand its operations by the prevailing industrial policy, but the trade sector is seriously handicapped in this respect. Naturally, the capacity of the typical trader to absorb the ever-increasing flow of goods to the market is limited. This is primarily because of the limited resources of the existing middlemen. Under such circumstances, it is only natural that there is heavy pressure on existing middlemen from existing manufacturers. Obviously, even if no restrictive covenant of existing principals bar the intermediaries from accepting the new products from competing sources, they are not able to represent new firms.

6.2.2.3. Thus, intermediaries are not available for a new and competing brand; intermediaries dealing in complementary lines are not available because of the pressure on these intermediaries from their present principals to absorb more volume and new products. Obviously, the new, or relatively smaller unknown manufacturer who seeks representation in a particular territory is left with the option to seek intermediaries on whom there is relatively less pressure from their existing principals. The best intermediaries are not usually left unoccupied for long, even if they leave one channel and look for other producers. It is, therefore, the comparatively new or less successful and less efficient intermediaries who are available for a manufacturer who is on the look out for channel members in a specific locality. If the firm is a relatively large manufacturer with substantial market power, the available intermediaries gladly accept its distributorship. Obviously, it is the relatively unfit and less efficient intermediary who is left in the field for the comparatively small and unknown manufacturer.

6.2.2.4. When the question was raised to the executives whether the most efficient intermediaries were pre-empted by the leading manufacturers, the response was overwhelmingly positive (Table 4.10). As the industrial goods manufacturers need only very few intermediaries, their responses are likely to be biased, and hence not analysed. Of the remaining 21 relevant respondents, 17 subscribed to the idea that the most efficient intermediaries are pre-empted by the large and leading firms. Only four respondents held a different view and these respondents belonged to industries such as tyre where there is hardly

Table No.4.10

Do the Leading Firms in the Industry
Pre-empty the most Efficient Intermediaries?

1.	Number of Responding firms	21
2.	Affirmative Response	17
3.	Negative Response	4

any limited distribution. Empirically as well as logically the hypothesis (H.4.2.2.) regarding the preemption of intermediaries by the large and dominant firms appears to be true.

6.2.3.0. Selection Criteria

6.2.3.1. The evaluation of individual middlemen requires a set of selection criteria to judge the acceptability of available firms. The major requirements on the part of intermediaries relate to (1) financial strength, (2) product lines carried, (3) sales strength, (4) physical distribution capabilities and (5) managerial strength and managerial succession of the intermediary.

Financial Strength: The financial strength of the intermediary is perhaps the single most important criterion in the selection process. Financial strength indicates the stock-carrying capacity of the firm, its ability to extend credit, its credit worthiness and the survival potential of the firm[34].

6.2.3.2. Product Lines

The sales of a particular product line will be affected by the other lines which the outlet carries,

[34]Sims, Foster and Woodside, Op.cit., p.143.

both allied and competitive. Therefore, the manufacturer is interested in the nature and quality of these lines. Usually manufacturers consider four aspects of the distributor's product lines: competitive products, compatible products, complementary products and quality of lines carried. The most desirable situation from the manufacturer's point of view is where the other lines are complementary to his, rather than competitive. Manufacturers usually prefer those outlets that carry no competitive lines; but this is possible only under special circumstances. Further, manufacturers seek intermediaries who carry products that are equal to or better than their own lines. Manufacturers do not want their products to be associated with inferior, unknown lines.

6.2.3.3. Sales Strength

The probability of capturing the market share expected by the manufacturer depends to a large extent on the sales strength of the distributors or dealers. Information is often sought from different sources regarding the prospective intermediary's historical sales performance. Other factors related to sales performance include inventories carried, number of salesmen handling the line and technical competence of the salesmen if relevant sales promotion support at the local level is required, and cooperation is needed in other sales supporting activities undertaken by the manufacturer.

6.2.3.4. Physical Facilities

The facilities available for physical distribution is another important consideration. Godown facilities including materials handling equipments and transportation facilities including sales vans are critical for many intermediaries at the wholesale level. At the retail store, the facilities for shelf space and display are often serious constraints.

6.2.3.5. Management Capability

Many manufacturers feel that a prospective channel member is not even worth considering if the quality of its management is poor[35]. A good salesforce is often indicative of good management. Another concern here is the management succession which is necessary for continuity of management.

6.2.3.6. Size of the Intermediary

Very often a prospective channel member is judged by his sheer size. The assumption is that larger

[35] Bert Rosenbloom, Marketing Channels: A Management View, (Hindsdale, Illinois, The Dryden Press, 1978) p.151.

the organisation and the salesvolume, the greater will be the sales of the manufacturer's product, and that the larger intermediaries in a given market area are more successful, more profitable, better established, and handle better product lines. Further, the large intermediary is expected to be better equipped with offices, personnel, and facilities than smaller ones.

6.2.3.7. Hypothesis and Empirical Testing

The paucity of credit sources for the traders and the relative absence of professional management in trade appear to create the need for middlemen with sound financial background and experience in trade. Advertisements that appear in newspapers soliciting distributors invariably mention these two factors. The study, therefore, attempts to test the following hypothesis:

H.4.2.3. "Financial strength and experience in trade are the two factors that manufacturers look for in their prospective channel members, and vital factors such as sales strength and managerial capability are seldom treated as relevant choice criteria".

6.2.3.8. Well-defined policies regarding the selection of intermediaries, particularly pertaining to the criteria for selection, are seldom evident. Precise choice criteria are largely left to the discretion of the operating executives either in the marketing department or at the branch level, when the choice relates to the addition of new intermediaries or the replacement of existing ones. However, when the firm is designing a channel for the first time, a broad guideline is often developed at the top policy making levels in the organisation. Subsequent selections of middlemen are influenced by these guidelines. Thus, even though not explicitly stated anywhere, there are some guiding norms for the selection of intermediaries.

6.2.3.9. Executives' Response

Executives were asked to mention the important factors that were considered while evaluating a prospective channel member. The choice criteria used by the firms that follow exclusive distribution at the wholesale level is presented in Table 4.11. Eleven firms do select their wholesale intermediaries. Financial strength, experience in trade, facilities for physical distribution, other lines, and goodwill among customers were some of the important variables mentioned by the respondents.

Table No.4.11

Selection of Wholesale Intermediaries -
Choice Criteria

Respondents : 11

Factors	Frequency
1. Financial Strength	10
2. Facilities for transportation and warehousing	9
3. Experience in Trade	8
4. Other lines carried	3
5. Goodwill among customers	3

6.2.3.10. Nearly all respondents mentioned financial strength of the prospective intermediary as very important. This appears to be the most frequently used criterion for judging the acceptability of prospective channel members. The next in importance is the transportation and warehousing facilities available with the intermediaries. This is a vital factor since physical distribution is one of the important functions performed by the wholesale intermediaries such as distributors and stockists. Most of the respondents mentioned trade experience as another significant factor. This, again, is a frequently used criterion for judging prospective channel members. Of the 11 respondents, ten regarded financial strength as critical, nine considered facilities for transportation and warehousing as vital, and eight sought middlemen with experience in trade. Two other factors that influenced the choice of intermediaries were the other lines carried by the intermediaries and the goodwill they enjoyed among their customers. Only three firms each seemed to consider these factors vital. The low significance attached to the existing product lines of the prospective channel member is significant especially in the context of the prevalence of pre-emption of existing intermediaries by the leading competitors. At the same time, experience in trade is attached very high significance. The implication is that manufacturers look for prospective channel members with experience in trade, and that experience in the concerned line is not very vital.

6.2.3.11. What is most striking is that manufacturers do not seem to consider managerial expertise and sales strength as relevant factors. Not even a single respondent mentioned these factors. This truly reflects the structure of the wholesale trade, characterised by limited selling efforts and management by entrepreneurs themselves. The empirical observation supports the hypothesis, except on one point. The physical facilities for transportation and warehousing are more or less as important as financial strength and trade experience.

6.2.3.12. Although the analysis presented here does not include the views of the respondents representing industrial goods, it has been observed that the hypothesis is testified by the practices of the industrial goods manufacturers on the stray occasions when they try to appoint intermediaries. For the retail dealers of consumer durables, facilities for display as well as after-sales services, and the other lines carried by the dealers are also important.

6.2.4.0. Channel Modifications: Additions and Replacement of Channel Members

6.2.4.1. Channel alterations without any fundamental change in the structure in terms of number of channels, number of levels, types of institutions or vertical alignments, are generally known as channel modifications[36] The process involves adding new intermediaries in existing territories, or replacing inefficient middlemen by efficient ones. In a developing economy where the market is steadily growing and where the demand and supply positions are undergoing drastic changes, additions and replacement of channel members are frequently called for.

6.2.4.2. In a society where tradition is more akin to the value system than change, replacing existing intermediaries by new ones is less likely to occur. Change from a sellers' market to a buyers' market might necessitate a change in the basic orientation of intermediaries, but they may be reluctant to adapt. This might

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[36] William E. Mathews, "Challenge for Industrial Marketers: Changing Channels of Distribution"

force the manufacturer to replace such intermediaries. However, dropping an intermediary who has been associated with a manufacturer for a long time is something against the value system in trade, and manufacturers appear to be very keen not to upset the applecart by severing a long standing relationship with a distributor or dealer, lest he should lose the good will among traders. Once intermediaries are selected, probably when channel is initially designed, they tend to continue in the channels for extented periods.

6.2.4.3. However, the ever-increasing flow of goods to the market and the steady growth in the consumer demand are likely to lead to addition of intermediaries in their existing territories. Such an assumption is based on the observation thatin spite of the growth in demand and the size of the manufacturing operation, there has not been any corresponding growth in the size of a typical intermediary. The study attempts to verify these assumptions by testing the following hypothesis:

H.4.2.4. "In response to market expansion, new channel members are added at each level, but the existing intermediaries are seldom replaced".

6.2.4.4. Empirical Analysis

Among the firms under study, 13 manufacturers follow exclusive distribution at the wholesale level, and all these firms assign specific territories to their middlemen. However, the two soft drink bottling units do not have the option to make any change in channel arrangements, since the franchisers are responsible for appointing middlemen. As indicated by Table 4.12, a fairly large number of firms follows the strategy of bifurcating their existing territories. Division of territories as a distribution strategy is followed by eight out of the 11 relevant firms. These include two of the manufacturers of soap, all the three pharmaceutical firms, and the manufacturers of bread, battery, and lamps. The two consumer durables manufacturers who follow limited distribution follow the policy of adding new retail dealers. Since the fan unit established the dealer network only recently, the practice has not yet been started. The manufacturer of TV and radio on the other hand, offers dealership to many dealers in localities with high potential, and they continue to add dealers, much to the discontentment of the existing intermediaries.

6.2.4.5. At the wholesale stage the need for replacing the intermediary arises mainly when the existing middleman

Table No.4.12

Division of Existing Territories and the Addition of Intermediaries

Factors	Frequency
1. Number of firms following exclusive distribution at the wholesale level	13
2. Firms having the option to bifurcate the territories*	11
3. Firms following the policy of bifurcating existing territories	8
4. Firms following the strategy of adding new retail outlets	2

*Except the two soft drinks bottling units.

is not able to realise the territory potential. Replacement is, however, risky on account of the uncertainty about the performance of the new intermediary and the tension that the policy would create among the distrib butors in other territories. Opposition from the trade associations are also likely. More than any of these, the existing middleman's contact and rapport with his customers might be strong enough to alienate his customers from the company and its products. There is a chance of the old intermediary taking over the distribution of a competing brand, for which he might use his contact and rapport with customers. Under the present dispensation, the manufacturer's contacts with resellers and customers are limited to the first link in the channels; eliminating or alienating individual channel members at this level is, therefore, ridden with uncertainty and risk.

6.2.4.6. The alternative is to appoint more middlemen in the same geographic area, when the need for such channel modifications became too pressing. Unsatisfactory performance of the middleman might be owing to the sheer inefficiency, lethargy or resource constraints. The financial limitation of the distributors appears to be a genuine problem, particularly in the context of an expanding market.

6.2.4.7. The prevailing industrial climate, highly skewed in favour of manufacturing, as against trade, enables the successful manufacturer to introduce new products frequently and to increase the volume of the existing products. The capital market and the credit sources in particular, encourage this tendency. However, the industrial policy do not favour the expansion of the operations of the trader, and the credit institutions are highly discriminative against trade. Naturally the capacity of the typical trader to absorb the new products and the increased volume of his present principals is seriously curtailed.

6.2.4.8. Added to the manufacturers' natural tendency to insist on more stock by the distributor, this legitimate need for increasing inventory, more exhaustive coverage of territories, and the need for more physical distribution facilities, force manufacturers to pressurize the distributor to expand his operations. Continued pressure on the trader who is severaly constrained by his resource limitations ultimately leads to a situation where the intermediary is forced to concede to the bifurcation of the territory and the appointment of a new intermediary. In course of time, the old intermediary either leaves the channel, a situation perhaps anticipated and desired by the manufacturer, or both the old and the new intermediaries cover more intensively the divided market territory.

6.2.4.9. The phenomenon of territory division has been a common strategy for many firms, and there has been a gradual decrease in the geographic size of the typical territory. The change in the geographic extent of operation is indicated by the process of change from district-wise distribution to town-wise distribution. These observations support the first part of the hypothesis that territories are bifurcated in response to market expansion.

6.2.4.10. The second part of the hypothesis relates to replacing existing inefficient channel members by new ones. The issue was raised during interviews with executives. The first reaction in most cases was "We do not change our intermediaries". The question related to the factors that lead to changing the existing intermediaries. Of the 24 firms that are supposed to follow limited distribution, only 10 firms responded to the question (Table 4.13). Those who did not respond either did not follow any formal policy regarding changing the middlemen or did not follow any formal procedure as the phenomenon occurs only very rarely. Even among these ten who responded,

Table No.4.13

Factors leading to the Change of Intermediaries

(Number of responding firms*- 10)

	Reasons for Change	Frequency
1.	Financial Reasons	8
2.	Poor Sales Performance	5
3.	Malpractice	1
4.	Lack of commitment to the company and Deviation from company policies	2

* Twenty-four companies follow selective or exclusive distribution.

many prefaced their explanation mentioning that usually the companydoesnot change middlemen. They responded as if they were responding to a hypothetical situation.

6.2.4.11. Among the reasons for changing intermediaries, the most critical and most frequent factor appears to be financial factors (Table 4.13). While eight out of the ten executives mentioned financial problem, five executives referred to poor sales performance, two pointed out the trader's lack of commitment to the manufacturer, and in one case a reference was made to the malpractices indulged in by traders. The predominance of financial constraints among the most vital and more frequent reasons for changing intermediaries reinforces an assumption logically analysed earlier: territories are bifurcated and intermediaries are added largely on account of the financial constraints of the typical trader.

6.2.4.12. On the whole it appears that channel modifications involving replacement of intermediaries seldom occur, although territories are bifurcated and new intermediaries are added. These findings lend support to the hypothesis (H.2.2.4.).

6.3.0. DYNAMICS

6.3.0.1. Legal Environment of Distribution

Channel management by manufacturers and the attempted control over intermediaries are always subject to certain legal provisions. Allocation of territories, exclusive dealing, full-line forcing, and resale price maintenance are some of the common measures adopted by manufacturers to control the operations of the middlemen. All these devices are restrictive trade practices as they tend to restrict competition. However, these measures are not always illegal, depending on the degree to which they are resorted to.

6.3.0.2. Such restrictive trade practices in India are regulated by the Monopolies and Restrictive Trade Practices,(MRTP) Act, 1969.* The enforcement machinery for the regulation of restrictive trade practices under

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*Any agreement relating to a restrictive trade practice, falling within one or more of the categories included in Section 33 (1) of the MRTP Act, shall be subject to registration. Every person who is a party to an agreement subject to registration is required to furnish to the Registrar the necessary particulars of the agreement in terms of Section 35 of the MRTP Act and Rule 12 A of the MRTP Rules, 1970, within sixty days from the making of the agreement. Failure to file a registerable agreement is a punishable offence. Thus agreements falling in one or more of the categories specified in Section 33(1) were being registered by the Registrar until the Supreme Court decision in Telco case (Telco v. RRTA, AIR 1977 SC 973). The Supreme Court held that Section 33 (1) did not provide statutory illustrations of restrictive trade practices, but enumerated some types of trade practices, which, if they restricted competition, required registration.

the Act consists of:

1. The MRTP Commission,
2. The Registrar of Restrictive Trade Agreements,
3. The Director of Investigation.

Those agreements, which are covered under one or more of the clauses of Section 33 (1) of the MRTP Act, and which have adverse effect on competition within the meaning of Section 2(O) are registerable. The registration exposes the agreement to the scrutiny of the Registrar who can make an application under Section 10(a)(ii) to the MRTP Commission for instituting an inquiry. Such inquiries can be instituted even where the agreement is not registered with the Registrar. The MRTP Commission may inquire into any restrictive trade practice upon receiving a complaint from any trade or consumers' association, a reference by the Central or a State Government, an application by the Registrar or its own knowledge or information[37]. In respect to restrictive trade practices, the Commission can pass final orders.

6.3.0.4. The Monopolies Inquiry Commission had identified a number of restrictive trade practices, which were prevalent in India, namely resale price maintenance,

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[37]MRTP Act, Section 10 (a).

exclusive dealing, tie-up sale, allocation of territory and so on[38]. The Sachar Committee Report has also noted the widespread prevalence of these restrictive trade practices in India[39]. The MRTP Commission has instituted a large number of inquiries on the restrictive trade practices. All these evidences lead to the following hypothesis which could be tested empirically:

H.4.3.1. "The policy of limited distribution leads many firms to adopt restrictive trade practices such as territory restriction, exclusive dealing, full-line forcing, and resale price maintenance".

6.3.1.1. Territory Assignment

A manufacturer adopting the strategy of exclusive distribution assigns specific geographic territories without any overlapping to individual middlemen. Exclusive representation in a territory ensures the intermediary protected market, free from the competition of other resellers carrying the same brand, and thus offers an incentive to carry the line and promote it actively.

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[38] Government of India , Manager of Publications, Report of the Monopolies Inquiry Commission (Chairman: K.C. Das Gupta) Delhi, 1965, pp.129.134.

[39] _______, Department of Company Affairs, Report of the High Powered Expert Committee on the Companies

6.3.1.2. An important implication of such territory agreement is a territorial restriction on the geographic area in which the reseller may offer the product for sale. The territory restriction deprives the reseller of the opportunity of competing with other resellers outside his territory and this affects the interest of the manufacturer, the reseller and the consumer. Because of its anti-competitive effect, the practice of allocation of sales territory attracts the legal provisions in Section 33 (1)(g) of MRTP Act.

6.3.1.3. However, vertical territorial restriction does not appear to be a serious restrictive trade practice in India. In fact, a manufacturer's standard agreement with his distributors generally contains a clause regarding the areas of their operation. The intention in most of the cases may not be to restrict the distributor's selling operations to the territory assigned to him. Unlike several other restrictive practices, the instances of this practice did not figure in the report of the Monopolies Inquiry Commission. The Sachar Committee, too, has made no specific recommendation regarding territorial restriction. In a leading case on territorial restriction involving Tata Engineering and Locomotive Company Limited, the Supreme Court which allowed Telco's

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and the MRTP Act, (Chairman: Rajinder Sachar) New Delhi, 1978, para 21.28 21-29 and 21-29.

appeal against the MRTP Commission's Order, held that if a commodity was in short supply, the allocation of territory for the disposal of goods with a view to ensuring a fair and equitable distribution would not amount to a restrictive trade practice[40]. The MRTP Commission's approach has been greatly influenced by the Supreme Court decision. Since then, in a number of cases, the Commission held that the practice of territorial restriction was not restrictive[41].

6.3.1.4. Geographic Area

The field study indicates that all the 13 firms that follow exclusive distribution at the wholesale level assign specific territories to their distributors. In most of the industries, firms follow district-wise distribution (Table 4.14). However, in industries where the competition is very high and where the products require the most extensive distribution in terms of number of outlets, town-wise distribution is more frequent. Soaps and batteries are particularly significant. District-wise distribution denotes that the sales territory assigned to a particular middleman more or less corresponds to a revenue district. Town-wise distribution, however,

[40]TELCO v. RRTA, AIR 1977 SC 973.

[41]D.P.S. Verma, Restrictive Trade Practices in India, (Bombay, Himalaya Publishing House, 1984), p.184.

Table No.4.14

Territory Assignment to Wholesale Intermediaries - Geographical basis

Industry	Territory Restriction: Town-wise distribution (No. of firms)	Territory Restriction: District-wise distribution (No. of firms)	Intermediaries involved
1. Soap	2		Stockists
2. Pharmaceuticals		3	Distributors
3. Biscuit		1	Distributors
4. Bread	1		Wholesalers
5. Jams and Syrups		1	Agents/ Distributors
6. Soft Drinks		2	Wholesalers
7. Batteries	1		Stockists
8. Lamps		1	District Stockist
9. Watermeter		1	Wholesale dealers
No. of firms	4	9	

denotes a territory which is geographically smaller in size comprising of a town and its satellite villages or suburbs. Normally, a district is divided into two or more territories, designated as 'townships', with more or less equal sales potential. Sometimes a city is divided into a number of townships and each territory is assigned to a distributor. Biscuits, jams and syrups, soft drinks,lamps, and watermeter are the products that lend themselves to district-wise distribution. In the case of pharmaceuticals, distribution is often town-wise for the larger firms; but since the firms under study are comparatively smaller and the demand for their products low, they allocate fairly larger geographic areas to their distribututors. It is significant to note that town-wise territories are assigned to stockists,while districts are assigned to distributors.

6.3.2.0. Exclusive Dealing

6.3.2.1. The allocation of sales territories generally go along with exclusive dealing. Where a manufacturer or supplier requires his resellers to deal exclusively in his products, or conversely, restrains the intermediary from dealing in his competitor's products, the practice is termed exclusive dealing[42]. Sometimes such stipulations are embodied in written agreements, but more often, a dominant manufacturer enforces exclusive dealings through oral instructions or threats. A distributor who represents a particular manufacturer in a given market area is expected to create selective demand for the brands he represents by his selling and promotional efforts. The commitment to a particular brand will be diluted, if he carries competing brand. This is the rationale for exclusive dealing. However, the practice leads to foreclosing the outlet for competitors. This adversely affects competition in the relevant market which may eventually harm consumer interest. The practice can, however, be beneficial to consumers if the cost savings made by the manufacturer are passed on to the consumers. Exclusive dealing, therefore, may or may not be illegal. If the objective is to significantly reduce competition, it may be illegal under Section 33 (1)(c) of the MRTP Act. The Monopolies Inquiry Commission had noted that such arrangements were widely prevalent in India[43].

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[42] D.P.S. Verma, "Exclusive Dealing: An Indian Experience", _Vikalpa_, Vol.5, (October 1980) pp.257-85.

[43] Report of the Monopolies Inquiry Commission, _Op.cit_., pp.130-32.

6.3.2.2. Exclusive dealing has been considered not prejudicial to public interest by the MRTP Commission, where the product required after-sales services for which exclusive dealing was better suited, and where the practice had no substantial effect on competition. The Supreme Court has held that exclusive dealing in the particular circumstances of a trade may not amount to a restrictive trade practice[44]. Particularly significant is the Commission's view that an exclusive dealing arrangement at the first level of distribution, ie., the wholesale level, does not amount to a restrictive trade practice.

6.3.2.3. Survey Findings

Among the 24 firms that follow limited distribution only four firms openly prohibit distributors from dealing in competing brands (Table 4.15). Five other firms usually disallow their first level intermediaries from dealing in competing brands. Together, nine firms seem to follow exclusive dealing either overtly or covertly. Firms that overtly follow the exclusive covenant include the manufacturers of battery, television,

[44]TELCO v. RRTA, AIR 1977 SC 973.

Table No.4.15

Firms Following Exclusive Dealing

Firms following Limited Distribution*	Firms following Exclusive Dealing Overtly	Firms following Exclusive dealing Covertly
1. Soap (2)		/ (1)
2. Pharmaceuticals (3)		
3. Biscuit		/
4. Bread		
5. Jams and Syrups		/
6. Soft Drinks		/
7. Fertilizers		
8. Pesticides		
9. Cattlefeed		
10. Battery	/	
11. Lamps		/
12. TV & Radio	/	
13. Fan		
14. Paint (II)(2)		
15. Watermeter		
16. Power Tillers	/	
17. Electromechanical components	/	
18. Chemicals (2)		
	4	5

*Numbers in brackets indicate the number of firms following the policy.

power tillers, and electromechanical components. Two of these firms are government companies. Firms producing jams and syrups, soft drinks, lamps, and one of the soap manufacturers, covertly try to enforce exclusive dealing at the first level in their channels. Of these nine firms, only one firm tries to enforce it at retail level and all others follow the policy only at the wholesale level.

6.3.2.4. Since most of the firms involved resort to the policy only with respect to the first level intermediaries, the practice is strictly within the law and does not amount to a restrictive trade practice. With regard to products such as pharmaceuticals, fertilizers, pesticides, paints, chemicals and fan, the distributors and dealers usually carry many brands, as in the case of products such as tyre, which are distributed intensively.

6.3.3.0 Tie-up Sales Full-Line Forcing and Quantity Specification

6.3.3.1. Another method used by manufacturers to exercise control over the intermediaries is tying the sales of a product in great demand with that of another for which the demand is less. Under a 'tying' agreement the purchaser is forced to buy one or more other products along with the product required by him. The arrangement known as 'full-line forcing' occurs when a supplier uses the leverage of the tying contract to force the buyer to purchase the whole line of products in order to obtain the products he wants[45].

6.3.3.2. It has been pointed out that a tying agreement restricts competition in the market for the tied product, for the competitors have to overcome not only the ordinary competitive obstacles, but also the barriers imposed by the firm indulging in tie-up market power in respect of the tying product. Tie-up sales have an adverse effect on consumer welfare when it is used as a device to monopolise the tied product market. The Monopolies Inquiry Commission observed that the practice was prevalent in India on a large-scale[46]. By their anti-competitive effect, tying agreements attract the legal provisions under Section 33(1) (b) of the MRTP Act.

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[45] Louis P.Bucklin, Competition and Evolution in the Distributive Trade, (Englewood Cliffs, N.J., Prentice-Hall, 1972) p.19.

[46] Report of Monopolies Inquiry Commission, p.133.

6.3.3.3. Quantity Stipulation

Although the term "full-line forcing" suggests the forcing of the entire product line by the manufacturers on the distributor, the MRTP Commission in a large number of cases has held that the stipulation of a minimum off-take, and of a minimum stock to be maintained by the distributor at all times, amounted to full-line forcing[47].

6.3.3.4. It is not easy to discern the norms by which full-line forcing or tie-up sales are defined, and the degree to which quantity specification is legal in India. The MRTP Commission appears to take a serious view of the practice of tie-up sales or full-line forcing, but specification of a reasonable minimum quantity is not treated as illegal. The MRTP Commission's approach to full-line forcing can be understood from the following cases. In one of its inquiries, it was alleged that a redistribution stockist of Hindustan Lever Ltd. forced its dealers to purchase Lifebuoy soap along with the sunlight soap. The Commission held that the firm was resorting to tie-up sales which constituted a restrictive trade practice and passed a "cease and desist" order[48].

[47] D.P.S. Verma, Restrictive Trade Practices in India, Op. cit., pp.141-57.

[48] R.T.P. Inquiry No.26 of 1974, order dated 8th December, 1978.

Some of the inquiries instituted by the Commission reveal that the practice of tie-up sales is resorted to by the large and leading firms*.

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*Some of the important cases relating to tie-up sales in which the Commission passed "cease and desist" orders include the following:

1. Gestetner Duplicators Pvt.Ltd, a manufacturer of duplicators, duplicating ink, stencils, spare parts of duplicators etc, required the buyers to buy the cabinets manufactured by it (RTP Inquiry No.16 of 1975, order dated 7th November, 1975.

2. Singer Sewing Machines Co. (RTP Inquiry No.21 of 1975, order dated 26th November, 1975) and TT Pvt. Ltd (RTP Inquiry No.20 of 1975, order dated 5th December, 1975), tied up the sale of separators with the sale of pressure cookers.

3. Carona Sahu Co. (RTP Inquiry No.2 of 1974, order dated 23rd March,1975), a manufacturer of foot-wear required its distributors to buy the "entire range" of its footwear.

4. Amar Dye-Chem Ltd. (RTP Inquiry No.51 of 1975 order dated 20th January, 1976), a manufacturer of dyes and dye-stuffs, required its dealers to buy textile auxiliaries which were manufactured by other companies but were marketed by it.

5. Ashok Leyland Ltd., a manufacturer of commercial vehicles and spare parts, required its dealers to keep the complete range of its product. But with the inquiry, the practice was given up by the company (RTP Inquiry No.2 of 1973, order dated 13th December, 1978.)

6.3.3.5. Quantity Specification

Quantity stipulations by manufacturers or sellers are generally considered as restrictive trade practice by the MRTP Commission. However, the practice becomes illegal only when the purpose is to reduce competition. In certain cases the practice was not found restrictive by the Commission. The guiding norms of the Commission seem to have been the market power of the manufacturers and the extent of his discretion in deciding the quantity. Hindustan Lever's agreements with its stockists provided that a redistribution stockist "shall purchase and accept from the Company such stocks as the company shall at its discretion send to him, and that he shall, at all times, keep and maintain adequate stocks of the products in all their packings". The Commission held that the practice amounted to a restrictive trade practice. On appeal[49] the Supreme Court upheld the order*.

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[49] Hindustan Lever Ltd. Vs. MRTP Commission, AIR 1977 SC 1285.

*Other important cases relating to quantity specification in which the MRTP Commission passed "cease and desist" order include:

1. Calcutta Chemicals Co. Pvt Ltd., a manufacturer of soaps, tooth paste, and cosmetics, required its distributors to maintain sufficient stocks of its products as determined by it. (RTP Inquiry No.9 of 1975, order dated 6th January, 1976.

2. Bata India Ltd. required its wholesalers to buy a specified number of pairs of footwear of different varieties (RTP Inquiry No.3 of 1974, order dated 5th May 1975.

6.3.3.6. The Commission has held that the specification of quantity did not amount to a restrictive trade practice in certain other cases. In the case of one of the firms covered under this study, a leading manufacturer of soaps and other lines, there was an allegation that the supplier insisted, with respect to animal feed, that the stockists should lift a minimum (specified)quantity per month. The Commission held[50] that practice did not amount to a restrictive trade practice*

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3. Rallis India Limited required its distributors of electric tools, valves, etc., to maintain a stock of not only representative range but also sufficient quantitites of the product. (RTP Inquiry No.15 of 1975, order dated 20th February, 1976.

4. Godrej Boyce Manufacturing Co. Ltd., a manufacturer of steel furniture, refrigerators, typewriters, locks, etc. required its wholesale dealers to keep and maintain proper stocks of all its products of the minimum value of Rs.one lakh, and further reserved the right to enhance the minimum value of the stocks to be maintained by them. (RTP Inquiry No.17 of 1975, order dated 27th October, 1975.

[50]RTP Inquiry No.9 of 1974, Order dated 23rd September 1975.

*The same view was held by the Commission in the case of a manufacturer of steel furniture who required that his authorised dealers should place, as a condition of purchase, an initial minimum order of the quantity and value specified by the Company (RTP Inquiry No.33 of 1974, order dated 4th August,1975.) Another instance where a supplier of propeller shafts, etc., imposed an obligation on minimum guaranteed turnover of sales as mutually agreed upon between him and his dealers, the Registrar's contention of restrictive covenant was rejected by the Commission (RTP Inquiry No.10 of 1975, order dated 4th August, 1975.)

6.3.3.7. The agreement, classified by MRTP Commission as tie-up sales/full-line forcing, unlike the one on territory restriction or exclusive dealing, does not often form part of a written agreement. The cases that came before the Commission reveal that those practices are often resorted to by dominant undertakings and the Commission has been taking a serious view of these distribution practices.

6.3.3.8. Field Study

Full-line forcing has been noticed only in the case of two firms during the study. These are two leading firms, one manufacturing soap and the other television. One of these is a public sector corporation. The practice has been openly admitted in both these cases. Even without a contractual provision, manufacturers usually persuade their distributors to carry the entire line. Coercion is not very rare by firms which have some products with high demand in their lines, even though these firms do not overtly follow full-line forcing.

6.3.3.9. However, the problem of full-line forcing does not arise as a serious issue. In those cases where the manufacturer's sales force is primarily responsible for generating orders from the retail trade, and the task disposing of the goods largely rests with the manufacturers, there is hardly any meaning in full-line forcing. Only those items which enjoy demand in the territory need be despatched to the stockist. Otherwise, the pressure is on the salesman. Companies, of course, pressurise their distributors to push slow moving items. As representatives of the manufacturers, distributors accept it as one of their trade functions. Though it sometimes creates resistance, no serious conflict on this issue has been reported during the survey. The practice can hardly be treated as full-line forcing because no dealership has been cancelled or supplies ever withheld on this issue among the firms under study. Further, since the purpose is not to reduce competition by taking undue advantage of the brands in high demand, the practice seldom reaches the level of restrictive trade practice. However, the irony is that the distributorship agreements often contain some provisions which could be interpreted as full-line forcing. Such provisions are indeed stock-in-trade of a typical distributorship agreement, the legal implications of which are often not fully realised. And these provisions are not strictly enforced.

6.3.3.10. This phenomenon applies to quantity specifications as well. Most of the corporations insist on a minimum quantity to be purchased. Stipulations regarding the minimum order quantity for a single purchase is fairly common among the firms. The 'stock-in-trade' provisions regarding the discretion of the manufacturers to decide what stock the distributor should carry seldom reflect the reality of the distribution scene where the unsold stock with the distributor is the manufacturer's burden. Even when such provisions are enforced, to the extent that the quantity specified and enforced is reasonable, the practice does not amount to a restrictive trade practice.

6.3.4.0. Price Control and 'Resale Price Maintenance

6.3.4.1. Another control measure adopted by manufacturers is the policy of suggesting the price at which merchandise is to be resold by the middlemen. The practice is known as 'resale price' maintenance. The defaulting distributor may lose his franchise and supplies. A strict enforcement of the suggested resale price is possible only when a manufacturer uses a selective or exclusive distribution policy. Resale price maintenance protects the margin from being eroded by competition, thus ensuring the middlemen adequate margin of profit. Further the practice prevents the resale of the manufacturer's product as a 'loss leader' which injures the image of the product[51].

[51] F.M.Scherer, Industrial Market Structure and Economic Performance, (Chicago, Roud McNally, 1971)pp.513-14.

6.3.4.2. Reseale price maintenance, however, restricts price competition in the distributive trades and prevents price reduction. The Monopolies Inquiry Commission felt that the practice was widely prevalent in India[52]. Fixation of the resale price to be charged by the distributor is not violative of the legal provisions in India, provided it is clearly stated in the price list that lower prices than those suggested may be charged on resale. In all those caseswhere cease and desist orders were passed against the practice, the Commission directed the respondents to state, at a conspicuous place in the price list, that the prices mentioned were the maximum prices and that prices lower than those could be charged by the intermediaries[53].

6.3.4.3. Prohibition of Minimum Resale Price

The maintenance of minimum resale price is the only practice that is prohibited in India. A producer who dictates any minimum price to wholesaler or retailer is violating Sections 39, 40 and 41 of the MRTP Act. However, a manufacturer is within his rights to withhold goods from a dealer who has used the goods as "loss leaders". A contravention of the provisions of Sections

[53] D.P.S. Verma, Restrictive Trade Practices in India, Op. cit., pp. 240-47.

39 and 40 of the MRTP Act is an offence punishable with imprisonment, or fine or both[54].

6.3.4.4. Empirical Analysis

As limited distribution is more prevalent at the wholesale level and as resale price maintenance is possible only under a strategy of selective or exclusive distribution, price maintenance is most likely at the wholesale level. Of the 22 manufacturers following limited distribution at the wholesale level, 17 firms have been found following resale price maintenance (Table 4.16). These firms insist that their first level intermediaries should sell at the prescribed price. Most of them have little difficulty in enforcing it because the manufacturers' sales force is often involved in selling to the second level. There are only five firms that extend to their intermediaries the discretion to decide the resale price (Table 4.17). The two paint units and the firms manufacturing pesticides, watermeters and power tillers belong to this group. One of the soap manufacturers who follows intensive distribution at the wholesale level does not bother to insist on resale price maintenance.

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[54] MRTP Act, Section 51.

Table No.4.16

Price Maintenance at the Wholesale Level

1. Number of relevant industries (with wholesale intermediaries)	16
2. Number of industries where resale prices are insisted upon	12
3. No. of industries where the intermediaries are free to decide the resale price	4
4. Number of firms with exclusive or selective distribution at the wholesale level	22
5. Number of firms that insist on resale price maintenance	17
6. Number of firms that do not insist on retail price maintenance	5
7. Number of firms that insist on minimum resale price	1

Table No.4.17

Dynamics of Price

Product/ Industry	No. of firms	Resale price maintenance: Whole-sale first level*	Resale price maintenance: Re-tail	Where inter-mediaries are free to decide the resale price	Where price cutting is reported.
1. Soap	3	/(2)		/ (1)	
2. Pharmace-uticals	3	/(3)	/(3)		
3. Biscuit	1	/			
4. Bread	1	/			
5. Jams & Syrups	1	/			
6. Soft dr-inks	2	/(2)			
7. Fertili-zers	1	/	/		
8. Pesticides	1			/	/
9. Cattlefeed	1	/			
10. Battery	1	/			
11. Lamps	1	/			/
12. TV & Radio	1	NA	/		
13. Fan	1	NA			
14. Tyre	1	NA		/	/
15. Paint	2			/(2)	/
16. Watermeter	1			/	/
17. Power Tillers	1		NA	/	/
18. Electro-mechanical components	1	/	NA		/
19. Chemicals	2	/	NA		/ (1)

*Figures in brackets indicate the number of firms following the strategy.

NA - Not applicable

6.3.4.5. Among the 17 firms inclined to control the resale price, all firms, except perhaps the manufacturer of cattlefeeds, have the necessary direct contact with their first level intermediaries through their salesforce. As most of these companies use stockists or distributors who represent the manufacturers in defined territories, it is only logical that they cooperate with the manufacturers in their pricing strategy. Since there is no competition among intermediaries within the same territory for a given brand, hardly any distributor will ever have the temptation for price cutting. The 22 firms considered for analysis represent 16 product lines, or rather industries. The practice of resale price maintenance is quite prevalent among 12 industries. There are two firms producing consumer durables which supply directly to selected retail outlets and one of them, the manufacturer of television, insists on maintaining the suggested price. The data obviously indicate that the practice of suggesting resale price is a reality at the wholesale level in most of the industries under study.

6.3.4.6. However, the practice does not seem to be aimed at reducing competition because the practice occurs in the context of firms which supply only to one distributor in an area except in the case of TV. Therefore, the situation does not lend itself to price competition and hence the practice is not aimed at reducing competition.

6.3.4.7. However, the maintenance of minimum resale price has been pursued by only one of the firms. This is a public sector company, manufacturing chemicals. The need for maintaining minimum resale price occurs when price competition among intermediaries at the same level, operating in the same market area becomes intense, and it harms the interest of the manufacturer. Under a system of exclusive dealing, there is absolutely no need for an intermediary to indulge in price competition, because there is no other intermediary carrying the same brand in the territory.

6.3.4.8. Price Cutting

Where a selective policy is followed, chances of under cutting are more; this is reinforced by relatively more margins. Another possible reason for undercutting is competition from other brands. Price cutting at the wholesale level has been reported in certain industries. Paints, watermeters, power tillers and pesticides, and chemicals are the industries where price competition at the wholesale level is prevalent (Table 4.17). Naturally, manufacturers may try to maintain price in these industries. Paradoxically, four of these firms do not insist on resale price maintenance. Only a chemical firm resort to minimum resale price maintenance. All the firms involved, except the manufacturer of watermeters, follow selective distribution. Trade discounts for two of these firms (paint and watermeters) are relatively high, particularly for paint. Competition from other brands is significant. All these factors contribute to price war in these industries. But manufacturers seldom try to curtail price reductions. The relative absence of the restrictive covenant of resale price maintenance could also be a causal variable for the prevalence of price cutting.

6.3.5.0. Control of Retail Price

6.3.5.1. Generally, manufacturers are able to control prices at the level of the first intermediary, usually at the wholesale level, but not at the retail end. Twenty-two manufacturers involved in this study use retailers in their distribution channels. Maximum retail prices are either marked or prescribed by all these firms. Intermediaries are free to decide resale price only in the case of four manufacturers. All other firms desire to control the retail price (Table 4.18). However, the three pharmaceutical firms, the fertilizer manufacturer, and the manufacturers of television are the only units

Table No.4.18

Control of Retail Price

Industry/Firms	Number
Industries	
1. Industries using retailers	16
2. Industries where the maximum retail prices are marked or prescribed	16
3. Industries where maximum retail prices are not insisted	3
4. Industries where maximum retail prices are insisted, and effectively controlled	3
5. Industries where maximum retail prices are insisted but not controlled	10
Firms	
6. Companies using retailer	22
7. Companies that mark or prescribe maximum retail price	22
8. Companies which attempt to control retail price	18
9. Companies where retail prices are actually mentioned	5

where the retail prices of the products are actually maintained (Table 4.17). In the case of the first four firms, retail prices are controlled by government agencies. Obviously the manufacturers' control over the resale price at the retail level is very weak. The main reason is that the manufacturers' control over the channel extends only upto the first level in the wholesale structure. The single firm that is able to insist on retail price maintenance follows selective distribution at the retail level and supplies goods directly to the dealers.

6.3.5.2. Considering specific industries, only for fertilizers, pharmaceuticals and television there is any visible control over the retail price (Table 4.17); for fertilizers and pharmaceuticals the control stems from government regulations. Even in the case of television, inspite of selective distribution, it cannot be generalised that all firms are able to watch the price.

6.3.5.3 <u>Executives' Response</u>

Discussion on price control measures adopted by manufacturers formed part of the interview with marketing executives. The responses of the executives clearly indicate the helplessness of the manufacturers. The typical responses referred to the following measures:

1. Warning by salesmen
2. Price stamped on the product
3. Threat to cancel dealership
4. Moral compulsion.

In fact, hardly any of these factors can exert sufficient pressure on the retailer to sell at the price suggested by the manufacturer. A manufacturer's salesman trying to solicit the cooperation of the retailer with the primary objective of achieving his sales target will not normally initiate action to terminate supply to any dealer. Government control, if at all effective, is limited to few products.

6.3.5.4. Marked price does not always reflect the cost, and there are instances where the resellers exert considerable pressure on the manufacturer for an upward revision of the stamped price. Even the effect of the maximum price stamped on the product is nullified by the provision for'local taxes extra': The consumer is never in a position to assess the exact tax content of the price; he does not know the rate of the sales tax for different product, and the rates keep on changing with each budget; he does not know the number of intermediaries who have paid taxes for the product and the actual tax realised from them, for the product sometimes passes through sub-wholesalers. Although it is possible for a retailer who gets the supply directly from the stockist to sell at the suggested price, it has been noticed that many retailers who depend on the traditional wholesalers get the product at the maximum price marked on the products, with the suggestion that the retailer can add his transportation cost and ten per cent mark-up. Naturally, the prices for the same product varies from store to store, depending on the retailer's supply sources, the distance between the stores and the suppliers, and the prices charged by the sources of supply. To add to the confusion, prices are often increased by the manufacturers and the necessary corrections are not made in the price stamped on the package. Further, prices are seldom mentioned in advertisements.

6.3.5.5. It is to be recalled that the manufacturer's control over the distribution usually stops at the first level intermediary and that intensive distribution is the usual mode of distribution at the retail level, except for products that move through specialised stores. The result is a serious communication gap between the manufacturers and the consumers in terms of price. In the existing communication gap, there is enough scope for a retailer inclined to manipulation to charge a higher price. The manufacturer has no control over the traditional wholesalers and subwholesalers who get their supplies from the distributors or stockists. As a result costs add up and prices increase as the product percolates into the rural market. Obviously the poor pay more. They pay more, as a result of the small size, low turnover and the characteristic inefficiency of the rural store, besides the cost of transport.

6.3.5.6. However, there are instances of price cutting at the retail level too. This has been noticed in the cases of batteries, tyres, paints and watermeters (Table 4.17). Inter-brand and interstore competitions are the main reasons. Instances of price competition between wholesalers and retailers have also been noticed, particularly in the case of batteries. A traditional wholesaler who sells a portion of his volume at retail as well, competes with a retailer located in the same area carrying the same brand. This happens with respect to paint and watermeter too. The relatively high retail trade margins for these products partly account for the price competition. This is more so in the case of paint where the retail trade discount contains a commission to the painter/contractor who influences the brand and store decisions.

6.3.5.7. Price cutting at the retail level is, however, not a usual phenomenon in India as it happens in the advanced countries. Price competition at the retail end emerged largely as a result of the growth of large scale retail institutions which adopted the strategy of loss-leader pricing. Opposition from small scale retail institutions and the harm done to the image of the product offered as a "loss leader", forced many manufacturers in the West to resort to the restrictive trade practice of resale price maintenance[55]. However, since largescale retail institutions are yet to develop and since loss-leader pricing as yet is not a serious strategy for retail competition in India, resale price maintenance, particularly the control of minimum resale price, has not precipitated as a serious issue for the manufacturers. Consequently, the practice does not appear to be prevalent.

6.3.5.8. The empirical research thus indicates the prevalence of resale price maintenance at the level of the first level intermediary, mostly at the wholesale level, and the absence of price maintenance at the retail level.

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[55] B.S. Yamey, "The Origin of Resale Price Maintenance: A Study of Three Branches of Retail Trade", P.T. Bauer and B.S. Yamey, Markets, Market Control and Marketing Reforms - Selected Papers, (London, Weidenfield and Nicolson, 1968), pp.273-97.

Maintenance of minimum resale price has been observed in the case of a single firm. Further, there is hardly any effective measure taken by the manufacturers to control prices at the retail level and prices tend to increase as the product moves to the rural market. In the existing communication gap between the manufacturer and the consumer there is enough scope for manipulation in retail prices.

6.3.5.9. Conclusions

All the 13 firms following exclusive distribution at the wholesale level assign territories; however, the practice of territory restriction is not treated as a serious restrictive trade practice. Exclusive dealing is a restrictive trade practice followed by four firms overtly and a few others covertly, but exclusive dealing at the first level (wholesale) is not treated as restrictive by the MRTP Commission. However, the Commission views full-line forcing and tie-up sales very seriously and these are overtly resorted to by only a couple of firms. Quantity specification is quite prevalent, but seldom to the extent to become restrictive. Quite a large number of firms attempt resale price maintenance at the first level, but the stipulation of minimum resale price is very rare. The hypothesis which states that firms resort to restrictive trade practices is not adequately supported by the evidences.

6.4.0. DETERMINANTS

6.4.0.1. The concern for deciding the number of channel members at each level and the desire for establishing vertical marketing systems are engendered by the primary motive of channel control. The two aspects are interrelated and there is an inverse relationship between the number of intermediaries and the degree of coordination in channels. Consequently, the determinants of the horizontal structure and the vertical relationships are more or less the same. Among the most pertinent factors that determine the horizontal structure and the vertical alignments in marketing channels are:

1. Channel length
2. Middlemen type and size
3. Size of the manufacturing firms
4. Socio-economic factors.

6.4.0.2 It is quite logical that where the number of levels in the channels is more, the manufacturer's vertical relationship is limited to the first link in the channel, and the scope for selective or exclusive distribution is reduced. Similarly, where the size of the typical retail establishment is small and the number of stores is more, limited distribution becomes difficult and vertical coordination infeasible. The nature of vertical relationship is influenced by the type of intermediary as well. For instance, where agents are used instead of merchants at the wholesale level, vertical alignments are stronger. As the length of channels and the types and size of the intermediaries have already been dealt with in preceding chapters, here the analysis is focused on the other important factors, i.e., the size of the manufacturing firms and the relevant socio-economic determinants.

6.4.0.3. The strategy for greater co-ordination and control in channel operations leads to two structural forms completely integrated channels and vertical marketing systems involving intermediaries. While the first is a single corporate entity, the second is an organisational coalition. The structure of distribution among the firms under study is characterised by conventional channels and the above structural adaptations are still alien to most of them. The predominance of conventional channels indicates that certain factors inhibit vertical integration and the emergence of organised behaviour systems. A search for these factors would lead to the determinants of the horizontal structure and vertical coordination in marketing channels. Apart from the length of channels and the types of institutions involved, the size and structure of the industry as well as the stature and market power of the manufacturer appear to be critical determinants.

6.4.1.0. Vertical Integration

6.4.1.1. The most fundamental development affecting distribution channels in recent years has been the growth of vertical marketing systems[56]. It has been postulated that vertical market coordination is a critically important contribution to modernisation of the marketing process of a developing community[57]. However, vertical marketing systems appear to have a few strikes against them in a developing economy.

6.4.1.2. The greatest degree of control over distribution is achieved through forward integration by establishing manufacturer owned wholesale and/or retail outlets. The manufacturer, thereby, can control distribution either to the retailer or all the way to the consumer. By maintaining ownership of more than one level of activity, the manufacturer automatically performs the necessary distribution functions and ensures maximum control over the

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[56] Rosenbloom, Op. cit., p.318.

[57] Charles C. Slater, "Marketing - A Catalyst for Development", Dov Izraeli, Dafna, N. Izraeli and Frank Meissner (eds), Marketing Systems for Developing Countries, (New York, John Wiley & Sons, 1976),p.

marketing mix. There are various reasons why manufacturers move in the direction of integration, and there are certain circumstances which enable firms to integrate successfully.

6.4.1.3 Edwin Lewis[58] highlights certain important factors that favour integration in marketing channels. The external factors include:

1. The threat posed by a competing system which has successfully undertaken vertical integration: If a firm with a loosely aligned conventional channel finds it increasingly difficult to compete with more tightly knit systems such as administered, contractual, or corporate systems, it may consider vertical integration as an attractive option.

2. Changes in the market conditions such as new market segments, and new products which create marketing problems that may best be solved through integration.

Factors internal to the channel system include:

1. The presence of firms with a broad market base which permits them to integrate profitably,

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[58] Lewis, Op.cit., p.69.

2. The existence of channel conflicts, particularly with sources of supply.

3. The presence of aggressive innovators in the system who are willing to try new channel arrangements.

Economy of scale appears to be another significant factor. Where vertical integration (backward or forward) may offer scale economies in the production and distribution of goods, this will lead to mergers of formerly independent units into a vertical system.

6.4.1.4. These are indeed conditions that induce particular manufacturing firms to integrate their channels. The major determinant appears to be the presence of large innovative firms with broad market base and financial and managerial resources which are not satisfied with the performance of the existing channel participants. A basic requirement is the acceptance of vertical integration as a marketing strategy. These assumptions lead to the following hypothesis:

H.4.4.1. "The extent of vertical integration in marketing channels is a function of the size of the manufacturer".

6.4.1.5. Vertically integrated channels are rare among the firms under study. There has not been a single instance where a manufacturer integrated the various levels in his channels, levels originally occupied by independent firms. The reasons for the absence of vertical integration are not far to seek. The conditions that induce vertical integration in channels do not appear to exist with respect to the firms under study.

6.4.1.6. Captive Retail Outlets

The nature of the products, the width and depth of the product mix of the typical producer, and the relative size of the manufacturer - all these factors inhibit the chances of company - owned retail outlets for the firms under study. Consumer nondurables such as soaps, packaged food, soft drinks, pharmaceuticals, batteries or electric bulbs cannot be distributed through captive outlets owned by manufacturers. These are products that require intensive distribution. Nor do any of the semi-industrial products under study warrant captive retail stores. The opportunity for manufacturer-owned retail outlets is limited to consumer durables. However, unless the product mix is fairly broad and deep, and the scale of operation sufficiently large, it is not economical to operate captive outlets at the retail level. Perhaps the only firm involved in the study that can think of the strategy of company owned retail outlets is the manufacturer of TV and radio. But the strategy of integration is not generally followed in the concerned industries and the financial constraints of the firm render the alternative infeasible.

6.4.1.7. Integrating Manufacturing and Wholesaling

There are, however, nine firms with integrated levels in the wholesale structure (4.1.2.6.). All firms with sales branches exemplify this. But the sales branches do not represent the complete integration of wholesaling with manufacturing. For most of the firms under study, manufacturers' branch is only one level in the wholesale hierarchy, and many products move from the sales branches to other wholesale levels represented by the distributors, subdistributors, etc. For consumer nondurables such as soaps, batteries, and bulbs, there exist three-stage wholesale structures, and only the primary wholesale level has been integrated. With respect to industrial products, there is hardly any evidence of integrating the wholesale level with manufacturing. There are no sales branches, and the office networks hardly represent a distinct stage. Further, seven out of the eight firms in this group employ intermediaries.

6.4.1.8. Integration of the entire wholesale functions with manufacturing is, therefore, rare. Only in two firms the wholesale stage has almost entirely been integrated with manufacturing: the manufacturer of TV and radio, and the firm producing tyres. The prevalence of sales branches in certain companies indicates the integration of just one level in the wholesale hierarchy with manufacturing.

6.4.1.9. Holton[59] contends that the incentives to integrate manufacturing and wholesaling stages increase as:

1. the sale of manufacturer's product becomes more geographically dense;
2. the greater the average order size placed by retailers;
3. the greater the proportion of a retail firm's sales accounted for by the product of the manufacturer;

[59] Richard H. Holton, "The Role of Competition and Monopoly in Distribution: The Experience in the United States", Lee E. Preston, ed., <u>Social Issues in Marketing</u> (Glenview, Illinois, Scott, Foresman and Company, 1968) pp.173-77.

4. the more important the services of the wholesaler to effective distribution and the promotion of sales,

5. the greater the number of efficient-sized wholesaling outlets needed to serve the requirements of the manufacturer, and

6. the greater the possibility of reducing decision making to a routine.

6.4.1.10. Most of these factors that favour integration of wholesaling with manufacturing, as identified by Richard Holton, do exist for few firms. In the two instances where wholesaling has been completely integrated, most of these factors are evident. The establishment of the manufacturer's branch network in other firms has also been largely influenced by some of these factors.

6.4.1.11. It is pertinent to note that the firms with sales branches are the relatively large firms, except in the case of a small soap manufacturer. The firms with wholesale branches are the manufacturers of soaps, fertilizers, batteries, lamps, tyres, TV and radio, and watermeters. This tendency is particularly evident in the pharmaceutical industry, although the leading pharmaceutical firms have sales branches, none of the firms under study operates through sales branches, as they are relatively smaller in size. It may be recalled that the absence of large scale or horizontally integrated retail establishments such as chain stores severely curtails the scope for vertical integration of wholesaling with manufacturing.

6.4.1.12. The degree of vertical integration in the channels of the firms under consideration is indeed limited and the level of integration can be related to the size of the firms. The larger economic context, particularly the structure of industry, appears to influence the extent of channel integration. This has been analysed in the particular context of the American economy. The 1948-1965 period was one that encouraged large scale undertakings and the formation of centrally coordinated marketing systems in the United States. The growth of centrally coordinated distribution systems in the United States had been attributed to the following factors by McCammon[60]. The trend towards more capital intensive operations raised break-even points and created a need to maintain volume at unprecedented levels which encouraged the formation of centrally coordinated marketing systems. New approaches were clearly

[60] Bert C. McCammon, Op. cit., pp.500-503.

required to ameliorate the pressures of declining profit margins and rates of return on investment and thus a growing number of firms attempted to achieve economies and market impact through vertical affiliations and mergers. Marketing in general, and retailing in particular, became increasingly more complex and many enterprises were literally forced to merge or affiliate with large systems in order to obtain the specialised assistance and other services needed to compete in complex markets. The economic reality in India today is different from the economic situation that forced the emergence of integrated and centrally coordinated marketing systems in the United States. However, the US experience indicates the relationship between the level of integration and the size of the manufacturing firms.

6.4.2.0. Behavioural Dimensions

6.4.2.1. The interorganisational structure of distribution and the mutual dependence of participants lead to three kinds of behaviour: cooperation, conflict and leadership. Mutual dependence indicates that firms rely on each other to fulfil their roles and achieve their goals. Cooperation among the participants, therefore, becomes vital. Co-operation is indeed the prevailing situation in any given channel. Involvement and dependence relationships of firms in the channels engender conflict. The consequence of dependence in the channel is power, and power is utilised as a leadership effort. Control is the overt behaviour that result from power and leadership.

6.4.2.2. In the absence of large scale wholesale or retail institutions the task of managing the channels largely rests with manufacturing firms. Channel leadership is a function of the relative power of the participants, and manufacturers appear to dominate the distribution systems. The behavioural processes such as cooperation, conflict and control are influenced to a great extent by the size and market power of the channel captain. However, there are many manufacturers who do not wield sufficient power to assume leadership and achieve channel cooperation, resolve conflicts and exercise control. The result is that channels are seldom managed. The study, therefore, sets the following hypothesis:

H.4.4.2. "Marketing channels are not managed as organised behaviour systems".

6.4.2.3. The three behavioral dimensions of channel management, i.e., cooperation, conflict and control are being analysed here separately.

6.4.2.4. Power and Leadership

Channel interactions characterised by co-operation and conflict necessitate leadership and control. Channel leadership is the dynamic force that coordinates channel efforts. Leadership is derived from a channel participant's possession of power and power is the ability to influence or alter the decisions and behaviour of other channel members.

6.4.2.5. The discussion of power sources in distribution channels presents a typology that is widely accepted in marketing literature. Five types of power applicable to distribution channels have been identified: reward power, coercion power, legitimate power, referent power, and expert power[61]. Reward power is the channel member's ability to offer something that facilitates the goal attaintment of other members, and reward is indicated by discounts, allowances, lower prices, etc. Coercion depends on channel member's belief about impending punishment unless they cooperate; punishment implies revoking rewards which were previously offered. Legitimate power ensues

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[61] Bowersox, Op. cit., pp.102-105.

from the belief that a participant has the right to prescribe behaviour, right derived from his position, role, or reputation; manufacturer is often considered to have certain rights to make certain decisions simply because of his position and functions. A channel member's identification with, or attraction to, another channel member gives the latter referent power. The desire of one member to preserve the stability of a system that has offered long term satisfying relationship might also render referent power to the other. The superior knowledge or information of a particular participant might earn him expert power.

6.4.2.6. Any attempt to influence the behaviour of channel participants is not limited to any one basic power source. In most cases, a power position results from a combination of several bases. All members of a channel in fact maintain a degree of power because of mutual dependence, but power is not equal among all members and those possessing comparatively more power may assume a position of channel leadership. The fundamental purpose of leadership is to use power for a better level of performance either for the leader or for the overall channel. Although leadership position depends to some extent on the possession of power advantage, it also relates to the tolerance of other members. Tolerance for control is based on the degree of dependence of the concerned member and the degree to which performance can be improved by submitting to control[6] When the attempt to control a channel member's behaviour exceeds that firm's tolerance, conflict will result.

6.4.2.7. Empirical Study

In the present study an attempt has been made to evaluate the extent of channel domination by manufacturers. The basic assumption is that many channels exist without effective leadership. In many cases none of the participants is strong enough to assume channel leadership. The authority to lead is seldom absolute, and it never comes from a single source. The channel leader often has a combination of bases for his leadership. The construct of channel power could be operationalised in terms of brand ownership and popularity, economic power, and technical competence. These three factors have been selected from a list of variables determining leadership authority provided by Glenn Walters[63].

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62 Louis P. Bucklin, "A Theory of Channel Control", Journal of Marketing, (January 1973), pp.39-47.

63 Walters, Op.cit., pp.455-59.

6.4.2.8. <u>Brand strength and Ownership Transfer</u>

Product ownership, particularly the ownership of the symbolic product embodied by the brand name, offers legitimate leadership authority to the manufacturer. By title transfer alone, only very little authority is transferred. With an unbranded product, or a lesser known brand, the manufacturer gives up a large measure of his leadership authority, because both the real and the symbolic product is transferred. The degree to which manufacturer gives up authority depends largely on the strength of the brand. If the brand has strong buyer preference, the manufacturer can exercise more control over intermediaries on pricing, promotion, order size, etc. With private branding, manufacturer delegates complete leadership authority to the middleman; the manufacturer's authority is limited to the process of production.

6.4.2.9. Among the firms under study, there is not a single manufacturer who sells unbranded products. Distributor's brands, on the other hand, do not exist, except in one case; the manufacturer of pesticides has a product that carries the selling agent's brand name. Manufacturers thus enjoy leadership power in this regard. However, very strong brands are also few (Table 4.19). Among the 22 manufacturers who sell to the consumer market, only nine

Table No.4.19

Power Bases of Manufacturers *.

Consumer and Semi-Industrial Products

	Firms	Brand Strength	Distributor's brand	Economic Power	Technical Competence
1.	Soap I	Strong	-	More	More
2.	Soap II	Weak	-	Less	More
3.	Soap III	Strong	-	More	More
4.	Pharmaceuticals I	Weak	-	Less	More
5.	Pharmaceuticals II	Weak	-	Less	More
6.	Pharmaceuticals III	Weak	-	Less	More
7.	Biscuit	Weak	-	Less	More
8.	Bread	Strong	-	More	More
9.	Jams and Syrups	Weak	-	Less	Less
10.	Soft Drinks I	Strong	-	More	More
11.	Soft Drinks II	Strong	-	More	More
12.	Fertilizers	Strong	-	More	More
13.	Pesticides	Weak	Distributor's Brand	Less	More

Table No.4.19 (Contd..)

Firms	Brand Strnegth	Distributor's Brand	Economic Power	Technical Competence
14. Cattlefeed	Weak	-	Less	More
15. Batteries	Weak	-	Less	More
16. Lamps	Strong	-	More	More
17. TV & Radio	Strong	-	More	More
18. Fan	Weak	-	Less	Less
19. Tyre	Weak	-	Less	More
20. Paint I	Weak	-	Less	Less
21. Paint II	Weak	-	Less	Less
22. Watermeter	Strong	-	More	More
	Strong - 9 Weak -13	Distributor's Brand - 1	More - 9 Less -13	More - 18 Less - 4

* The evolution is based on manufacturers' assessment of themselves vis-a-vis the other firms in the respective industries.

firms have products that enjoy reasonably good brand popularity. The other firms have not been able to create brand image; these are the relatively smaller firms.

6.4.2.10. Economic power is another basis for channel leadership. It is based on such factors as size of the firm, financial strength, market position, patents, etc. The manufacturing firms covered by this study, by and large, enjoy more economic power than their intermediaries. They are comparatively larger in size and financially more sound than the middlemen, except in the cases of the selling agent for pesticide, the state agencies for agricultural inputs and, perhaps, the wholesale dealers of paint. Similarly, when the market power of the manufacturers are considered, as against the position of the intermediaries, the former is decisively much stronger.

6.4.2.11. However, not all manufacturers seem to enjoy this power. (Table 4.19). As a class, manufacturers are more powerful than the intermediaries; but only some of the manufacturing firms seem to enjoy the bargaining power. The small and medium firms with relatively low level of market power do not have any channel domination. Hardly nine of the 22 firms seem to enjoy economic power in terms of the variables discussed here.

6.4.2.12. Technical skill or competence is another source of power. This implies not just the skill needed for production, but it denotes strong expertise in some strategic functions needed by the entire channel of distribution. In terms of production and marketing skills, manufacturers have definite advantages, though not for all firms. Especially the larger manufacturing firms have been absorbing an increasing array of distribution functions. However, the relatively smaller firms, the two paint units, the manufacturers of fan and, perhaps, the producer of jams and syrup, do not exhibit such competence.

6.4.2.13. On the whole, it appears that manufacturers as a class enjoy more power compared to intermediaries but not all manufacturers have the power base to exercise channel leadership and provide the necessary coordination of channel operations. Channel dominance is the privilege of the large and leading firms. Although most of the firms have a power base derived from technical competence, brand popularity and economic power provide leadership authority only to the few, large firms (Table 4.19). What is more significant is that while many of the small and medium firms lack the necessary sources of power for channel domination, the intermediaries do not come to the dominant position. Their claim for leadership is even less. The result is that no one in the channel is able to assume the leadership and provide the necessary coordination.

6.4.2.14. Channel Control

Power is utilised in the channels by the leader and the result is control. The concept of channel control is a characterisation of the interaction among competitive and cooperative forces affecting channel institutions. Channel control has been defined as "the ability of a member of a marketing channel ... to stipulate marketing policies to other channel members"[64]. Channel control could be either formal or informal. Formal control implies that standards of performance, means to achieve the performance, and consequences are all clearly established. Informal control is usually personal and highly subjective; regulation is based on casual observations, and the member is expected to do his job. Formal control is associated more with large, complex, integrated channels of distribution. Informal control is typically used with channels involving independent intermediaries.

[64] Louis W. Stern, "The Concept of Channel Control", Journal of Retailing, Vol.23, (Summer 1967)p.14.

6.4.2.15. Integrated channels have advantages over channels composed of independent firms behaving autonomously. Ideally some firm in the channel should take the initiative for organising an efficient channel[65]. Channel control is, however, desirable only to the extent it achieves the necessary level of coordination of all channel activities. While increased control over other firms tend to result in more satisfactory performance, there are dangers in gaining too much control. Firms having substantial control over other members tend to denigrate their worth, an attitude that could lead to deteriorating relationship and eventually to less efficient performance[66].

6.4.2.16. The study provides indications of channel control by manufacturers, though not by all of them. Control measures such as territory restrictions, exclusive dealing covenants, full-line forcing, quantity stipulations and resale price maintenance are examples. As shown by Table 4.20,

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[65] Jerome McCarthy, "Simulation of Production-Marketing Channels", Raymond M. Hass (ed), Science, Technology and Marketing, (Chicago, American Marketing Association, 1967), p.344.

[66] Ian F. Wilkinson, "Power and Satisfaction in Channels of Distribution", Journal of Retailing, Vol.55, (Summer 1979), pp.79-94.

Table No.4.20

Indications of Manufacturers' Channel Control

No. of firms : 29

Factors	Frequency
1. Territory Restriction	13
2. Exclusive Dealing	9
3. Full-line forcing	2
4. Resale price maintenance	17

many manufacturers exercise control over the intermediaries in these respects. Territory restrictions are formally resorted to by 13 firms, and nine firms insist on exclusive dealing covenants. Fairly large number of firms attempt resale price maintenance at the first level, and at least a couple of firms try full-line forcing. It may be recalled that the data presented in the Table relates to the number of firms formally exercising such control. Many more firms attempt informal control over the very same aspects although the data do not reflect it.

6.4.2.17. However, it is significant to note that such control is exercised only with reference to the first links in the channels, and most of the firms have two or more intermediaries in their channels. A limited number of firms exercising control over a single level in a multistage channel structure do not indicate a high degree of channel control among the firms under study. The number of levels in the channels and the small size of the manufacturing firms appear to be two significant deterrents to a high degree of channel control.

6.4.2.18. Channel control implies much more than imposing certain restrictive covenants on other participants. At a more fundamental level, it relates to the utilisation of power by the channel leader with a view to achieve better coordination of channel functions. The objective of leadership and the result of control should be better cooperation among channel members and effective management of channel conflicts.

6.4.2.19. Channel Cooperation

A cooperative relationship exists between firms that are in different levels of a vertical market structure. It is based on the compatibility of the goals which firms seek. An exchange transaction implies the existence of a cooperative relationship between at least two firms[67]. The set of factors that assures cooperation among marketing institutions include participation, specialisation of activities, subordination, and recognition of common objectives.

6.4.2.20. Cooperation is the most commonly observed form of behaviour in distribution channels. Channels cannot exist without sustained cooperation. Two fundamental

[67] Helmy. H. Baligh and Leon Richartz, "Some Considerations on the Performance of Economic Activities by Intermediaries", (ed) Raymond. M. Hass, Science, Technology and Marketing, (Chicago American Marketing Association, 1966), p.455.

drives exert opposite forces on a channel participant. The first is monostasy, the desire to be independent, and the second is systasy, the drive to stand together[68]. The realisation that individual goals could be better accomplished by working together induces the drive to stand together. Cooperation prevails when systasy predominates. Conflicts results when monostasy predominates. Among channel members systasy is far more prevalent than monostasy. This is the result of the realisation that the welfare of all participants would be enhanced by working together. During periods of little or no stress, channel participants tend to cooperate to achieve the systems objectives which, in turn, leads to the attainment of their individual objectives. However, as stress arises, the system experiences conflict. Only with the process of conflict resolution the system returns to a harmonious relationship.

6.4.2.21. Cooperation does not require personal rapport or efficiency. Channel members often work in harmony without any strong positive feeling towards each other, motivated

[68] Wroe Alderson, "Cooperation and Conflict in Marketing Channels", in Louis W. Stern (ed), Distribution Channels: Behaviour Dimensions, (Boston: Houghton Miffin Company, 1969), pp.195-96.

solely by the reward anticipated. The participants often possess neutral attitudes towards each other. Cooperation does not imply efficiency either. Channels may display varying degrees of productivity. The simple reason is that productivity demands much more than the willingness to work together.

6.4.2.22. Degree of Cooperation

Marketing channels generally display different degrees of cooperation: high, moderate or low. Most channels show a moderate degree of cooperation, the extent of cooperation often being decided by the merits of the individual issues. Cooperation can be either voluntary or involuntary. While cooperation implies a consent among participants for meshing their specialised activities, the consent may not come forth willingly. Involuntary cooperation is the result of coercion or threat and is often associated with minimum effort and low morale.

6.4.2.23. In summary, for a channel to exist or to function smoothly, cooperation is a prerequisite, and, therefore, it is the commonly observed behaviour. But cooperation does not automatically imply efficiency, for it exists in different degrees and is not always voluntary. Without effective leadership, the degree of cooperation would be limited, and the level of efficiency very low. This appears to be the prevailing situation in the marketing channels of the firms under study.

6.4.2.24. The issue of the level of cooperation extended by channel members was raised during the interview with marketing executives. The result of their responses are presented in Table 4.21. Of the 27 respondents, seven (25.93 percent) mentioned that the cooperation extended by their first level intermediaries in the dominant channels was good. Three firms (11.11 percent) reported that the level of cooperation was not satisfactory. The remaining 17 firms, almost 63 percent of the respondents, felt that the level of cooperation was satisfactory. The respondents who mentioned the level of cooperation as good represented the dominant firms and the other respondents represented the small and medium firms. Unsatisfactory level of cooperation was reported by the smallest firms with the weakest market position, namely the two manufacturers of paint and the producer of fan. The level of cooperation is thus related to the size and market power of the manufacturing firms. The data support the assumption that cooperation is the common behaviour; but there is a further indication of comparatively low level of cooperation, with 74 percent of the firms reporting the degree of cooperation as either satisfactory or unsatis-

Table No.4.21

Cooperation Extended by Intermediaries - Manufacturers' Level of Satisfaction - Executives' Response

Number of Respondents - 27

Level of Satisfaction	Frequency	Percentage.
Good	7	25.93
Satisfactory	17	62.96
Not satisfactory	3	11.11

factory. The implication is that the small and medium firms with relatively little power base are not able to optimise channel cooperation.

6.4.2.25. There is a widely held notion that a firm should strive to maximise cooperation and avoid conflicts. According to Pearson the ideal is to promote, not to maximise cooperation. "Cooperation is only one aspect of the distribution process. Conflict is also necessary to make a system more efficient and cost effective"[69]. Competition to provide distributive services can lead to reduced costs. All members have a common interest in selling the product; only in the division of total channel profits are they in conflict. Both conflict and cooperation are necessary and beneficial. The process is not as simple as just maximizing cooperation.

6.4.2.26. Channel Conflicts

Conflict is an inherent and pervasive behavioral dimension in marketing channels. Any distribution channel represents a composite of conflicts and cooperation. It is made up of structural units joined together and tolerating certain restraints to achieve common objectives. Despite

[69] Michael M. Pearson, "Ten Distribution Myths", Business Horizons, Vol.24, (May/June 1981), p.20.

the efforts to optimise cooperation, a great deal of conflict still exists. The problem is that although channel members are often independent, they must work closely together. This interdependence leads to both cooperation for survival and conflict because of different economic goals. Channel conflict has been defined as the opposition to goals, ideas, or behaviour that occurs among the institutions that make up the marketing channel team[70].

6.4.2.27. Conflict arises when each party in the channel examines the channel arrangements in terms of his own interests. Manufacturers may create conflict and upset the channel balance by such actions as selling to a middleman's customers, thus competing directly with him; by making unusual demands on middlemen, such as requiring large and varied inventories, special promotional support, extensive service facilities, burdensome payment terms, etc.; by refusing to protect middlemen against price changes; by supplying to a middleman's competitors, perhaps to firms of a different type; and by various other requirements.

[70] Louis W. Stern and Jay W. Brown, "Distribution Channels: A Social Systems Approach," Distribution Channels: Behavioral Dimensions, Lewis W. Stern, (ed.), (Boston: Houghton Mifflin Co., 1969), p.155.

6.4.2.28. Middlemen, especially where they operate at large-scale, can create conflict by demanding large discounts, special promotional allowances, and more favourable pricing terms. The demand for special shipping arrangements, quicker deliveries, protection against price changes, etc., may also lead to conflict. Clearly, such demands on either side are a show of strength and a sign that the potential gains from conflict are greater than continued cooperation along previously established lines.

6.4.2.29. Palamountain identified three types of distributive conflicts[71]: horizontal conflict, intertype conflict and vertical conflict. Horizontal conflict springs from competition among the same type of firms at the same level in the distribution channel; two grocery stores competing with one another or two wholesalers competing with each other are examples. Intertype conflict results from competition occurring among different types of middlemen at the same level in a channel; competition between large scale retailers and small stores is an example. Conflict between channel members at different levels is referred to as vertical conflict.

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[71] Joseph C. Palamountain, Politics of Distribution, (Cambridge Massachusetts, Harvard University Press, 1955), pp.24-57.

6.4.2.30. The channel responds to the conflict-cooperation environment in three distinct ways. One of the channel participants may emerge as a leader, who "forces" members to cooperate thus creating an autocratic relationship, or it can "help" members to cooperate, creating a democratic relationship. A third possibility is that there is no effective leader and the existing channel relationship is anarchistic. Usually, there is an initiator, a leader, who puts structure into this relationship. The initiative often comes from the manufacturers and, therefore, the leadership of the manufacturer is taken for granted, although it is not always true[72].

6.4.2.31. The channel conflict literature enumerates a large array of causes for interchannel conflict. These have been classified into two broad sets: attitudinal and structural differences among channel members. Attitudinal sources of conflict are usually associated with disagreements about channel role expectations, perceptions, and channel

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[72] Bruce Mallen, "Conflict and Cooperation in Marketing Channels," George Smith (ed), Reflections on Progress in Marketing, (Chicago, American Marketing Association, 1964), p.72.

communications. Structural causes of interchannel conflict originate from the divergence of goals pursued by different channel members, drives for autonomy and control, and fights over scarce resources[73].

6.4.2.32. Many fundamental situations lead to the development of hostility among channel members. Initially it starts as a feeling of stress. The stress may and conflict be present in a covert form for an extended period of time. Although conflict exists, in many cases the frustrated members will take no specific action. The stress which exists among channel members may ultimately build to a peak and some particular issue brings stress into the open and causes overt hostility among channel members. Channel participants first move into a cognitive/affective stage of intrachannel conflict which is then followed by behavioral/ manifest stage. In the former stage conflict is primarily attitudinal and is reflected in feelings of intrachannel frustration and animosity. When the conflict reaches the manifest stage it takes on behavioral dimensions such as lack of cooperation, use of legal and political processes, and leaving or forcing others to leave the channel.

[73]Michael Edgar, "Sources and Types of Interchannel Conflict," Journal of Retailing, Vol.55, (Spring 1979), pp.64-65.

6.4.2.33. Channel conflict is not always bad. The effects of conflict on marketing channels have been perceived differently by channel analysts Alderson presumed the effect of conflict on channel performance as negative[74]. Dixon and Layton suggest that conflict can result in a threat to the survival of the channel[75]. Assael has, however, emphasised the positive effects of conflict on channel performance[76]. Rosenbloom identifies both negative and positive effects on channel efficiency[77].

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[74]Wroe Alderson, Dynamic Marketing Behavior, (Homewood, Illinois, Richard D. Irwin, Inc, 1965), pp.252-55.

[75]Donald F. Dixon and Roger A. Layton, "Initiating Change in Channel Systems", George Fisk (ed), New Essays in Marketing Theory, (Boston: Allyn and Bacon, 1971) p.315.

[76]Henry Assael, "The Constructive Role of Interorganizational Conflict", Administrative Science Quarterly Vol.14 (December 1969) pp.573-75.

[77]Rosenbloom, Op.cit., pp.73-78

6.4.2.34. Conflicts are either constructive or destructive. Conflict becomes constructive when it leads to performance reviews by the participants concerned. For instance a wholesaler in conflict with a manufacturer might find that his previous level of selling effort on behalf of some of the manufacturer's products was not as high as it could have been and the realisation might lead him to attempt better performance. The manufacturer, in turn, might find that his services to the intermediaries were not adequate and may decide to offer more inducements to maintain the support of the intermediary. The result of the two party reappraisal thus leads to increased channel efficiency. Sometimes a conflict might lead to stronger bonds or coordination among the members as a result of open communication and natural give and take associated with working out difficult problems. Constructive conflict is natural among channel members, and it is necessary to the healthy, vigorous growth of an efficient channel of distribution. Since the result of constructive conflict is to question present methods, challenge future goals and plans and point to the lack of efficiency in past operations, it sets in motion the whole control process by which change and innovation are introduced into the channel[78]. Channel management

[78]Walters, Op.cit., p.477.

task is not to eliminate conflict within the system but to use effective management to guide its incidence into constructive paths.

6.4.2.35. Empirical Analysis

In a well coordinated distribution channel, conflict could be managed to make it constructive. This will lead to better co-ordination. Creative action on the part of some participant is needed if the conflict is to be successfully resolved. In a conventional channel, conflict takes a destructive turn as there is no leadership to manage the conflict. The result may be the dissolution of the channel. It appears that in industries characterised by free-flow or conventional channels, conflicts become destructive, leading to either low degree of cooperation or dissolution of the channel. The study attempts to analyse this assumption.

6.4.2.36. The field study has identified the following issues that lead to overt channel conflicts:

1. Addition of new channels;
2. Competition between direct and indirect channels;
3. Trade discount;
4. Frequent changes in distribution policies of manufacturers;
5. Horizontal competition.

6.4.2.37. Each marketing executive was asked to mention one of the recent instances of conflict in his channels and the causes of the conflict. From the responses, it was gathered that serious conflicts are not very frequent in their channels. Out of the 29 respondents, only seven reported serious instances of recent channel conflicts. It has been pointed out that although conflict resolution is a day-to-day operating problem, conflicts affecting an entire channel do not occur frequently. Some of the instances of recent conflicts reported by the respondents are provided in Table 4.22. Addition of new channels appears to be a major cause of channel conflict. Among the seven instances of serious conflicts reported, three relates to this issue. The attempts by leading manufacturer of soaps to sell direct to 'wholesalers' have always been resisted by the stockists, and although the attempt was abandoned at first, it was introduced in another form by selling directly to non-redistribution stockist. The TV and radio manufacturer had to face serious opposition from dealers when the Company decided to elevate some dealers as 'main dealers' by assigning certain wholesale functions to them. Another instance of the same type occurred when the manufacturer of power tillers decided to add one more channel by engaging private dealers and the state agency who had been distributing

Table No.4.22

Channel Conflict - Some instances

Company	Agency Involved	Causes of Conflict
1. Soap III	Stockists	Attempt to sell direct to whole-salers.
2. Pharmaceutical III	Distribut-ors	Trade discount.
3. Battery	Stockists	Frequent changes in company policies.
4. TV	Dealers	Appoint certain dealers as main dealers.
5. Electromechanical components	Stockists	Stockist selling to large industrial customers who have earlier been served by the company directly.
6. Watermeter	Wholesale & Retail dealers	Underselling.
7. Power Tiller	State agent	Supplying to deal-ers in the agent's territory.

the product raised serious objections and the proposed new channel was abandoned.

6.4.2.38. Frequently changing distribution policies, particularly with regard to payment terms, have been reported in this study as one of the major reasons for channel conflict. Although the issue has been reported only with reference to the manufacturer of batteries, it appears to be a genuine cause of covert conflict in many channels since only very few firms have clear cut distribution policies on many issues. When direct and indirect channels compete with one another for the same customers, a potential cause of conflict comes to the forefront. The manufacturer of electromechanical components raises objections when their stockists sell to large industrial customers whom the company had been serving through direct channels. Now the firm finds it necessary to insist that the intermediaries should not serve the company's 'direct customers'.

6.4.2.39. Intertype competition may lead to channel conflict. Conflict arises when intermediaries at different levels try to reach the same customers. The stockists and 'wholesalers', trying to serve the same retailers, are competing with one another; so also the wholesalers and retailers who receive the supply from the same source and sell to the same type of customers. One of the behavioral responses that results from this type of competition is underselling. Reducing the price, by foregoing a part of the trade discount is a common behaviour among wholesalers who compete with the stockists. The same phenomenon occurs where the wholesalers and retailers compete as it has been reported in the distribution of watermeter. Horizontal competition also leads to 'under cutting'.

6.4.2.40. Another cause of conflict, perhaps a universal cause, is the norms regarding trade discount. This creates tension in any channel. But the issue becomes significant in the distribution channels of relatively smaller firms with lesser known brands. Terms of trade discount are often the result of bargaining on an individual basis. Intermediaries often expect higher rates of commission for such brands. The problem has been reported by the relatively small pharmaceutical firms.

6.4.2.41. It is significant to note that the firms which reported conflicts in their distribution channels are firms with reasonably good market power, and the agencies involved are first level intermediaries who represent the manufacturers in well defined territories. Among firms with relatively less market power, conflicts have seldom been reported. The implication is that conflicts have been recognized as problems to be managed only where the agencies are well connected to the manufacturers. It is to be recalled that channels are not well coordinated for most of the firms under study. Conflicts have been recognized only to the extent that the channel operations are coordinated.

6.4.2.42. The observation does not mean that there are no conflicts in the channels of relatively small firms with little market power. The indication is that channel problems do not reach the level of recognizable conflicts. Conflict arises only where the parties involved have a formal and continuing relationship and their functions are well coordinated. Where such relationships are lacking, differences of opinion do not emerge as conflicts that need to be settled through the process of negotiation. Conflicts and conflict resolution further imply the existence of channel leaders. In channels where there is hardly any coordination through leadership, differences in terms of individual interests lead to either the dissolution of the channel or the abdication of the rights and interests of one of the parties. Usually where the relationship is weak, participants tend to leave the channel rather than try to solve problems. The implication is that problems lead to distructive conflicts, as conflicts are not managed in the absence of effective leadership. Even if the members remain in the channels, the situation is that of a truce.

Lack of conflicts in these cases by no means indicates efficiency in channel operations.

6.4.2.43. The conflict-cooperation management in most of the firms, particularly the small and medium firms, seems to lead to an armed truce. On many issues there has not been any agreement or solution. The members continue to function together, perhaps out of necessity, with each member trying to achieve his own individual goal, and there is little channel cooperation. This kind of situation seems to exist for a fairly long period, but effectiveness and efficiency demands channel change towards better coordination.

6.4.2.44. Analysis of the various dimensions of the behavioral process in channels indicates that channels are seldom managed; among the firms under study, the degree of cooperation is low and conflicts are not managed to become constructive. The common denominator is that since the enterprises involved are small, effective leadership seldom emerges.

6.4.2.45. Channel Audit

One of the most critical aspects of channel management and yet one of the least managed is measurement and evaluation of channel performance. Channel audit is necessary to determine if the firm is participating in the most efficient channel system and to spot inefficiencies on the part of individual channel members. However, very little attention is given to channel performance measurement both in marketing theory and in practice. Lack of adequate attention to this aspect springs partly from the difficulty of measuring channel performance, once it has been defined, and partly from the difficulty of quantifying all aspects of channel performance, so that an index can be developed. Lack of published standards for comparison augments the problem.

6.4.2.46. Channel performance can be measured from both a macro (societal) level using productivity and financial measures, and from a micro (firm) level using channel profitability analysis and the strategic profit model which illustrates how various channel alternatives can influence corporate return on investment[79]. To measure relative performance of different channels, techniques relating sales to market potential could also be used. Channel effectiveness with respect to target markets depends on the effectiveness of channel members. Evaluation of channel member performance is also critically important for channel control.

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[79] Bowersox, et.al., Op.cit, pp.299-316.

6.4.2.47. <u>Empirical Analysis</u>

The issue of channel performance measurement was raised during discussions with marketing executives. The questions asked related to the evaluation of channels in three respects: evaluation of the entire channel system; comparison of the performances of the various channels, and the performance evaluation of individual channel members. Questions were asked regarding the specific data or reports used to measure performance at the different planes. None of the firms under study had any formal evaluation of the performance of their channel systems, nor was there any comparative evaluation of the performance of the various channels used by the same company, except in the case of a single firm. The firm that reported the practice of measuring the relative performance of the various channels is one of the leading national marketers. Even then, responses regarding the specific information used for evaluation, and the criteria for evaluation were not precise or clear.

6.4.2.48. Channel member performance audit was, however, reported by a fairly large number of respondents. As indicated in Table 4.23, 17 out of the 24 respondents claimed to have periodic evaluations of their channel members. Most of these firms seem to follow a multiple

Table No.4.23

Channel Evaluation by Manufacturers

Factors	No. of Companies
1. Relevant responding firms	24
2. No. of firms evaluating the performance of individual intermediaries at the next level	17
3. Firms evaluating the performance of the particular channels	1
4. Firms having formal evaluation of the channel system	nil

criteria approach, emphasising sales performance, stock maintained, and selling capabilities. Discussions regarding the frequency and methods of channel member evaluation indicated that the respondents do not distinquish between performance evaluation and day-to-day monitoring. What a typical respondent meant by channel member evaluation appeared to be the appraisal designed to assist management in monitoring current operating controls on the channel member's efforts, with regard to the sale of the company's products. It is not enough to monitor day-to-day performance, but a channel member performance audit is very essential. Overall performance review, necessary for a complete and objective analysis of the distributor's conformance to established standards of performance, is generally lacking.

6.4.2.49. The results indicate that there is hardly any systematic audit of channel performance among the firms under study. The scope and frequency of channel member evaluation is determined by the degree of control the manufacturer has over his intermediaries. Comprehensive performance data for a full scale evaluation of the channels and channel members are difficult to obtain even for the dominant firms. The reasons for the relative neglect of channel audit are not far to seek.

6.4.2.50. The emergence and growth of centrally coordinated channels in the United States during the 1950's and 1960's encouraged channel analysts to perceive marketing channels as 'organised behaviour systems'. The phrase refers to administered as well as contractual vertical marketing systems. A contractual marketing system comes to exist when the interorganisational relationships among firms are formalised, often with a written contract. Three types of marketing systems are generally treated as contractual marketing systems.

1. Retail cooperative organisations
2. Wholesaler-sponsored voluntary chains
3. Franchise Systems

6.4.2.51. Among these, retail cooperative institutions and wholesaler-sponsored voluntary chains are still alien to the Indian marketing system. However, there are instances of franchise systems. The soft drinks bottling units covered by the study operate under franchise agreements. Even here the set-up cannot be described as a 'system' for the franchise relationship is limited to two levels, the bottling units and their franchisers. The wholesalers and retailers in the channels do not form part of a franchise system. Evidently, vertical marketing systems of the contractual type, as they are understood in the United States, hardly exist in India. The search for 'organised behaviour systems' now turns to administered channels.

6.4.2.52. Conventional Vs Administered Channels

Administered vertical marketing system is really a conventional marketing channel, but the channel members are more closely aligned. Although the members have autonomy, there is more effective interaction among them. As in conventional channels, commitment of the participant is self-oriented, but there is at least a minimum amount of system-wide orientation among members[80]. The difference between the administered channel and the conventional channel is actually one of degree rather than of structure. The level of effective interorganisational management makes the distinction. A transition from a conventional channel to an administered one can be measured by the positive increases in interorganisational management[81].

[80] Louis W. Stern and Adel I. El-Ansary, Marketing Channels, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1977), p.395.

[81] Rosenbloom, Op.cit., p.298.

6.4.2.53. Leadership is the essential input for establishing an administered marketing system. The option for establishing an administered channel is far more feasible for the large and powerful manufacturers than for the smaller, less powerful ones. Although channel leadership is often associated with manufacturers, intermediaries also can take the role. The smaller manufacturers, unable to take leadership roles in developing administered channels have, therefore, the option to align themselves with large and powerful intermediaries at the wholesale or retail levels who do have the power to administer the channel. However, since large scale distributive institutions are not prevalent in India, this alternative does not exist.

6.4.2.54. The many levels in the typical channel handicap even the large and powerful manufacturers from establishing administered channels; where the manufacturer deals only with next link in the channel and not with all levels, even the powerful manufacturers are not in a position to establish administered channels. The only available alternative is, therefore, the conventional channel or the free-flow channel.

6.4.2.55. Analysis of the behavioural dimensions such as cooperation, conflict, and leadership also indicates that most often channels are not managed. Further, with hardly any selection of intermediaries and very little evaluation of channels and channel members, one wonders how channels can be managed. Thus, with respect to most of the firms, channels are neither organised behaviour systems, nor are they managed by any one. The distribution systems under study, therefore, conform to McCammon's description of marketing channels as fragmented networks in which loosely aligned and relatively autonomous manufacturers, wholesalers and retailers bargain aggressively with each other, establish trade relationships on an individual transaction basis, sever business relationships arbitrarily with impunity, and otherwise behave independently[82].

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[82] Bert C. McCammon, "Perspectives for Distribution Programming", Louis P. Bucklin, (ed), Vertical Marketing Systems, (Glenview, Illinois, Scott Foresman and Co., 1970), p.43.

CHAPTER VII

CONCLUSIONS

7.0.1. This chapter attempts to consolidate the major findings of the empirical study. The study evolved from the basic premise that the existing distribution structure is not adequate or adaptive to meet the needs of the expanding manufacturing sector and the emerging mass market. The hypothised causes of the problem are the following: marketing channels are not used for strategy differentiation by manufacturers; there are too many intermediaries in the channels; the distributive institutions are not adaptive; and there is very little control over the flow of products through the channels. These assumptions about the causes of the problem have been translated into specific hypotheses and tested with data. Empirical analysis, while supporting some of these hypotheses, challenges certain widely held notions. The ensuing summary presents the important findings, in the sequence in which they are discussed in the study.

7.1.0. <u>Multiple Channel Strategy</u>

7.1.1. Multiple channels exist in the distribution systems more by accident than by deliberate strategy. Neither are the different channels meant for different segments within the consumer market, nor are the channel combinations frequently adapted to the changing market environment. Channels are thus seldom used for strategy differentiation.

7.1.2. <u>Description : Number of channels</u>

Multiple channels are the most natural mode of distribution. The average number of channels for the firms under study is 3.87. While manufacturers of consumer nondurables employ the maximum number of channels, industrial goods take the least. The 16 firms producing nondurable consumer goods use on an average 4.7 channels, but the eight manufacturers of industrial goods use only 2.5 channels on an average. Producers of consumer durables and semi-industrial products route their output on an average through 3.5 channels. All the three industry groups support the hypothesis that multiple channels are the norm. The results of empirical analysis further reveal that 12 out of the 15 industries have three or more channels.

7.1.3. Significance of Multiple Channels Not Realised

Despite using three or four channels, the typical manufacturer hardly ever considers the relevance of even the secondary channel. Manufacturers differentiate the various channels only to the extent of their direct contact; that too is limited to the first intermediary. In particular, manufacturers do not seem to consider the significance of the flows that originate independently from the intermediaries, and take deviating paths from the main channels. The efficacy of these channels is as significant as the efficacy of the other channels. Similarly, manufacturers do not seem to realize that distribution through branch organisation involves an additional level with the associated functions, and that the branch, in fact, replaces a wholesale middleman, usually of the primary wholesaler type.

7.1.4. Direct and Indirect Channels

Combinations of direct and indirect channels are used in most of the industries, as 24 of the 30 firms considered use both direct and indirect channels. Among the 15 industries from which firms were drawn for the study, only one industry, represented by one firm, does not resort to direct distribution. The indication of the survey is that the type of distribution is by and large determined by the type of target markets rather than the nature of the product. The target markets served by the direct channel are industrial, institutional or government markets. Direct channel to large volume buyers appears to be the norm, despite differences in product characteristics as well as sizes and strengths of the manufacturing units.

7.1.5. Combinations of direct and indirect channels are used quite extensively for both industrial and consumer products. However, direct channels are evidently dominant in the distribution of industrial goods, while indirect channels dominate the distribution of consumer goods. Direct channels lead to relatively large volume customers.

7.1.6. Direct Sales to Retailers

The practice of direct sales to retailers is found quite extensive. While in the advanced economies direct sales are made mostly to large scale retail outlets, here direct sales to retailers means direct distribution to tiny retail outlets. The strategy is followed where the market is local, or where wholesalers are not available tothe manufacturer; in certain cases where the number of retail outlets used are few, the wholesaler is not needed. Direct distribution to large retailers is rare. Not even the few leading national marketers who come under the study follow the definite policy of direct distribution to the few relatively large retail outlets available. Another feature of direct selling to retailers is that the share of sales through this channel is relatively small compared to channels involving wholesalers. Evidently, the role currently assigned to the channel involving direct sales to retailers appears to be of little significance in the overall distribution scene.

7.1.7. Development : Channel Design

The existing combination of channels is hardly a product of conscious design, but the result of evolution by trial and error. One third of the executives claimed that their existing distribution systems were the results of conscious design. These executives were, however, not able to explain the procedure adopted by their companies for channel design. With respect to channel design no formal procedure exists among the firms under study; nor do the respondents seem to have the conceptual clarity necessary to evolve any formal system.

7.1.8. Fairly large number of respondents had no idea about how the present channel structure was originally determined. One gathers the impression that most of the companies had adopted either the channels commonly used in the industry or the channel arrangements of successful competitors. Available evidence in the study indicates that for most of the firms the distribution systems were not designed, but evolved over the time in response to problems in the market place. In spite of the need for deliberate channel design, there appears to be a generally casual approach to the selection and development of efficient distribution channels. Comparatively few firms give much explicit consideration to possible alternative means of placing their output in the hands of the final consumers.

7.1.9. Channel Change

Channel changes through addition, deletion, or replacement of channels are not frequent. Twenty-seven companies, with an average history of 20 years, have recorded only 18 instances of channel change. These changes occurred in 15 companies. Among the remaining 12 firms, the present channel combinations have remained unchanged without any addition, deletion or replacement of any channel, ever since their distribution systems came into existence.

7.1.10. Survey results thus indicate that changes in the distribution system have indeed taken place, but only among 15 companies. Even among these firms, change in each case has occurred only once in 20 years approximately. While channel additions have taken place in eight firms, certain channels were replaced in seven firms. There is not a single case where a channel was deleted without adding a substitute. Channel additions at the take-off and growth stages had been prompted by the desire for geographic extension of the market. The pressure for replacement seemed to have sprung from the need for intermediaries who can take more active selling efforts. Reducing the cost of distribution does not figure out as the major objective of channel change in any of these cases.

7.1.11 There is considerable resistance to change in channels of distribution and, as a result, many inefficient channels exist for long periods of time.

Innovation upsets long established relationships and creates uncertainty for the participating institutions. The status quo is, therefore, the preferred state of affairs in the distribution system.

7.1.12. Models Tested

The metamorphosis model envisages limited extent of channel change at the take-off and maturity stages, while it predicts substantial change at the growth phase. The available evidence in the study is in favour of the metamorphosis model of channel change. Another dimension of channel shift is the change from direct channels to indirect or vice versa. A cyclical movement of distribution from direct to indirect andback to integrated channels is the main theme of the Stigler-Mallen proposition. The Metamorphosis model, on the other hand, postulates a change from indirect to direct channels as the firm grows. Except in one case, the field study does not show any such change, either from direct to indirect or the reverse. The dynamics of a developing market demand a corresponding measure of dynamism in the channel structure. However, the results of the field study reveal the relative stability, or rather the stagnation, in the distribution structure.

7.1.13. Dynamics : Fitting New Products to Existing Channels

Empirical evidences in the study indicate that manufacturers often fit new products to existing channels without seriously searching for alternative channels. There is hardly any search for new channels, unless the products and the markets are drastically different from the existing ones. Most of the manufacturers do not seem to realise the scope for improving their distribution systems by addition, deletion or replacement of channels.

7.1.14. Complementary and Competitive Channels

The use of competitive multiple channels is not very extensive. Among the 29 firms using multiple channels, 22 companies employ only complementary multiple channels, while the remaining seven firms use competitive multiple channels also. Competitive channels are those involved in distributing the same product of a company to the same type of customers in the same geographical area. Even where competitive channels are used, price competition, usually associated with competitive channels, is not much in evidence. Similarly, competition between direct and indirect channels is also rare. Empirical evidence support the hypothesis that where multiple channels are used, the different channels act as complementary, rather than competitive.

7.1.15. For Optimal Marketing Programme for each Segment

Among the industries studied, multiple channels are seldom used for offering optimal marketing programme for each segment. Although different channels are used to serve different types of customers in terms of the volume of purchase, and different geographic markets, segments within the consumer market in a given area are seldom served by different channels. Whether sold directly or through wholesalers, the types of retail outlets where the consumers finally buy the products are the same. Products do not flow to different segments through unique channels as part of a comprehensive marketing strategy aimed at offering optimal marketing programme for each segment. Whereever two or more indirect channels are used, the various channels are not significantly different in terms of customer benefits.

7.1.16. Determinants : Inadequate Managerial Attention -

Multiple channels are not used for strategy differentiation. The basic reason is that adequate managerial attention is not paid to the distribution aspect of marketing. Too often channel combinations and relationships among participants do not receive due attention since they involve matters that are 'outside' the company and, hence, are more easily taken for granted than other elements of the marketing mix. These 'internal' functions come up for more frequent review and appraisal since responsibility for them tends to be fixed on the organisational chart or in job descriptions, and the cost of them conspicuously identified on accounting statements. In spite of, or because of, the importance of distribution, a 'channel manager' is nowhere in sight, nor a 'distribution manager' in anything outside a purely physical distribution sense. Available evidence suggests that the position of the channel manager exists only in concept, not yet in fact. Instead, channel management responsibilities are dispersed among various other positions.

7.1.17. Strategic Decisions

The 'Board of Directors' is directly involved in channel change decisions in 15 out of 28 companies considered. In nine firms the chief executives take the decision. Only in four companies the middle level managers have the discretion to change the channel structure. The data indicate the strategic nature of channel change decisions as either the Board or the Chief Executive is involved in the decision in most companies.

7.1.18. Want of Management Commitment

Changes in marketing strategies are brought by changes in the environment. By virtue of their proximity to the environment, managers at the administrative and operating levels often initiate actions for decisions leading to change. Compared to other elements in the marketing mix, there is relatively less delegation of channel decisions to administrative or operating levels, as decisions pertaining to channel design or change are of strategic nature. Obviously, there is less enthusiasm among middle level managers to initiate or implement channel change decisions. The fact that managerial responsibilities associated with strategic adaptations in channels are neither specified clearly nor assigned to anyone at the middle level management, constrains the very scope for strategic adaptations in distribution.

7.1.19. Further, the impact of change in channels is usually more pervasive, perhaps among all product lines, more durable, and more evident. Consequently, the risk is also more. As a result, managers tend to bypass an unnecessary risk which is not obligatory on their part. Naturally, proposals for channel change are less likely to originate at the middle level management and these decision problems seldom come up for serious deliberations before the Board.

7.1.20. Channel mix decisions are indeed policy decisions taken at the highest levels. But these decision areas lanquish for want of managerial commitment at the administrative and operating levels. As a result of inadequate managerial commitment to strategic decisions in distribution, stability rather than atrategic adaptations come to characterise the distribution system.

7.2.0. Length of Channels

7.2.1. Description : Number of Levels

The assumption that there are too many intermediaries between the manufacturer and the consumer has been tested empirically in this study. Length of both the dominant channels (in terms of sales volume) and the longest channels used in the selected industries have been analysed. As the share of sales through the dominant channels is much more than that of the longest channels, the efficacy of the dominant channel is of maximum social concern. In the longest channels, 80 percent of the firms have two or more levels. As the number of levels includes the manufacturers' sales branches, the number of intermediaries in the channels are less than the number of levels. When the longest channels are considered, there is but one firm that engages more than three intermediaries; 60 percent of the firms use two or less intermediaries, including 26.67 percent having only one intermediary each. In the dominant channels, only 14 out of the 30 firms have two or more intermediaries; i.e., more than fifty percent of the firms do not have multilevel intermediaries in their dominant channels.

7.2.2. Assumption Challenged

These observations call into question the prevailing assumption regarding the excessive number of intermediaries in the marketing channels of manufacturing firms in India. The number of intermediaries are not as many as reported in the marketing literature. The study, however, confirms the notions about the relative length of channels for different classes of goods. Channel length is maximum for consumer nondurables and minimum for industrial goods. The average number of levels in the dominant channels for consumer nondurables is 2.5 while that of consumer durables and semi-industrial products is 1.5; for industrial products the dominant channel is the direct channel for all products, except one. Biscuits, soaps, batteries and lamps are the products that take relatively longer channels.

7.2.3. Multistage Wholesale Structure

It is the multistage wholsale structures that increases the length of channels. Limiting the analysis to wholesale intermediaries, it is found that 83.33 percent of the firms in their dominant channels, and 56.67 percent in their longest channels, do not have multilevel wholesale intermediaries.

7.2.4. Development : Elimination of Intermediaries

There has been a tendency to reduce the number of levels in the channels. Elimination of links occurred in the channels of eight manufacturing firms under study. Most of the intermediaries eliminated were primary wholesalers such as sole selling agents, selling agents, state-level distributors and clearing and forwarding agents. Eliminations of intermediaries have led, in most cases, to the reduction in the length of channels; however, in two cases, the intermediaries have been replaced by manufacturers' sales branches.

7.2.5. Addition of Intermediaries

There have been additions of intermediaries, just as there have been deletions of intermediaries. But the additions have often led to the creation of new channels. Agencies were added to the existing type of channels, not to the existing channels, when the firms had to enter new, distant geographic markets. The process of addition of intermediaries has thus, led to the formation of new and longer channels. While the purpose of additions of middlemen was to reach new market segments, the pressuures for eliminations were exerted by market expansion and increased competition--challenges which the intermediaries could not meet by more active demand creation and selling efforts.

7.2.6. Dynamics: Redundant Intermediaries

Most ofthe marketing executives do not believe that cost of distribution can be reduced by reducing the number of levels or intermediaries and most of them believe that there are no redundant intermediaries in their channels. However, a few of the respondents believe that there are redundant intermediaries in their channels. But they are not able to explain why the so-called redundant intermediaries are retained. A possible inference is that these intermediaries still perform some functions, although the manufacturers are not satisfied with their level of performance.

7.2.7. Functions are Not Eliminated

It is evident from the study that marketing executives often think in terms of institutions rather than of functions. As institutions are more visible than functions, managers tend to perceive a channel as a sequence of institutions, rather than a sequence of functions. The perspective which treats a channel as a functional system is of great value in analysing the dynamics of channel structure. This approach does not eliminate the middleman, but subordinates his existence as an institution to his existence as a system functionary. Even if specific middlemen are eliminated, their functions cannot be eliminated; what happens is a reallocation of functions, rather than their eliminations; the functions are shifted to the adjacent levels. Empirical evidence in the study supports the hypothesis. The functions performed by the eliminated intermediaries have been absorbed in most cases by the manufacturers.

7.2.8. Unnecessary Repetition of Functions?

It has been pointed out that when the number of levels are more, there is a tendency for unnecessary repetition of functions, and that the number of times the functions are performed can be reduced by reducing the number of levels. This may not, however, lead to reduction in the cost of distribution; for instance, when the manufacturer tries to perform a function earlier performed by an intermediary the cost of the function might increase. If each function is considered in the totality of that functional activity between point of production and point of consumption, repetitive performance is simply a division of the complete activity among various intermediaries operating at different levels, Most of the executives deny unnecessary repetition of functions in their channels. Further, there have been instances where intermediaries were added precisely to repeat certain functions which the middlemen could perform at lower cost, thus reducing the total cost of the function. Obviously, more levels in the channels do not lead to unnecessary repetition of functions.

7.2.9. Communication Breakdown and Channel Speed

The study, however, reveals that communication breakdown in certain channels are staggering, particularly in longer channels involving subwholesalers. It has, however, been noted that channel speed is not always inversely related to channel length, and that sometimes the reverse is true.

7.2.10. Determinants : Customer Buying Pattern

It has been postulated that among the determinants of the number of levels the most important perhaps is the buying habits of consumers. Where the consumers buy frequently and in small quantities, the channels tend to be longer. The purchasing habits are, in turn, decided partly by tradition, and partly by socio-economic characteristics. The evidences in this study indicate that the customer size as well as buying habits influence the length of channels. The buying habits of the consumers determined the number and size of the outlets, particularly retail outlets. To reach a large number of small stores, many levels of wholesale intermediaries are needed. Thus, where customers, intermediate or final, are more, and where the quantity purchased is small and the frequency of purchase high, the length of channels tend to be more. This is evident not only with respect to consumer goods, but also for industrial goods.

7.2.11. Economic Distance

Large national markets often necessitate longer channels, especially where transportation and communication bottlenecks exist. Such problems widen the economic and psychological gap between the producer and the consumer. Intermediaries arise to bridge the gap, and the number of levels in the channels correlate well with the physical and economic distance. Many intermediaries exist, primarily to perform the physical distribution and transportation functions, particularly at the upper and lower levels in the wholesale hierarchy, intermediaries such as C & F agents and subwholesalers. Middlemen at certain levels in the channels thus find the rationale for their existence in the transportation and communication bottlenecks that still exist in the country.

7.2.12. Market Density

Relatively longer channels to dispersed and rural markets are much in evidence among the manufacturing firms studied; wholesalers, subdistributors, and semi-wholesalers are added as the products percolate into the rural market where the demand is low, and the available demand is spread over a vast area. Channel length appears to be inversely related to market density.

7.2.13. Power of the Manufacturer and Characteristics of Products

The size and financial strength of the manufacturers are generally deemed to be critical determinants of channel length. There have indeed been instances where the manufacturers eliminated certain intermediaries as the firms gained marketing experience. However, the empirical evidences indicate parity in terms of channel length among firms in the same industry, irrespective of their differences in terms of size and financial strength; to the extent differences exist, they are influenced by other factors. Product characteristics such as technical complexity, unit value, perishability, bulk and weight,etc., are assumed to be determinants of channel length. However, the empirical evidences do not fully subscribe to this view.

7.3.0. Institutional Structure

7.3.1. In the midst of a rapidly changing manufacturing environment and an emerging mass market, the fragmented and tradition-bound distributive institutions continue to perform traditionally defined functions rather than identifying new needs and developing capabilities to fulfil these needs. The most serious challenge is a basic reassessment of the role and functions of each of the key institutions in the distribution sector.

7.3.2. Description: Specialisation at Wholesale Level

The extent of trade specialisation is limited among the agencies at the wholesale level. Of the 10 wholesale institutions considered, only three show specialisations based on product lines, functions, and geographic areas. They are the stockists/distributors, superstockists, and manufacturers' agents. Wholesale institutions such as selling agents, wholesalers, subdistributors/substockists, semiwholesalers, and wholesale dealers do not follow any kind of trade specialisation. Among the three types of institutions that follow trade specialisations, two intermediaries, namely, superstockists and manufacturers' agents are not frequently used, and are usually of incidental significance in the distribution channels where they are used. Therefore, the only significant intermediary who shows a high degree of trade specialisation is the stockist/distributor.

7.3.3. Relative Significance of Various Wholesale Institutions

Another pertinent factor pertaining to the description of the institutional structure is the relative significance of the various types of wholesale institutions. The levels at which the agencies appear, the importance of the channels in which they appear, and the frequency of their appearance are significant indicators of their relative importance in the distribution system. Many agencies occupy relatively minor positions in the channels in terms of these dimensions; brokers and selling agents are often incidental in the channels; subwholesalers and semiwholesalers play minor roles. The two important wholesale institutions in the above respects are stockists/distributors and wholesale dealers. The former appears in the channels of consumer nondurables and the latter in the channels of industrial and semi-industrial products. Between the two, the position of the wholesale dealer is much less significant. Evidently, no other institution comes anywhere near the stockists/distributors in terms of the frequency of appearance, the dominance of the channels in which they appear, and the primacy of the level where they appear.

7.3.4. Specialisation Among Retailers

Analysis of the extent of product line specialisation among retail institutions indicates that while convenience products move through general stores, consumer durables and semi-industrial products move through specialised stores. Specialised stores are much in evidence in the channels of many products. Further, there appears to be a gradual increase in the number of speciality stores and in the degree of product line specialisation.

7.3.5. Development: Change in Wholesale Structure

The changes that have taken place in the wholesale structure of manufactured goods in India appear to have been spectacular. The review of the institutional histories of the wholesale intermediaries indicates that the agencies at the upper and lower levels in the wholesale hierarchy, namely, the primary wholesalers and the subwholesalers, have been steadily losing ground. The soleselling agents and selling agents occupied the pride of place in the channels for quite sometime, dominating the tiny manufacturing firms of the early years of industrialisation and the petty wholesale and retail stores. But they lost their position to the provincial distributors. The provincial distributors, in turn, were reduced to a subordinate position by the district or town stockists/distributors. The need to develop the market by active promotion and demand creation efforts forced many manufacturers to eliminate the primary wholesalers who were unable to meet the task. The only alternative for manufacturers was to reach down towards the market and distribute the products through stockists or distributors. Obviously, the stockist has emerged as the strategic intermediary.

7.3.6. The forces influencing changes at the top levels in the wholesale hierarchy have been operative at the bottom levels of the wholesale structure as well. As stockists are increasingly being engaged by manufacturers, the wholesalers, subdistributors, and semiwholesaler find an erosion in their relevance.

7.3.7. Shift in the Predominance of Wholesale Institutions

There has been a shift in the predominance of wholesale intermediaries, more in favour of the stockist. Further, it appears that different types of wholesale intermediaries come to dominate the distribution system, as a nation moves through different stages of industrialisation and economic evolution. As postulated in McCarthy's model, the shift in the predominance of the different types of intermediaries, as manufacturers evolve to higher levels of marketing orientation, getting more and more involved in the distribution process, is very much in evidence.

7.3.8. At the retail level, specialisation of stores are taking place at an increasing pace. The general store is gradually yielding place to limited line stores. Increasing specialisation in the retailing of consumer durables have been particularly significant. Innovative mass merchandising institutions are not particularly visible in the retail terrain. And direct sales to such retailers is yet to emerge as a matter of distribution policy among manufacturers. Geographic dispersion of the speciality store is another perceivable trend in retailing. Once confined to the cities and towns, they are now moving towards the suburbs and the large villages. Another emerging feature is customer specialisation by the relatively large retailers. The merchandise mix of the few supermarkets and department stores are meant to attract the relatively affluent customers.

7.3.9. However, these are only indications of an extremely slow process of change. The structure of retailing in India has not been innovative or adaptive. The field of retailing is still predominantly one of small firms, one in which large organisations have been relatively slow to develop. Thus, there lies at the bottom of the distributive pyramid a broad, marginal and depressed base.

7.3.10. Dynamics:
Functional Evolution

Most of the intermediaries are supply-oriented rather than demand-oriented. Making available the product for sale continues to be their primary role. This was quite sufficient under conditions of scarcity. Without realising the need for redefining their role, many of the agencies continue to perform their traditionally defined functions.

7.3.11. Evidently, the distribution functions performed by the intermediaries are rather limited; market communication, information beedback, and post sales services are not yet treated as legitimate distribution tasks. Selling efforts on the part of the intermediaries are inadequate, and manufacturers are forced to maintain field sales force. Obviously, there has not been any progressive evolution in terms of the number of functions performed by the intermediaries. However, improvement in efficiency in the performance of certain traditionally defined functions is evident.

7.3.12. Functional Absorption

Analysis of the functional absorptions and spin-offs indicates that the manufacturers have been absorbing more and more distribution functions. Sales negotiation was a legitimate distribution function earlier performed by the intermediary; however, part of this function has been absorbed by the manufacturer, who now engages a sales force to perform this function on behalf of the middlemen. Although financing and customer credit had been widely accepted as distribution tasks, the role of the intermediaries has been reduced with regard to these functions. Financing the intermediary's inventory and receivables has been partly absorbed by the manufacturers through their credit extension to middlemen. Earlier, the intermediaries undertook the function of risk bearing, but the manufacturer, who presells the brands through advertising and performs the retail selling on behalf of his distributors, is taking over the risk bearing function. Similarly, functions such as information feedback and presale and postsale services for the relevant products are performed by the producers. Manufacturers are, thus, increasingly absorbing many distribution functions earlier assigned to intermediaries.

7.3.13. Trade Margins and Cost of Distribution

There is a widely held notion that trade margins are low in India, the implication being that cost of distribution is, therefore, low. The field study confirms the existing assumptions about the low trade discounts in India. For consumer nondurables the average trade discount is 12.2 percent at the retail level and seven percent at the wholesale level; for consumer durables and semi-industrial products it is 12.5 percent each at the wholesale and at the retail levels; for industrial products it is 6.8 percent. The average of the total trade discount (at all levels) is 19.2 percent for consumer nondurables, 16.7 percent for consumer durables and semi-industrial products, and 6.8 percent for industrial goods.

7.3.14. Trade discounts in certain lines are quite low, as they are shared by the many links in the channels. However, trade discount alone is not an adequate measure of trade margin. Incentive discounts such as quantity discount, cash discount and product discount are quite prevalent, and sometimes the net benefit from incentive discounts are quite high. Further, the gross margin is often enhanced by the higher prices that the intermediaries charge, particularly at the retail level.

7.3.15. Trade Functions and Their Cost

Trade margins do not necessarily reflect the cost of distribution. The data analysed in the study show a relatively high cost of distribution. For the eight firms considered, three aspects of the cost of distribution, namely transportation cost, cost of sales branch operations, and the total trade discount, show an average of 27.25 percent of the consumer price. If other elements of distribution cost are also included, the cost of distribution would go up. As the distribution functions performed by the intermediaries are limited, their cost of operations is low. Obviously, the traders' margins are not low, considering the trade functions they perform; and the cost of these functions.

7.3.16. Determinants
Institutional Stagnation

The marketing institutions do not seem to have kept pace with the progress achieved in manufacturing. The intermediaries are still oriented towards trading surpluses rather than expanding markets. The absence of functional adaptations and institutional innovations in the distribution sector tends to retard or dissipate the potential progress in the manufacturing sector.

7.3.17. Causal Factors

Among the most critical determinants of the lack of innovations and adaptations in the institutional structure of distribution are the natural tendency among traders to resist change and the apathy of public policy towards trade sector. Three important variables that perpetuate stagnation in distributive institutions emerge from the analysis. They are the small size of the institution; the low level of professional management, and the lack of innovative outside entrepreneurs entering the field.

7.3.18. Rationalisation of Wholesaling

As an economy becomes more prosperous the role of the wholesaler also changes. The short industrial history of India has already recorded the demise of certain types of wholesaler intermediaries. Manufacturers in many fields are trying to do away with the wholesaler by taking over some of his functions. Some wholesalers had indeed kept pace with, or rather followed, the changing pattern of trade from general line to limited line. General line wholesalers shifted to limited line distributors or stockists. However, these intermediaries are yet to realise that selling efforts and demand creation must receive greater attention as the manufacturers struggle for an increasing share of the expanding market. Further, wholesalers in general are yet to appreciate fully the need to work more closely with manufacturers on new products and special promotions.

7.3.19. As thelevel of industrial production increases in the country, and as standards of living in the urban and rural areas gradually improve, there is a basic need for expansion of the wholesale function. It is not possible to bypass the wholesale function, at least in the distribution of some kinds of goods. What is possible is the rationalisation of wholesaling. The wholesaler will not die; but will be different. He will find it essential to strengthen his services to both manufacturers and retailers, and to seek ways of performing his basic functions more efficiently.

7.3.20. Modernisation of Retailing: Inhibiting Factors

The multitude of minute, marginal retail outlets with little capital, low turnover, and high markup lead to an inefficient distribution system. Many reasons have been offered for the large array of small stores: the surplus of manpower, the difficulties in transportation; the customber habit of buying small quantities very frequently from the nearest store, and the small amount of capital generally required for entry into retailing. Retailing in India appears to develop in line with the general economic conditions. Population density and economic levels seem to relate well with the size of the store andsales per establishment. In regions of lower economic levels, the number of establishments follows density of population without regard to purchasing power, and this increases the mortality of the store. Retail institutions developed in a mass consumption economy cannot be transferred to a less-developed economy without a great deal of change. Although a low level economy cannot absorb innovative retail institutions on a large scale, the urbanised and affluent segments of thesociety can initially support the mass merchandising institutions. With improvements in economic and social conditions, such innovations may percolate into other areas. A marketing institution that works on a very extensive scale in a developed economy is viable on a limited scale in a developing economy because some small segments of the developing economy have the same characteristics of demand and productive ability common to the developed economies. This explains the reasons for the appearance of large scale retail institutions first in the metropolitan centres.

7.3.21. Marketing techniques which are economically efficient in one society need not be efficient in another where the resource structure is different. where capital is scarce, modernisation of marketing institutions might well emphasise effective merchandising and salesmanship, new organisational forms, and improved management, instead of innovations requiring substitution of capital for labour.

7.3.22. Apathy of Public Policy

The obsolete and highly fragmented distribution system in India refuses to evolve to meet the demands of an emerging mass production economy. Middlemen lack financial and managerial resources to generate meaningful change. Unlike manufacturing firms, the marketing intermediaries are not favoured by extensive government assistance in their modernisation efforts. If ever they try to grow or innovate, they have to carry the entire burden themselves.

7.4.0. Horizontal Structure and Vertical Relationships

7.4.1. Description: Selective or Exclusive Distribution

The strategy of limited distribution is followed more at the wholesale level than at the retail level. Of the 26 manufacturing firms engaging wholesalers in their channels, 22 firms follow the policy of limited distribution at the wholesale level. However, of the 22 manufacturers selling through retailers, only two firms have limited distribution arrangements at the retail level. Thirteen firms adopt exclusive distribution at the wholesale stage, while nine firms follow selective distribution policy. Generally, exclusive policy at the wholesale level is adopted for consumer nondurables, while selecting policy is adopted for industrial products. At the retail end, except for the two firms that adopt selective policy, all others, particularly manufacturers of convenience items, follow intensive distribution.

7.4.2. It is pertinent to note that limited distribution at the retail level is adopted in channels where there are no wholesalers; the retail stores involved are speciality stores, and the products in question are consumer durables. In all instances of limited distribution, selective or exclusive policies are followed only at the level of the first intermediary. Beyond the first level, the manufacturer has very little contact. Thus, it is evident that the manufacturer deal only with the next level in the channels, and not with all levels.

7.4.3. Vertical Marketing Systems

Vertical marketing systems are rather rare, and only five of the 29 firms participate in vertical marketing system. In three cases the relationship can be considered as contractual and in two cases it can be treated as administered. However, judged by the degree of channel member cooperation and commitment to system goals, hardly any of these channels can be treated as vertical marketing systems.

7.4.4. Development: Availability of Channel Members

The availability of suitable intermediaries is a primary requirement for the implementation of a strategy of selective or exclusive distribution. The choice of intermediaries is a privilege of the large and leading firms. The availability of channel members for participation in limited distribution is a function of the size and market power of the manufacturer. Just as manufacturers select intermediaries, intermediaries select manufacturers. The choice criteria used by intermediaries to select suppliers, and the responses of the marketing executives clearly show that the few efficient intermediaries available are preempted by the large and leading firms, and that the relatively smaller firms find it difficult to attract prospective channel participants.

7.4.5. Choice Criteria

In selecting channel members, financial strength, experience in trade, facilities for physical distribution, and the other products carried are some of the important factors that manufacturers look for in their prospective channel members. While most of these factors relate to middlemen at the wholesale level, facilities for product display and personnel for after-sales services are important considerations at the retail level. What is significant about the choice criteria of manufacturers, as reported by marketing executives, is that neither the managerial capabilities nor the sales strength of the intermediaries is considered as relevant variables.

7.4.6. Bifurcation of Territories

Manufacturers follow the strategy of bifurcating territories in response to market expansion, and there has been a gradual decrease in the geographical size of the typical territory, as indicated by the change from district-wise distribution to town-wise distribution. The strategy is to bifurcate existing territories and add more intermediaries. However, the practice of replacing existing inefficient channel members by new intermediaries is rather rare. Further, responses of executives indicate that there is hardly any formal policy regarding the replacement of channel members. Empirical evidences, thus, show that channel modifications involving replacement of intermediaries seldom occur, although territories are bifurcated and new intermediaries are added.

7.4.7. Dynamics: Legal Restraints

The common measures adopted by manufacturers to control the operations of the middlemen include allocation of territories, exclusive dealing covenants, full-line forcing, and resale price maintenance. These are, however, deemed restrictive trade practices, according to the provisions of the MRTP Act. An attempt has been made in the study to assess the extent to which manufacturers follow these strategies and to probe whether these distribution practices amount to restrictive trade practices, devised to destroy competition in the market.

7.4.8. Territory Restriction and Exclusive Dealing

The field study indicates that all the 13 firms that follow exclusive distribution at the wholesale level assign specific territories to their intermediaries. However, the MRTP Commission does not treat territory assignment as a serious restrictive practice. Exclusive dealing is another restrictive trade practice followed by some of the firms under study - four firms oovertly, and five firms covertly. But exclusive dealing at the first level (wholesale) in the channel is not treated as a restrictive practice by the MRTP Commission.

7.4.9. Full-line Forcing and Resale Price Maintenance

Full-line forcing and tie-up sales, on the other hand, are viewed very seriously by the Commission. These practices are, however, informal, and only a couple of firms covered in this study overtly follow the strategy. Quantity stipulation is quite prevalent, but seldom to the extent to become restrictive. Quite a large number of firms attempt resale price maintenance at the first level, but the stipulation of minimum resale price is very rare. The hypothesis that firms resort to restrictive trade practices is not adequately supported by the evidences.

7.4.10. Lack of Price Control

Manufacturers' control over the channels stops with the first level intermediary, and the usual mode of distribution at the retail level is intensive. The result is a serious communication gap between the manufacturer and the consumer, particularly in terms of price. This communication gap provides enough scope for the intermediary to manipulate prices. Especially when the channels involve wholesalers, subdistributors, and semi-wholesalers, the manufacturer has little control over prices. This is indicated by the lack of effective price control measures adopted by manufacturers.

7.4.11. Determinants of Horizontal Structure and Vertical Relationships

Among the factors that determine the horizontal structure and vertical alignment in marketing channels, particularly significant are channel length, middlemen type and size, market power of the manufacturer and socio-economic variables. It is only logical that where the number of levels in the channels is more, the manufacturer's vertical relationship is limited to the first link in the channel, and there is hardly any scope for selective or exclusive distribution beyond that level. Similarly, where the size of the typical retail establishment is small, necessitating exposure for the product in more stores, limited distribution becomes difficult, and vertical coordination impossible.

7.4.12. Structural Forms for Channel Control

The strategy for greater coordination and control leads to two structural forms, namely, completely integrated channels and vertical marketing systems involving intermediaries. While the first is a single corporate entity, the second is an organisational coalition. The structure of distribution among the industries under study is characterised by conventional channels and the above structural adaptations are alien to most of the firms. The predominance of conventional channels indicates that certain factors inhibit vertical integration and the emergence of 'organised behaviour systems'.

7.4.13. Extent of Integration

Empirical evidences show that the extent of vertical integration in marketing channels is a function of the size of the manufacturer, and that the relatively large firms operating in the consumer market have integrated with manufacturing at least one level in the wholesale structure. This is represented by the manufacturers' wholesale branch. It may be mentioned that the economic conditions which forced vertical integration and growth of centrally coordinated distribution systems in the United States do not exist in India.

7.4.14. Manufacturers' Dominance

The interorganisational structure of distribution and the mutual dependence of participants lead to three kinds of behaviour: cooperation, conflict, and leadership. These behavioural processes are influenced by the size and market power of the channel captain. Channel leadership is derived from the participants' possession of power. The study indicates that the manufacturer has emerged as the locus of power in the distribution channels. Empirical observations confirm the notion that in terms of brand strength, economic power, and technical competence, the manufacturers as a class wield more power than the tiny wholesalers or retailers.

7.4.15. Size of the Manufacturer and Channel Coordination

However, power and leadership are the privileges of the large and leading firms. While the relatively smaller firms lack the necessary sources of power for channel domination, the intermediaries do not come to the dominant position. Their claim for leadership is even less. This leads to a situation where no one in the channel is able to assume leadership, achieve channel cooperation, resolve conflicts, and exercise control. Empirical analysis reveals that cooperation is the common behaviour, but the level of cooperation is comparatively very low. The indication is that the small and medium firms with relatively little power base are not able to optimise channel cooperation.

7.4.16. Leadership and Conflict Resolution

The instances of channel conflict among the firms under study reveal that conflicts are recognised only where the parties involved have formal and continuing relationships and their functions are coordinated. Where there is hardly any coordination through leadership, differences in terms of individual interests lead to either the dissolution of the channel or the abdication of the rights and interests of one of the parties. Problems, thus lead to destructive conflicts, as conflicts are not managed to become constructive in the absence of effective leadership.

7.4.17. Channels are not Managed

The conflict-cooperation management in most of the firms, particularly the small and medium firms, seems to lead to an armed truce. On many issues there has not been any agreement or solution; the members continue to function together, perhaps out of necessity, with each member trying to achieve his own goal. With very little choice of channel members, and with hardly any evaluation of channels and channel participants, one wonders how channels can be managed. Analysis of the various dimensions of the behavioural process in the channels, thus, indicates that channels are seldom managed. The common denominator is the small size of the manufacturing and distributive enterprises which

inhibits the emergence of effective leadership. The large wholesale institutions such as soleselling agents and selling agents who once dominated the channels have been bypassed and the relatively large manufacturers now dominate their distribution systems; however, for the large majority of smaller producers, there is no effective coordination or leadership in their distribution channels; unlike in the West, large innovative retail institutions with sufficient power base to control the channels are yet to develop.

7.4.18. Loose Coalition

Thus, with respect to most of the firms, channels are neither organised behaviour systems, nor are they managed. The marketing channels of the industries and firms under study, thus, conform to McCammon's description of channels as 'fragmented networks in which loosely aligned and relatively autonomous manufacturers, wholesalers, and retailers bargain aggressively with each other, establish trade relationships on an individual transaction basis, sever relationships arbitrarily with impunity, and otherwise behave independently. The failure of the behavioural process leads to a situation where the distribution system never reaches the point of optimum social efficiency.

7.5.0. The Epilogue

7.5.1. As postulated, the distribution bottleneck in the economy is a reality. While the manufacturing sector is undergoing expansion and modernisation, there is no corresponding expansion in the institutional structure of distribution to absorb the increasing output and the additional functions required to push the increased volume in a buyer's market. The distribution barriers to entry and expansion of manufacturing firms are real and perplexing. The few efficient intermediaries available are pre-empted by the leading firms, and the non-availability of channel members for the small and expanding firms is a serious constraint. Efficiency in manufacturing is thus inhibited by the bottlenecks in the distribution system and the society pays a higher price for the inefficiencies inherent in the existing structure of distribution.

7.5.2. <u>The Models</u>

For the purpose of the study, two models and a set of paradigms have been developed. A conceptual model of the adaptive behaviour of marketing channels in the course of economic evolution has been developed by reviewing the industrial histories of some of the advanced economies (Chapter I, 1.5.1 to 1.5.7). The pattern of evolution in the structure of distribution in India appears to follow, as postulated in the model, the general pattern of developments that occurred in the distribution systems of the developed societies: more channels are being added to the firm's distribution system; number of levels in the channels are being reduced; certain intermediaries in the wholesale structure are being bypassed; marketing functions are increasingly being absorbed by the manufacturers; and the distribution system is now dominated by the manufacturer. Judged by the model, these are trends appropriate to the present stage of development of the economy.

7.5.3. To supplement this model, a set of paradigms have been derived from the postulates of McCarthy, Mathews and Mallen, in order to identify the nature of the distribution problem in a developing economy. These paradigms, particularly those derived from McCarthy and Mathews, have been found relevant in defining the research problem with respect to the structure of distribution in a developing economy.

7.5.4. Finally, the analytical model involving description, development, dynamics and determinants of the four structural dimensions of the distribution system provides an adequate framework for setting specific hypotheses about this complex phenomenon and testing them with data. The model could be used to study the structure of distribution in any economy, irrespective of its stage of development.

ANNEXURE - I

SCHEDULE

STUDY ON "STRUCTURE OF MARKETING CHANNELS OF SELECTED MANUFACTURING INDUSTRIES IN KERALA"

1. Name of Company :
2. Address :
3. Names and designation of Managers called on :
4. Date/s of Interview :

PART I

I. Company Background

1. Year of commencement of production :
2. Type of Company :
3. Number of employees :
4. Number of plants and locations :
5. Capital investment :
6. Major products :
   a)
   b)
   c)
   d)
7. Last year's sales turnover (All products) :

8. Last year's sales (for each product/ product line) : a)

b)

c)

d)

9. Major competitors (product-wise)

10. Company's market share (product-wise) :

11. Type of market :

Products	Consumer	Industrial	Institutional	Government
a)				
b)				
c)				
d)				

12. Major customer segments for each product:

a)

b)

c)

d)

13. Demand

(a) Considering the industry as a whole, is there any shortage of demand for any of these product types? Yes ☐ No ☐

(b) If 'YES', specify the product:

14. (a) For any of the company's products, is demand less than production capacity? Yes ☐ No ☐

(b) If, 'YES', specify the product:

15. For any of the company's products, has there been any significant increase/decline in demand in <u>any market segment</u>? Yes ☐ No ☐

Give reasons:

16. Mention capacity utilization (with respect to leading products) :

17. If capacity is underutilized, what are the reasons?

<u>Geographic Market</u>

18. Geographic markets where the company's products are sold (Specify areas, districts, states etc.). : <u>Product</u> <u>Area</u>

19. Specify the major geographic markets for various products :

20. Can the markets for various products be described as geographically <u>concentrated</u> or <u>dispersed</u>?

21. What is the relative size of the company in relation to other companies in the industry? Small ☐ Medium ☐ Large ☐

22. Profit position of the company :

Last year :

Previous years :

23. What are the major problems faced by the industry? :

:

24. <u>MARKETING ORGANIZATION CHART</u>

PART II

II. Distribution Channels

1. Who is in charge of channels of distribution? (Give the title) :

2. Is there any manager exclusively for channels? : Yes ▱ No ▱

3. The comapny sells:

   a) Direct to consumers ▱

   b) Through intermediaries ▱

   c) Through direct and indirect channels ▱

   [If DIRECT CHANNELS only, Go to Q.No.70]

4. Does the company use :

   a) Only one channel for all products ▱

   b) Few common channels for all products ▱

   c) Different channels for different products ▱

   [If (a) GO TO Q.No.8]

5. Does the company use different channels for the same product? : Yes ▱ No ▱

6. Does the company use different channels to reach

   (a) different geographic areas Yes ▱ No ▱

   (b) different customer segments Yes ▱ No ▱

7. If using both direct and indirect channels are they used for:

   (a) the same product ▱

   (b) different products ▱

8. Outline the various channels used for each product and mention the percentage sales through each channel:

Products	Channels	Sales %
a.	Ch.1.	
	Ch.2.	
	Ch.3.	
b.		
c.		
d.		

(Use codes and expand the abbreviations)

Types of Intermediaries

9. Mention the various types of intermediaries used by the company :

10. Specify the various functions performed by each type of intermediary. :

11. What kind of retail stores are used by the firm? :

12. Can you give the approximate number of stockists, wholesalers, retailers and other agencies through which the company sells its products :
:
:
:
:

13. Specify the trade discounts allowed to each intermediary :

::

14. Does the company give any one or more of the following discounts? (Tick, if 'YES') :

   a) Product discount/Schemes ☐

   b) Quantity discount ☐

   c) Cash discount ☐

   d) Seasonal discount ☐

   e) Any other (Please specify) ☐

15. If 'YES', give details of the discounts allowed:

   a) Product discount/schemes ____

   b) Quantity discount ____

   c) Cash discount ____

   d) Seasonal discount ____

   e) Any other (Please specify) ____________

16. Does your company offer more treade discount than the competitors? : Yes ☐ No ☐

   (a) If YES, why and at what level?

   (b) If NO, why?

17. Do you think the large and leading firms in the industry get the most efficient intermediaries at the wholesale level? : Yes ☐ No ☐

18. (a) What are the company's policies on trade credit? :

(b) If credit is given, does the company give more liberal credit than its competitors? : Yes /_/ No /_/

19. Are the intermediaries free to decide their selling price? : Yes /_/ No /_/

20. Does the company try to maintain uniform retail price? : Yes /_/ No /_/

21. (a) Does the company specify maximum or minimum resale price? : Yes /_/ No /_/

(b) If 'YES', Maximum /_/

Minimum /_/

22. If price is specified, what measures are adopted to enforce it?

23. Does the company try to control price at all levels? : Yes /_/ No /_/

24. Do the intermediaries generate additional demand for your products by their selling efforts? : Yes /_/ No /_/

25. Do they provide adequate information eedback? : Yes /_/ No /_/

If 'YES', state:

/Inadequate/ /Adequate/ / Good / /

26. (a) Do the stockists/agents perform all distribution functions the company expects of them? : Yes /_/ No /_/

(b) Has the company ever tried to assign more function to them? Yes /_/ No /_/

If 'YES' give details:

(c) Has the company ever taken over any function earlier assigned to them? If Yes, specify: : Yes /__/ No /__/

(d) Is the company satisfied with the level of performance of whatever functions they perform? : Yes /__/ No /__/

If YES, the level of performance is : /Adequate /__/ Good /__/

27. /Repeat the same questions for other agencies/

28. (a) If the products are highly technical items requiring specialised selling efforts and services, do you think the middlemen have competent and trained manpower to perform the needed functions?

Yes /__/ No /__/

(b) If 'YES' mention the level of competence :

Good	Satisfactory	Not Satisfactory
/__/	/__/	/__/

29. Do you think any particular type of intermediary is performing more functions today than what he used to perform traditionally? : Yes /__/ No /__/

a) If Yes, give details:

30. Do you find any marked improvement of efficiency in the functions performed by the middlemen at any particular level? : Yes /__/ No /__/

a) If 'YES' give details: Yes /__/ No /__/

31. Do you think any particular type of intermediary is losing his importance? : Yes /__/ No /__/

32. Has there been any instance of a particular type of middleman being bypassed in the industry? : Yes /_7 No /_7

If Yes, give details

33. Do you think your middlemen take undue profit? : Yes /_7 No /_7

If 'Yes' mention the agency:

34. Do you think the trade discount or margin of any intermediary is more, compared to the services he renders? : Yes /_7 No /_7

If 'Yes', specify:

Intensity of Distribution

35. Type of Channels used:

a) Free flow /_7 b) Single transaction /_7

c) Corporate /_7 d) Contractual /_7

e) Administered /_7

36. Does the company follow only intensive distribution at all levels? : Yes /_7 No /_7

/IF 'YES' GO TO QUESTION NO. 42_7

37. (a) If exclusive distribution is followed, mention the product and the level:

Products	Whole sale	Retail
a)	/_7	/_7
b)	/_7	/_7

(b) If exclusive at wholesale level, how is the geographic boundary decided? :

38.(a) If selective, at what level?

Product	Wholesale	Retail
a.		
b.		
c.		
d.		

(b) If selective at retail level how many stores are in a city or town?

39.(a) In terms of intensity: of distribution, does the company follow different policies in different market areas or market segments? (Such as intensive at one place but selective or exclusive at another)

Yes ☐ No ☐

(b) If 'Yes', give details.

40. a. While following exclusive policy, does the company further divide the geographical areas and appoint new distributors?

Yes ☐ No ☐

b. If 'Yes', give details.

41. If following selective distribution, does the company add new outlets at wholesale or retail levels?

Yes ☐ No ☐

42. Does the company follow full-line forcing?

Yes ☐ No ☐

43. If using exclusive or selective distribution, specify the criteria used for selecting middlemen (at various levels)

1. Retailer	2. Stockist/ Distributor	3. Wholesale dealers	4. Agent

44. Do you think you have real choice in selecting the best outlets at the various levels such as wholesaling and retailing? Yes /__/ No /__/

45. Do you think the best intermediaries are pre-empted by the leading firms in the industry? Yes /__/ No /__/

46. Are the competing firms using the same method of distribution. Yes /__/ No /__/

47. If different, specify:

48. Under what circumstances do you change individual middlemen at various levels?

49. (a) Do you think the company is following the most ideal type of distribution (intensive, selective, or exclusive) for each of your products?

Product	Yes	NO
a.	/__/	/__/
b.	/__/	/__/
c.	/__/	/__/
d.	/__/	/__/

(b) If not using the ideal method for any product, why is it not being used? :

Length of Channels

50. Do you think channels with limited number of levels between the manufacturer and the consumer are more efficient than long channels? Yes /__/ No /__/

51. Has there been any reduction in the number of levels in the channels for any of your products? Yes /__/ No /__/

(a) If 'Yes', specify the channel, agency and circumstances :

(b) If 'Yes', who took over the functions earlier performed by the eliminated intermediary? :

52. Has there been any addition of levels in any of your channels? : Yes /_7 No /_7

a) If Yes, which intermediary in which channel? :

b) If 'Yes', specify the additional functions performed by the new intermediary :

c) If 'Yes', who has been performing the same function earlier? specify :

53. Do you think there are certain type of intermediaries who can be eliminated in any of your channels? Yes /_7 No /_7

a) If yes, specify the channel and the agency :

b) If yes, why do you think the intermediary/intermediaries are redundant?

54. Do you think certain distribution functions such as transportation and warehousing are repeated unnecessarily at various levels? Yes /_7 No /_7

a) If yes, specify :

55. Do you think the cost of distribution can be reduced by eliminating certain types of intermediaries? Yes /_7 No /_7

56. Has the company ever changed its distribution arrangement at any stage in its evolution? Yes /_7 No /_7

a) If Yes, give details :

/IF NO, GO TO Q.NO.61_7

57. Has there been any addition of channels in recent years? Yes /_7 No /_7

a) In case of addition, mention the product, the channel and the reasons for change:

58. Has there been any deletion of channels recently? : Yes /_/ No /_/

    a) If 'Yes', give details :

59. Has the company replaced any type of channel in recent years? : Yes /_/ No /_/

    a) If 'Yes' give details :

60. In case of addition, deletion; or replacment of a channel, who were involved in decision-making? (Mention positions)

61. When the last product was introduced, the channel used was :

    a) the existing channel/s /_/

    b) new channel /_/

    c) both existing and new /_/

62. Other than the channel/s finally adopted when the last product was introduced, was there any alternative channel available? : Yes /_/ No /_/

    a) If yes, were alternative channels seriously considered? Yes /_/ No /_/

63. Do you think the efficiency of the present channel could be improved by addition, deletion or replacement of certain channels? Yes /_/ No /_/

    a) If 'Yes', by:

    Addition /_/

    Deletion /_/

    Replacement /_/

    b) If Yes, why is not being done? :

64. Has there been any major conflict in your channels recently? : Yes ⁄⁄ No ⁄⁄

    a) If 'Yes', specify :

65. Has there been any recent instance of a company policy creating tension and conflict in the channels? Yes ⁄⁄ No ⁄⁄

    a) If 'Yes', specify :

66. How would you rate the level of co-operation extended by intermediaries at various levels?

Intermediary	Good	Satis-factory	Not satis-factory
a.			
b.			
c.			
d.			

67. Apart from the services incidental to the sales transaction, what are the additional services rendered by the company to its intermediaries? :

68. Do the MRTP regulations affect your distribution channels? Yes ⁄⁄ No ⁄⁄

    a) If Yes, give details :

69. Are there any other legal constraints on your distribution policy? Yes ⁄⁄ No ⁄⁄

[IF NO DIRECT DISTRIBUTION, GO TO Q.No.73]

Direct Distribution

70. In case of direct distribution, specify the type of customers: : Industrial ⁄⁄
    Institutional ⁄⁄
    Government ⁄⁄
    Ultimate consumer ⁄⁄

71. Why does the company follow direct distribution? :

72. Has the company ever tried indirect distribution where it follows direct selling now? Yes /__7 No /__7

    a) If Yes, why was it abandoned? :

    b) If No, has the company ever considered any alternative method of distribution? Yes /__7 No /__7

    c) If considered, give details:

    d) If considered, has the alternative been tried? Yes /__7 No /__7

    e) If tried, why was it abandoned? :

<u>Sales Branches, Offices or Depots of the Manufacturer</u>

73. Does the company have an internal distribution organisation other than the marketing department? : Yes /__7 No /__7

    /IF NO, GO TO Q.No. 86_7

74. Draw the chart of internal distribution organisation (indicating the number of offices at various levels and the number of branches and depots)

75. Does the company employ salesmen? : Yes /__7 No /__7

    a) If Yes, whom do they call on?

76. If they are involved in indirect distribution, what are their functions? :

77. Are the salesmen assigned specific territories? : Yes /__/ No /__/

78. Are they assigned specific quotas? Yes /__/ No /__/

79. How are they compensated? :

80. What would be the total cost of maintaining the salesforce? :

81. Are the various sales branches treated as profit centres? :

82. Give the approximate expenses (as percentage of sales turnover) for maintaining:

    1. Zonal Office :
    2. Regional Office :
    3. Sales branch :
    4. Depot :

83. Give approximately the total expenses of the internal organisation (as percentage of sales including the cost of maintaining the salesforce, if any) :

84. a) At what stage in its life cycle did the company introduce internal distribution network?
    - a) Introductory /__/
    - b) Growth /__/
    - c) Maturity /__/

    b) At what stage was it strengthened? :

85. Has the company ever reduced any functions earlier assigned to the internal organization? Yes /__/ No /__/

    a) If 'Yes', specify the function/s :

    b) If 'Yes', who was assigned task/s (give details) :

Objectives and Design

86.a) Does the company have specific distribution objectives? : Yes /__7 No /__7

b) If 'Yes', are they communicated down the distribution organisation? Yes /__7 No /__7
If so,

c) please mention the objectives. :

87. How did the present channel arrangement come into existence? : Through:-
a) Trial & Error /__7
b) Conscious design /__7

88. (a) Is there any significant firm in the industry which follows a different channel arrangement to sell any of its products? : Yes /__7 No /__7

(b) If 'Yes', give details :

/IF DIRECT CHANNELS ONLY, GO TO Q.NO. 92_7

Evaluation

89. Do you have periodic evaluation of the performance of the entire distribution system? : Yes /__7 No /__7

a) If 'Yes', specify how often:

b) What specific data are used to measure channel performance? :

90. Is there any comparative evaluation of different channels used? Yes /__7 No /__7

a) If 'Yes', give details :

91. a) Do you have periodic evaluation of the performance of the individual members of the channel? Yes /__7 No /__7

If Yes,

91.b) What specific data are used to measure and evaluate the performance of channel members :

92. What percentage of the final price paid by the consumer would be the marketing cost? (Specify product-wise)

93. What percentage of the final price would be the distribution cost? (as different from the marketing cost). Specify product-wise)

94. What percentage of the final price would be the cost of transportation and warehousing? (Specify product-wise)

PART III

III. Other Marketing Information

Pricing

1. Details of cost and prices of different products:

Product	Cost of production/ unit	Factory price	Final selling price
a.			
b.			
c.			
d.			

2. Who meets the transportation cost at various levels? :

3. Are there Government regulat- : Yes /_7 No /_7
ions directly affecting the
company's pricing policies?

a) If 'Yes', give details :

4. Give details about the tax :
structure for the products.
(Central and State taxes)

5. How does the tax structure :
affect your distribution :
structure/policy? :

Product Policy

6. Mention the various product :
lines offered by the company

7. How does the companies product: More /_7
mix compare with those of the Less /_7
competitors? Same /_7

8. **How does the number of items : More /_7
within each product line of Less /_7
of the company compare with Same /_7
that of the competitors?**

9. Do all the company's products Yes /_7 No /_7
carry brand names?

10. Do some of your products enjoy Yes /_7 No /_7
high brand image?

11. Do you think your leading Yes /_7 No /_7
brands are more popular than
the competing brands?

/If using indirect channel/s_7

12. Are there any distributor's : Yes /_7 No /_7
brands for any of your products?

Promotion

13. What are the different promot-: 1. Advertising /_7
ional activities undertaken 2. Sales Promotion /_7
by the company? 3. Publicity. /_7
4. Personal selling /_7

14. What percentage of annual sales turnover would be the total promotion budget during the current year? :

15. If there is advertising, what would be the advertising budget as percentage of sales? :

/IF NO, ADVERTISING, TERMINATE/

16. Does the company have an advertising manager? : Yes /__/ No /__/

17. Does the company follow the policy of locational advertising? : Yes /__/ No /__/

18. (a) Does the company have dealer-shared advertising? : Yes /__/ No /__/

(b) If 'Yes', what percentage of the cost is borne by the company? :

ANNEXURE - II

RELEVANT BACKGROUND INFORMATION ABOUT
THE SELECTED MANUFACTURING FIRMS

	Selected Firms	Relative Size	Level of Capacity Utilization*	Profit Position	Geographic Market	Competition in the Market	Demand for Company's Products
	1	2	3	4	5	6	7
1.	Soap I	Small	High	Profit	Regional	Moderate	High
2.	Soap II	Medium	Low	Loss	Regional	High	Low
3.	Soap III	Large	Medium	Profit	National	High	Moderate
4.	Pharmaceuticals I	Medium	High	Profit	Regional	High	Moderate
5.	Pharmaceuticals II	Large	Low	Profit	Regional	High	Low
6.	Pharmaceuticals III	Small	High	Profit	Regional	High	High
7.	Biscuit	Small	Medium	Profit	Regional	High	Moderate
8.	Bread	Large	High	Profit	Local	Low	High
9.	Jams and Syrups	Small	High	Profit	National	Low	Moderate
10.	Soft Drink I	Large	High	Profit	Local	Moderate	High
11.	Soft Drink II	Large	High	Profit	Local	Moderate	High
12.	Fertilizers	Large	Medium	Profit	Regional	Low	High
13.	Pesticides	Large	Low	Profit	Regional	High	Moderate
14.	Cattlefeed	Small	Low	Loss	Local	High	Moderate

1	2	3	4	5	6	7
15. Power Tillers	Medium	Low	Loss	National	Moderate	Low
16. Battery	Medium	Low	Profit	National	High	Low
17. Lamps	Large	Medium	Profit	National	High	Low
18. TV and Radio	Large	Low	Profit	National	High	Moderate
19. Fan	Small	Low	Loss	Local	High	Low
20. Tyre	Small	Low	Loss	National	High	Low
21. Paint I	Small	Low	Profit	Local	High	Low
22. Paint II	Small	Low	Profit	Local	High	Low
23. Watermeter	Small	Low	Profit	Regional	Moderate	High
24. Transformers I	Large	Low	Loss	National	High	Low
25. Transformers II	Small	Medium	Profit	National	High	Low
26. Electromechanical Components	Large	High	Profit	National	Low	High
27. Cable I	Large	Low	Loss	National	High	Low
28. Cable II	Large	Low	Loss	National	High	Low
29. Chemical I	Medium	Low	Loss	National	High	Low
30. Chemical II	Large	Medium	Loss	National	Moderate	Moderate

* Capacity Utilization: High - Above 85%
Medium - Between 70% and 85%
Low - Less than 70%

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