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## INNOVATIVE DISTRIBUTION CHANNELS FOR RETAILERS: A REVIEW

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**Abstract:** Distribution channels are generally considered to be a set of independent organizations involved in the process of making a product or service available for use or final consumption. There are five layers of distribution channels used by all major companies like Hindustan Unilever (HUL), Dabur, Colgate and ITC. But there is a lack of transparency and confusion prevailing in adhering to such an enormous channel structure. In addition, there has been an intense competition between online and offline stores in acquiring and retaining consumers. The most plausible suspect for the price surge of onions in 2013 is the inability of the market to channel onions from growers to consumers without too many intermediaries adding to costs. The need for the hour is to design distribution channels which would facilitate the intermediaries in terms of reducing the lead-time gap, channel pricing and operational convenience to deliver fresh products as per customers' tastes and preferences. The Online Retailers and Social Networking Sites (SNS) have cut down the lead time and advertising cost for the private label brands through word-of-mouth publicity. ITC's e-Choupal is a perfect example of inclusive marketing. The business model ensures that farmers as producers get better value for their crops. Two types of distribution models have been designed to cater to the needs of rural masses are Self Help Group (SHG) Model and the Youth Entrepreneurship Model. Over the years, we have observed Reliance Retail, Aditya Birla Retail, Spencer's Retail and others have closed down several small-sized convenience stores to focus on expanding big boxes as the smaller stores have faced direct competition from kirana stores. The study attempts to highlight the emerging distribution models as used in different sectors like FMCG, Pharmaceutical, Consumer Electronics and Retailing and the key issues contributing to the growth of channel partners.

**Keywords:** Lead Time, Reinter mediation, Social Networking Sites, Vertical Integration.

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**Introduction:** Distribution channels are generally considered to be a set of independent organizations involved in the process of making a product or service available for use or final consumption. These channels are essentially responsible for creating the time, place and possession utility for the customers. The distribution network in India is characterized by a predominance of family-owned proprietary concerns. Urban areas have a wide range of distribution outlets, starting from supermarkets to superstores to the smaller convenience retail stores. The villages have only small shops that are part of the local supply network. There are five layers of distribution channels used by all major companies like Hindustan Unilever (HUL), Dabur, Colgate and ITC. They are

- Company Depots/Carrying-&-Forwarding Agents (CFAs)/Super Stockists operating in National/State Level
- CFAs/Redistribution Stockists/Retailers operating in cluster of Districts/District Headquarters
- Redistribution Stockists/Semi-wholesalers/Retailers operating in Sub-district (Tehsil/Block)/ Feeder Town
- Semi-wholesalers/Retailers/Mobile Traders in Haat/Van operating in Feeder Town/ Periodic Market
- Retailers/Vans/Barefoot Agents (Shakti Dealers)/Co-operative Societies/Government Agencies operating in large and small villages.

There is a lack of transparency and confusion

prevailing in adhering to such an enormous channel structure. One more observation is the competition between online and offline retail stores are becoming intense day by day. Prestigious brick-and-mortar retailers and mall operators are adopting a “click-and-collect” strategy where consumers buy products online and take deliveries from physical stores. Top shoe retailer like Bata, ethnic wear brand Fabindia, Flying Machine jeans, furniture seller Evok and mall operators viz. Infiniti Mall and Virtuous Retail are among organizations that are planning for click-and-collect service. This would lead to cross-selling as well as compete with online stores offering huge discounts. The need for the hour is to design distribution channels which would facilitate the intermediaries in terms of reducing the lead-time gap, channel pricing and operational convenience to deliver fresh products as per customers’ tastes and preferences. The study attempts to highlight the emerging distribution models as used in different sectors like FMCG, Pharmaceutical, Consumer Electronics and Retailing. It also examines the key issues contributing to the growth of channel partners.

**The Lead-Time Gap:** One of the major reasons for build-up of finished good inventory and malpractices like hoarding is because of the long time it takes to manufacture and deliver products. The customer would be ready to wait for special ‘made-to-order’ products like furniture, 4-wheeler, tailor-made exclusive attire. The total time it takes to complete the manufacture and supply of a product is often known as the logistics lead time. Customers are generally prepared to wait for a limited period of

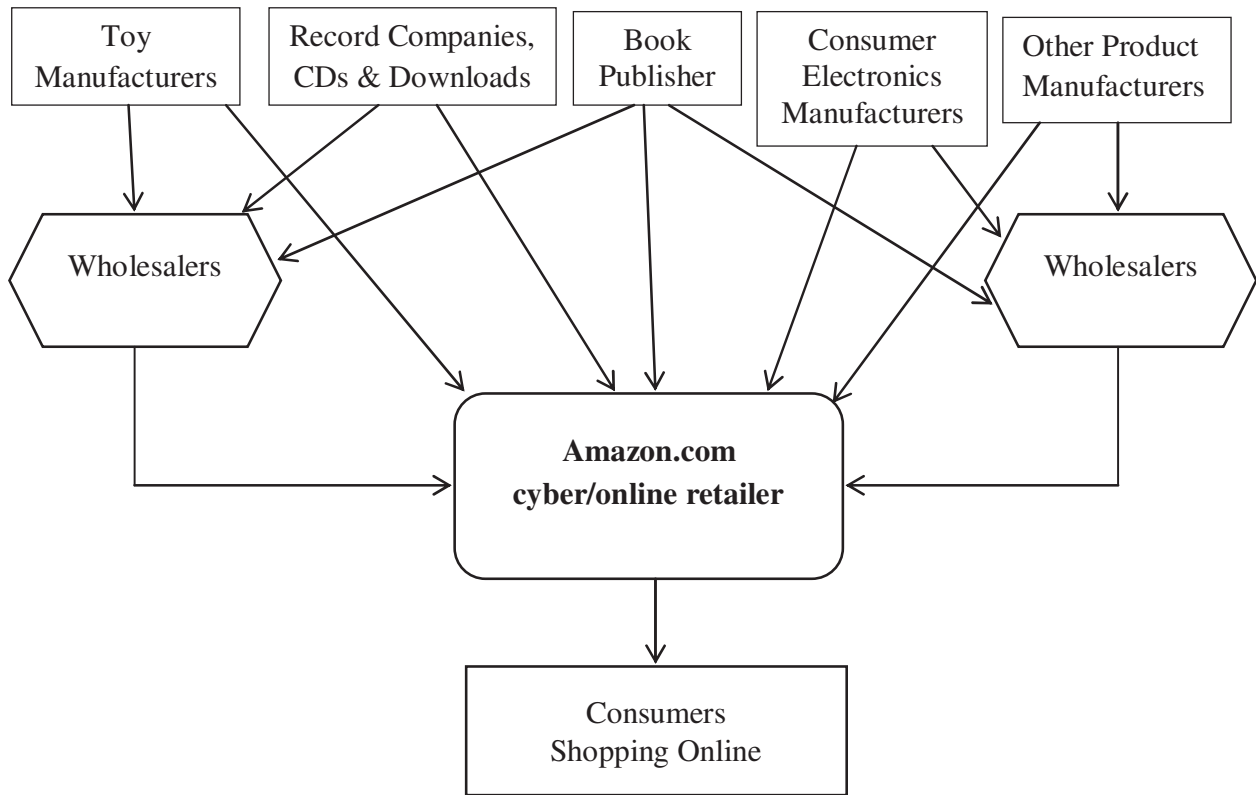
time before an order is delivered. This is the customer’s order cycle time. The difference between the logistics lead time and the customer’s order cycle time is often known as the lead-time gap. The onion crisis in the year 2013 is a reminder of the need for retail reform. The most plausible suspect for the price surge of onions is the inability of the market to channel onions from growers to consumers without too many intermediaries adding to costs. The promotion of organized retail trade with backward linkages with farmers or wholesalers at the production centres is one way to reduce the number of tiers in the marketing chain. This can help narrow the gap between wholesale and retail prices. Online wholesalers like Shopclues are allowing traders to provide services to retailers such as credit and buyback of unsold products. According to recent Google report, India’s e-commerce market will grow to \$15 billion by 2016. The number of online shoppers should increase to 100 million from 35 million now.

**Designing Electronic Marketing Channels:**

The Indian consumers have been experiencing radical change in buying process owing to emergence of innovative and effective channel intermediaries available online. The social networking sites (SNS) like Facebook, Twitter, MySpace, LinkedIn, acting as influencers, have played a vital role in changing the taste and preferences of the consumers globally. It has also cut down the advertising cost for the private label brands through word-of-mouth publicity. The largest online retailer Amazon.com has followed the concept of reintermediation instead of going for disintermediation.

The following diagram exhibits the channel structure of the company:

**Figure 1: Amazon.com as a Cyber Middleman in an Electronic Marketing Channel**



The figure shows that the retailer is removed from the channel (disintermediation) and manufacturers are not selling directly to consumers. Rather, it is a case of reintermediation that has strengthened the channel structure in the form of online retailer (Amazon.com) which has replaced the conventional store or catalogue retailers. With the fall in the prices of electronic gadgets, IT spending in India has been expected to reach \$71.3 billion in 2014, a 5.9% increase over 2013, and worldwide IT spending is projected to total \$3.8 trillion, a 3.1% increase according to Gartner estimates. Reliance Retail is moving towards an omni-channel strategy where the focus is on customer experience, installation and service support through its in-house service network, resQ.

**ITC's Business Model:** ITC's Choupal Sagar has

been the 1<sup>st</sup> rural mall in India to offer multiple services under one roof. The mall is located near the stock points of ITC's e-Choupals, making an integrated model. Establishing the mall close to agricultural land, has benefitted the farmer to bypass intermediaries and sell directly to the parent company. This has supported ITC's rural distribution strategy. The farmers can come and sell their produce and earn money to buy products for themselves. Initially, the footfall is between 400-450 on an average per day, and 900 during the season. It has targeted mainly customers having willingness to buy consumer goods like apparel & footwear, toys, games, music, mobile phones, toiletries, food items, groceries as well as agricultural products like fertilizers and pesticides, and motor pumps. The amount of overseas direct investment by Indian companies is now higher than Foreign Direct

Investment (FDI) inflows into our country which is shocking in an income-poor economy. The corporates do need to invest abroad to access new technology and research and development capability. However, the fact remains that the current slowdown in the economic growth rate has much to do with the worrying drop in domestic investment, particularly that by corporates. ITC's e-Choupal is a perfect example of inclusive marketing. The business model ensures that farmers as producers get better value for their crops. In addition, ITC has mapped more than 20 lakh stores on the availability of premium FMCG products like Dark Fantasy Choco Fills, Delishus Cookies, Aashirvaad Multigrain Atta and Fama Di Wills Shower Gels that are available in select outlets.

**Rural Entrepreneurship Models:** With more than 70% of Indian population is residing in rural area, companies are seriously interested to invest in rural markets to develop new distribution channels. Two types of distribution models have been designed to cater to the needs of rural masses are Self Help Group (SHG) Model and the Youth Entrepreneurship Model. HUL has initiated the project Shakti where SHG women in remote areas are appointed as local dealers of HUL has gained access to rich, untapped rural markets. Project Shakti has been organized through a comprehensive three-tier network. Firstly, the CFA at the State level procure and deliver the products to the rural distributors at the District level, who takes the stocks at the convenient location for Shakti Dealers (SDs) in remote areas. The SDs then distribute not only in their own village, but also in three to four surrounding villages.

The Youth Entrepreneurship Model has identified the huge educated, employed youths residing in remote villages. These potential youths with entrepreneurial ability have been imparted proper orientation and training. In recent years, companies like Colgate, Heinz and Novartis have used this model with a grand

success. Colgate Disha is one of the successful ventures of rural youths. HUL's Shaktimaans (distributors on bicycles) have covered over 1,50,000 remote villages with population less than 2,000 to distribute their products.

**Cash-&Carry Wholesaling: an Emerging Trend in India:** Cash-&Carry Wholesalers is a kind of channel partner who stocks a limited line of fast moving products. They pay and pick up the products and expect the same from the customer as well. These wholesalers provide merchandise at a reduced cost to the retailer by reducing service offers and eliminating credit risk. The cash-&carry wholesaling model is based on 5 Es of convenient operation i.e. Ease of Ordering, Ease of Delivery, Ease of Payment, Ease of Return and Ease of Information for the retailers. Reliance Retail is thinking to go for vertical integration strategy in re-designing the distribution model. The company has realized that in some locations, low-frills wholesale stores have better prospects of making money sooner than consumer-centric hypermarkets which have wide margins, but also are more expensive to operate. In the cash-and-carry format, companies sell to bulk buyers, such as neighbourhood or kirana stores, who are their members. Reliance is adopting a simple strategy of courting these stores. It is setting up its wholesale stores in places where the concentration of kiranas is high as it is easier to make them customers than competing with them. According to industry experts, the business of cash-and-carry wholesaling is estimated to reach \$22 billion (about Rs. 1.4 lakh crore) annual opportunity by 2017. The major competitors for cash-and-carry stores in India are wholesale retailers-thousands of small retailers crowded into large markets like Sadar Bazar in Delhi and mandis in rural markets. Over the years, we have observed Reliance Retail, Aditya Birla Retail, Spencer's Retail and others have closed down several small-sized convenience stores to focus on expanding big

boxes as the smaller stores have faced direct competition from kirana stores. Even the hypermarkets, generally spread over 40,000 square feet to 60,000 square feet have huge challenges to overcome high-cost structure associated with a large number of staff, look and feel of the store as well as the logistical cost which would ultimately affect the productivity of investing in organized retailing.

**Conclusions:** The issues discussed in the study are relevant for business enterprises investing in

distribution channels to reach out their target customers. The success of the channel design depends on the 4 As of Marketing i.e. Awareness, Acceptability, Affordability and Availability. With the emergence of organized retailing, one has to think about developing innovative models to attract the intermediaries in terms of margins, convenience of delivery and return, advertising outlay and competitive strategies to retain and acquire customers with changing tastes and preferences.

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