CHAPTER VII

APPRAISAL OF DISTRIBUTION / CHANNEL POLICIES

PURPOSE AND OVERVIEW:

A modest attempt has been made in this chapter to examine the logistic network and distribution policies and practices of the case units under study.

To analyze and compare the distribution /channel policies.

The effect of Distribution / Channel policies on availability of bikes on time & every time, on the market share, market revenue, profitability, competitive edge and the relationship with channel members.

Covers basically Hub and Spokes model to gain competitive advantages.

The study also reveal a comparison of eight universal generic flows of Marketing channels of Bajaj Auto Ltd and T V S Motors Ltd.
Marketing flows in Distribution / Channels for Bajaj and TVS Motors:

Chart 7.1.0

Source: Anne T. Coughlan  Marketing Channels, Eastern Economy Edition
Marketing flows in Channels:

The work of the channel includes the performance of several *marketing flows*. We use the term *flows* rather than *functions or activities* to emphasize that these process often flow through the channel, being done at different points in time by different channel members. In institutional settings, one often hears of the need to carry inventory, to generate demand through selling activities; to physically distribute product; to engage in after-sales-service; and to extend credit to other channel members or to end-users.

As the figure shows, some flow move forward through the channel (physical procession, ownership, and promotion) whereas others move up the channel from the end-user (ordering and payment). Still other flows can move in either direction or engaged in by pairs of channel members (negotiations, financing and risking).

The most important flow that permeates all the value-added activities of the channel: the *flow of information*. Information can and does flow between every possible pair of channel members, in both routine and specialized ways. When used properly, this information can help better image the costs of performing many of the eight classic flows (e.g., by improving the sales forecasts, the channel can reduce total costs of physical procession through lower inventory holdings).

So important is the information content that logistics managers call this the ability to *“transform inventory into information”*. Manufacturer of two wheelers share product and salesmanship information with their distributors, independent sales representatives, and dealers, to improve the performance of the promotion flow by these intermediaries. Customers can give preference information to the channel,
improving the channel's ability to supply valued services. Clearly, producing and managing information well at the core of developing distribution channel excellence. The channels for Bike and spare parts are to be managed separately. The different nature of Bike and Spare-parts customers, require a custom approach for managing the physical procession of each.

In addition not every channel member need participate in every flow. Indeed specialization in the performance of the channel flows is the hallmark of an efficiently operating channel. Figure 4.1 depicts a channel in which physical procession of bike moves from manufacturer to Distributor/wholesaler to dealer and finally to customer. But an alternate channel might involve not stocking distributor, but instead manufacturer's representatives, who generally do not participate in the physical possession or ownership flows because they do not handle physical product. In such a case, the physical possession flow might be performed by the manufacturer and dealer, but not by other intermediaries/dealers.

Similarly, financing may be spun off to a specialist and not to be done by other channel members to any great degree: Nationalized banks, foreign banks and other financial institutions including co-operative societies (particularly in rural areas). It is also important to note that the performance of certain flows is correlated with that of other flows. Thus when a distributor takes title of the bikes and assumes physical possession, the intermediary is financing the bike manufacturer. This is consistent with the fact that the largest component of carrying cost is the cost of the capital tied up when inventories are held in a dormant state that is not moving toward final sale. Other carrying costs could be in the case of two wheelers, pilferage,
breakage, storage, insurance and taxes. If a distributor or a dealer did not have to tie up its funds in inventory holding costs, it would instead be able to invest in other profitable opportunities.

One can eliminate or substitute members in the channel, but the flow performed by these members cannot be eliminated. When channel members are eliminated from the channel, their flows are shifted either forward or backward in the channel and therefore assumed by other channel members. The obvious reason to eliminate a channel member is because the flows performed by that channel member can be done as effectively and at least as cheaply by other channel members.

The foregoing analysis, based on the data from manufacturers, distributors, dealers and customers will lead us whether the two bike manufacturers under study have something in common or have distinctive features of their own.
A brief on the leading Indian manufacturer of world class automotives.

"Worlds largest Customer Relationship Management system connects 1200 Tata Dealers & 25K buyers"

- Networking helps Tata Motors improve efficiency, woo buyers 

  - Tata Motors has 1,200 dealers connected (in India), online via the Customer Relationship Management-Dealer Management System (CRM-DMS) and will scale this up to 1,600.

  - At the dealer level, Tata Motors monitors both finances and inventory, and at the customer level, it monitors services, spares, replacements etc.

  - After the implementation of CRM, the maximum inventory the company holds is a 16 day stock. This means less money and resources are tied down.

When Tata Motors suffered record loss of Rs 500 crore in 2000, it searched for ways to become a more efficient operator. An online customer relationship management and a dealer management system were among the ideas that came up, and the first took off in 2003. Recently Tata Motors connected the 1,000th dealer to its online integrated Customer Relationship Management-Dealer Management System (CRM-DMS). This milestone, coupled with the monitoring of the service to more than 25,000 customers, makes it the largest automobile industry anywhere in the world. Basic idea of Tata Motors was to drive CRM more as a tool, and the primary benefit has to come to customers.

Globally, CRM was largely restricted to ‘lead management’ or follow-ups to enquiries for purchasing a vehicle. At the dealer level, Tata Motors monitors both finances and inventory, and at the customer level, it monitors services, spares, replacements etc. The project has costed little over Rs 35 crores.

Tata Motors has derived some clear benefits from this initiative. Customers like the online solutions to their needs and are quite happy with the service levels they receive at workshop. Since all dealers and factories are on the same platform, the inventory costs get reduced significantly for both dealers and the company. One of their dealers at Mumbai, who had to work with an inventory of 100 days a year ago, is now operating with 16 days inventory after implementation of CRM. When a dealer is running short of a particular model of truck, he can put in a requisition to any part of the country and order it from the factory or dealer that has it. Cutting down inventory means there is less money and resources tied down to it. Also it provides rich data by region and by brand instantly rather than at the end of a month. or a quarter.

Well neither Bajaj nor TVS Motors have ventured into this arena, though TVS have tried and are looking for ways to improve.

A massive sales growth (domestic market) of 69 percent during first quarter-Apr-June 07-08, over the same period of 2006-07, of Honda Motorcycle & scooters Ltd and of Suzuki Motorcycle India Pvt Ltd by 49 percent-new entrant and a competitor to Bajaj and T V S Motors, is mainly for timely delivery and product features.
Logistic Management.

Logistic is unique-never stops! Logistics is happening around the globe, twenty four hours of every day, seven days a week during fifty two weeks a year. Logistics is concerned with getting products and services where they are needed when they are desired.

Logistics involve the integration of information, transportation, inventory, warehousing, material handling and packaging. Logistics expenditure typically range from 5 percent to 35 percent of sales depending on the type of business, geographical area of operation, and weight/value ratio of products and materials. Logistics typically accounts for one of the highest cost of doing business, second only to materials in manufacturing. Despite these impressive costs, the true excitement of logistics is not cost containment or reduction. The excitement comes from understanding how select firms position their logistical competency to gain competitive advantage. Firms that enjoy world-class logistical competency can gain competitive advantage by providing customers with superior service.

Distribution is to assist in revenue generation by providing strategically desired customer service level at the lowest total cost.

The distribution mix has two primary parts. The first is that portion of the logistic system, concerned with physical distribution- location, transportation, inventory, communication and material handling. The second part of the distribution mix concerns the selection of a distribution or marketing channel. Activities related to
providing customer service, require performing order receipt and processing, deploying inventories, storage and handling, and outbound transportation within a channel distribution.

**Distribution policy of Bajaj Auto Ltd:**

The policy being “No longer, only show room sales”

- Show room drive
- Field drive activities
- Through dealer net work

**Flow chart**

TVS Motors are strengthening its rural focus, with plans to open sales and service outlets in villages where *monthly sales could be even single digits.*
Table 7.1.0

All India respondents - 315 Distributors / dealers of Bajaj and TVS.

<table>
<thead>
<tr>
<th>Location</th>
<th>BAL Distributor</th>
<th>BAL Dealer</th>
<th>BAL Sub Total</th>
<th>TVS Distributor</th>
<th>TVS Dealer</th>
<th>TVS Sub Total</th>
<th>Total</th>
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<tbody>
<tr>
<td>State Capital</td>
<td>18 (15) (38)</td>
<td>45 (38)</td>
<td>63 (36)</td>
<td>16 (13) (53)</td>
<td>40 (34)</td>
<td>56 (39)</td>
<td>119</td>
</tr>
<tr>
<td>District Head Qrs</td>
<td>23 (18) (47)</td>
<td>49 (39)</td>
<td>72 (41)</td>
<td>11 (9) (37)</td>
<td>42 (34)</td>
<td>53 (38)</td>
<td>125</td>
</tr>
<tr>
<td>Taluks</td>
<td>7 (10) (15)</td>
<td>32 (45)</td>
<td>39 (33)</td>
<td>3 (4) (10)</td>
<td>29 (41)</td>
<td>32 (23)</td>
<td>71</td>
</tr>
<tr>
<td>subtotal</td>
<td>48 (15)</td>
<td>126 (40)</td>
<td>174 (55)</td>
<td>30 (10)</td>
<td>111 (35)</td>
<td>141 (45)</td>
<td>315</td>
</tr>
</tbody>
</table>

Source: Survey

Research data from table 7.1.0, responses from Distributors & dealers for the study reveal:

❖ State capitals range around 36 percent, except in case of TVS constitute 39 percent.
❖ District Head quarters ranges from 41 per cent in case of Bajaj and 38 per cent for TVS.
❖ Taluks ranges 33 per cent for Bajaj and 23 per cent for TVS.
❖ Overall, 174 respondents (55 per cent) for Bajaj and 141 respondents (45 percent) for TVS contributed to the study.
Region wise- Distributor/Dealer analysis of data on Place-Deliveries policies..

Respondents; Bajaj: 174 and TVS 141

Table 7.2.0

<table>
<thead>
<tr>
<th>Region</th>
<th>Bajaj</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>TVS</th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Very</td>
<td>Bad</td>
<td>Satisfactory</td>
<td>Good</td>
<td>Very Good</td>
<td>Total</td>
<td>Very</td>
<td>Bad</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>North</td>
<td>0</td>
<td>2</td>
<td>14</td>
<td>26(58)</td>
<td>3</td>
<td>45</td>
<td>0</td>
<td>14(61)</td>
<td>9</td>
</tr>
<tr>
<td>East</td>
<td>0</td>
<td>0</td>
<td>20(59)</td>
<td>12</td>
<td>2</td>
<td>34</td>
<td>0</td>
<td>14(50)</td>
<td>11</td>
</tr>
<tr>
<td>West</td>
<td>0</td>
<td>0</td>
<td>12</td>
<td>41(76)</td>
<td>1</td>
<td>54</td>
<td>0</td>
<td>13</td>
<td>15(47)</td>
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<td>South</td>
<td>0</td>
<td>1</td>
<td>21(51)</td>
<td>11</td>
<td>8</td>
<td>41</td>
<td>0</td>
<td>31(53)</td>
<td>25</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>174</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Source: Survey

Seventy six percent of Bajaj’s Distributor/dealers in west have rated deliveries, terms of payment as good, followed by 58 percent in the north against TVS’s 47 percent in the west and just satisfied with 61 percent in the north.
Region wise- **Consumer**’s analysis of data on **Place**-Distribution policies.

Respondents; Bajaj: 142 and T V S 101

Table 7.3.0

<table>
<thead>
<tr>
<th>Region</th>
<th></th>
<th>Very Bad</th>
<th>Bad</th>
<th>Satisfactory</th>
<th>Good</th>
<th>Very Good</th>
<th>Total</th>
<th></th>
<th>Very Bad</th>
<th>Bad</th>
<th>Satisfactory</th>
<th>Good</th>
<th>Very Good</th>
<th>Total</th>
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</thead>
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<td>North</td>
<td>Bajaj</td>
<td>0</td>
<td>0</td>
<td>18(58)</td>
<td>11</td>
<td>2</td>
<td>31</td>
<td>0</td>
<td>1</td>
<td>12(60)</td>
<td>7</td>
<td>0</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>East</td>
<td>0</td>
<td>0</td>
<td>8(67)</td>
<td>4</td>
<td>0</td>
<td>12</td>
<td>0</td>
<td>0</td>
<td>7(58)</td>
<td>5</td>
<td>0</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>West</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>50(72)</td>
<td>6</td>
<td>63</td>
<td>0</td>
<td>1</td>
<td>11</td>
<td>20(61)</td>
<td>1</td>
<td>33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South</td>
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<td>8</td>
<td>22(61)</td>
<td>36</td>
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<td></td>
<td></td>
<td>101</td>
<td></td>
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</tr>
</tbody>
</table>

Source: Survey

Seventy two percent of Bajaj’s customers(with 50 of the respondents) in west have rated deliveries, terms of payment and promotion as good as against sixty one percent (20 respondents) TVS’s customers have rated good in terms of delivery, terms of payment and promotions.
Distribution expenses as per cent of net sales:

Table 7.4.0

<table>
<thead>
<tr>
<th>Year/Manufacturer</th>
<th>1999-00</th>
<th>2000-01</th>
<th>2001-02</th>
<th>2002-03</th>
<th>2003-04</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bajaj Auto Ltd</td>
<td>1.50</td>
<td>1.25</td>
<td>1.00</td>
<td>1.10</td>
<td>1.50</td>
<td>1.75</td>
</tr>
<tr>
<td>T V S Motor Co Ltd</td>
<td>2.50</td>
<td>2.25</td>
<td>3.00</td>
<td>3.00</td>
<td>3.10</td>
<td>3.25</td>
</tr>
<tr>
<td>Hero Honda Motors</td>
<td>2.60</td>
<td>2.75</td>
<td>2.80</td>
<td>2.80</td>
<td>3.00</td>
<td>3.30</td>
</tr>
<tr>
<td>Kinetic Motor Co Ltd</td>
<td>1.50</td>
<td>1.75</td>
<td>1.20</td>
<td>1.20</td>
<td>1.20</td>
<td>1.60</td>
</tr>
</tbody>
</table>

Source: survey
Graph 7.1.0 reveal Bajaj Auto Ltd's ability to operate with lower distribution expenses as per cent of net sales for the following reason:

- All the three plants are located close to the potential markets- North and West. (Definitely not so with TVS Motor Co Ltd, which has to cater all through from South to Northward and Westward)

- Well established Distribution net work since their marketing of Scooters and Three-wheelers.

- The proposed new project in Himachal Pradesh which is expected to be operational should help TVS Motor Co reduce distribution cost for supplies to Northern markets.