Chapter II

Literature Review

In the final analysis review of literature informs, educates and enlightens the researchers. It remains the guiding spirit for the researcher in all the stages of the research namely, initiation exploration and conclusion. As it is the quintessential aid for the research, the importance of literature review can hardly be exaggerated. It spells the material part of the research process. Literature review gives researcher an insight into the Study. And literature review helps him develop a vision to view his own research as a final finished structure.

Review of literature guided the researcher in the entire process of the Study. It is a fact that the researcher was highly benefited from the research done by others in the past and what they had to say on the topics of the 'distribution channels' and 'automobile Industry'.

The researcher reviewed literature from various available sources. The libraries in and around Pune were of great help. The libraries of Automotive Research Association of India, Pune, and Central Institute of Road Transport, Pune were of help in providing the literature on specific subject area 'Indian Automobile Industry'. The library of the Maratha Chamber of Commerce Industries and Agriculture, Pune and National Institute of Bank Management, Pune (N I B M) too were searched for any reference material connected with the Study. However, in the 'Jayakar Library' (University of Pune) nothing relevant in the form of research study seem to be available in the contemporary context.

Marketing management as a science plausibly has its origin in the United States of America in the early 1900; hence lot of literature is available pertaining to the distribution channels which was in the American context. The literature on the European market was available in the British Council Library.

The diverse literature reviewed is presented in this chapter.

2.1 Distribution channels

"Distribution is the industry's Dark Continent. The Dark Continent is gradually being explored but distribution is still a neglected area in the development of corporate strategy and in marketing planning"- views Peter Drucker [1]. Even a casual observer of business must be aware of the different places at which the wants of customers are being satisfied by the manufacturers or providers of services. The primary aim of every manufacturer is to satisfy the wants of the consumer at the right place at the right time and in the right quantity as demanded by the consumer. An expert may not be required to highlight the importance of the 'place' one of the 4 'P's of marketing mix, because the distribution channels are the crux of the 'place'. The best product priced most competitively with the best sales promotional activity could turn into failure if it does not reach the targeted customers at the right place in the quantity demanded by them and probably with services that may be required post-sale.

It may perhaps be of great value to understand the distribution channels after having understood the importance of the distribution channels. The understanding of any subject predominantly starts with the analysis of the definition. What logically seems to follow is the essential understanding of the distribution channels *per se*. It is in this context that a few most comprehensive definitions by the pundits of distribution channels were studied by the researcher.

2.1.1 Definitions

'A trading channel is formed when trading relations making possible the passage of title and or possession (usually both) of goods from the manufacturers to the ultimate consumer is consummated by the trading concerns of the system' says Maureen Guirdham [2].

The point to note here is that the above definition perhaps looks dated in the present day context. The term 'trading firms' included in the definition is based on the assumption that every member of the channel of distribution is a trading firm. The definition also lays emphasis on the possession and the title of the goods being passed on from the manufacturers to the consumers and all those intermediaries in between. Lastly, the definition presupposes that the consumers always demand goods and the definition is silent about the services that the consumer may utilise. With the advancement of time the newer definitions of the distribution channels have evolved.

'Marketing channel is a set of interdependent organisations involved in the process of making a product or a service available for use or consumption' [3] Anne T Coughlan. *et al*

The undisputed *Guru* of marketing management Philip Kotler endorses [4] the definition of distribution channels given by Anne T Coughlan, *et al.*

The definition points out that the marketing channels are a set of interdependent organisations. It is not just one firm doing its best in the market irrespective whether the firm is a manufacturer or a wholesaler or retailer. Each of the members of channel depends on the other to carry out their functions. The job of the members of the channel is perpetual as made clear in the definition, operating a marketing channel is a process and not an event. The definition further claims that the purpose of the marketing channels is to make products or services available for use or consumption to the consumer or the end user.

An operational standpoint definition has been put forward by Kenneth Rolnicki 'A marketing channel is a path a product or service takes as it moves from the manufacturers to its end user or consumers' [5].

The definitions given by Anne T Coughlan and Kenneth Rolnicki include 'services' as the wants of the consumer and recognise the interdependence of the organisations involved in the channels of distribution. These definitions were silent about the title/ possession of the products and services. These definitions seem to be more apt and relevant in the present day scenario.

Kenneth Rolnicki refers that the distribution channel was a straight path in the earlier days. The only decision manufacturers had to take in relation to the distribution channel was whether to use direct or indirect channels of distribution. To cite an example he points out in 1950 the only way to own an IBM typewriter was to order one from the IBM sales people who called on the offices. The size of the manufacturing firm decided which path to choose while selling the product to the consumers. If the manufacturers had limited resources they hired distributors to sell their goods or services. Kenneth Rolnicki further points out that with passage of time the distribution path which was a straight path earlier, now it is less like a path and more like a wheel; the manufacture at the hub connected to the end users at the edge with numerous direct and indirect channel appearing or operating as the spokes.

Thus, it is manifested that the marketing channel decisions play strategic role in overall presence and success of a company in the market place.

2.2 Difference between physical distribution and the channels of distribution

The physical distribution is concerned with the physical movement of the goods from the producers of goods to the consumers. The activities involved in the task of physical distribution system are material handling, transportation, storage and information processing. The functions of physical distribution are transportation management, inventory control, material handling, order processing, location analysis and management of information flow. Technically the physical distribution is defined as '... management of movement, inventory control, protection and storage of raw materials and processed or finished goods to and from the production line.' [6] Thus, is can be inferred that the physical distribution is concerned with the physical movement of goods from the raw material stage to the making finished goods available to the consumers. The distribution channels are concerned with activities related to the type, quality and the number of intermediaries.

2.3 Why dealers/distributors are required

It is of great significance to understand the factors that the manufacturers should take into considerations in deciding whether they would like to sell directly or indirectly to their customers. By selling directly the manufacturers hire their own sales force to sell their products in the market. The advantages of this type of distribution are:

i. The manufacturer has control over the sales force; where to sell, what to sell and how much to charge the customers.

ii. The sales force is totally committed to the manufacturer as they sell products of the manufacturer and of no one else's.

The disadvantages of selling directly are:

i. A small company may not be able to afford its own sales force.
ii. It even may not be profitable to spend time on the smaller customers.

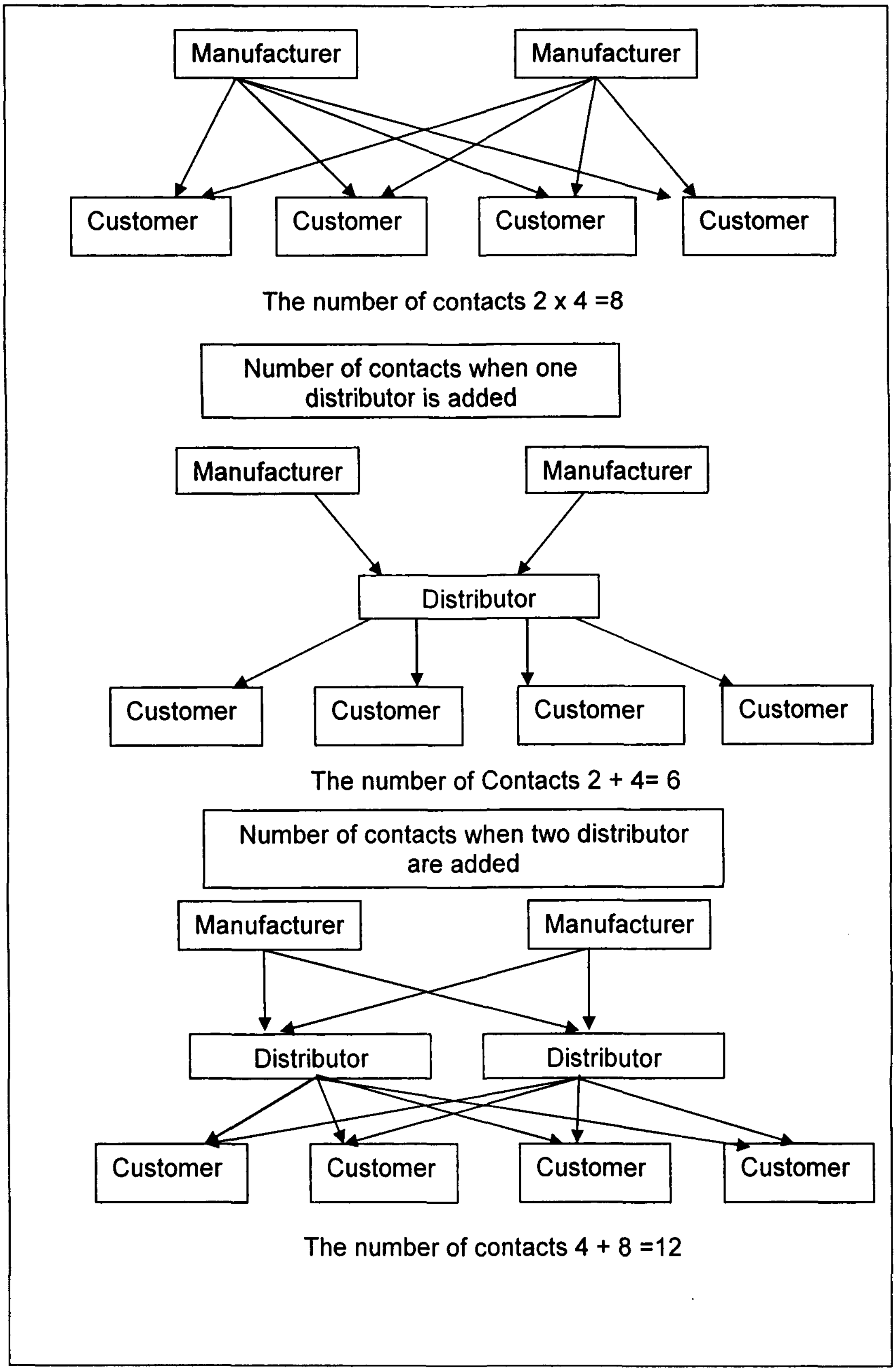
Anne T Coughlan, (et al) lists the advantages of using intermediaries while selling products/services to the customers.

Uncertainty in the minds of customer: There may exist uncertainties in the minds of the customer regarding where to find the product and whether to believe the claims of the manufacturers about the nature and quality of products.

Sorting of goods: The intermediaries sort the goods as per the requirements of the customers. Typically, the manufacturers produce large quantity of limited variety of goods, as the customers'/ users' demands are in limited quantity of wide variety of goods.

Reduction in number of contacts between the manufacturers and the customers: The factor, namely, reduction in the number of contacts between the manufacturers and the dealers has been highlighted in most of the available literature. Typically, the number of contacts between two manufacturers and four customers is 2 x 4 =8 as shown in the figure 2.1.If the cost of each contact is y then the cost of contact for each manufacturer is 4 x y. Total cost of the contact is 8 x y When the manufacturers decide to sell their products through with one organisation in the middle, the number of contacts are reduced to 2 + 4 = 6 and the cost of one contact for each of the manufacturer is 1 x y. Though this equation appears to be simple in the face of it, things become more complex as we add another distributor in the same market. The number of contacts increase to 10 (4+8) instead of being reduced.

Figure 2.1
Number of contacts between the manufacturers and their customers



In continuation Anne T Coughlan (et al) add reasons why customers buy from indirect channels.

The customers buy from indirect channels for the convenience. They save time and money by choosing from wide variety of products. Indirect channels offer customer service and technical support locally and promptly. There is ease of doing of business when the customers buy from the indirect channels. And finally there is assurance in the mind of the customers that the shop, the place of business, is located within the vicinity. Other factors that contribute to the customers' choice of distribution channels are professional associations, friendship, social ties, or deeply rooted relationship. The intermediaries not only facilitate the process of buying but add value to the process.

2.4 Channel-masters

Marketing managers perform various tasks and the 'designations' of the managers are evolved from the functions performed by them. Few examples of designations related to the marketing management are 'Brand manager', 'Client servicing manager', 'Customer care executive'. Kenneth Rolnicki probably is the one to coin the term 'Channel master' to highlight the important function a marketing manager plays in managing the channels of distribution. Kenneth Rolnicki believes that the job of a 'channel-master' is exciting and dynamic and he describes the channel master is a sales and marketing manager with a legion of attributes. Some of the functions of a channel-master are enlisted below:

i. To create new channels as warrant by the changing market scenario
ii. To locate sound channel partners
iii. To manage fruitful and positive channel relationship.

2.5 Market coverage strategy

Various authors of 'distribution channels' lay out the different strategies for covering the entire market.

Intensive market coverage strategy is covering a market by authorising several distributors to sell products in a given geographic area or market segment. The objective of this strategy is to make products available as widely as possible in the market. Anne T Coughlan (*et al*) cautions 'In choosing the appropriate level of intensity of distribution, the manufacturers must balance potentially conflicting factors. End user's willingness to search is also another important criterion. If the willingness to search is low then higher level of channel intensity is appropriate. According to channel efficiency point of view, it is important to appoint enough intermediaries to cover the market but not so many that none can make money selling the product.

Selective type of strategy for market coverage is the one in which only those distributors are selected who meet certain channel selection criteria in the given market, whereas exclusive distribution strategy is authorising only one distributor per geographical area or market segment to sell the products.

2.6 Product –distribution channels relationship

One would not need an expert's eyes to notice that some products are kept for sale at every store possible, but certain products are available in specific outlets only. There exits some relationship between the products and the place where they are sold. Lawrence G Friedman and Timothy R Furey introduced the 'touch' concept for deciding the channels through which the products are sold. 'A direct sales force can handle a wide range of interactions with the customers from pre-sale negotiations and configuration to post-sale service, training and problem solving. Thus, direct sales force is a very high touch channel' [7]. High touch channels are more expensive to operate, but they also provide more value to the channel of distribution. In contrast, the Internet, direct mail, are some of the examples of low touch channels, as virtually they offer no interaction with the customers. These type of low touch channels cost less to operate but also provide fewer services, such as configuration and support, in the sales process. Furthermore, Lawrence G Friedman and Timothy R Furey add that the process of finding the right channel for the product may seem simple as identifying the right amount of channel touch required to accommodate the complexity of the product. In choosing the right channel of distribution among the many alternatives available, Johan A. Murray and Aidan O'driscoll suggest that the evaluation based on the five criteria suggested by them may be of help [8]. The criteria suggested by them are:

i. The distribution channels must fit customer behaviour and preferences,
ii. The distribution channels fit with rest of marketing strategy,
iii. Economic performance,
iv. Control and
v. Adaptive capability.

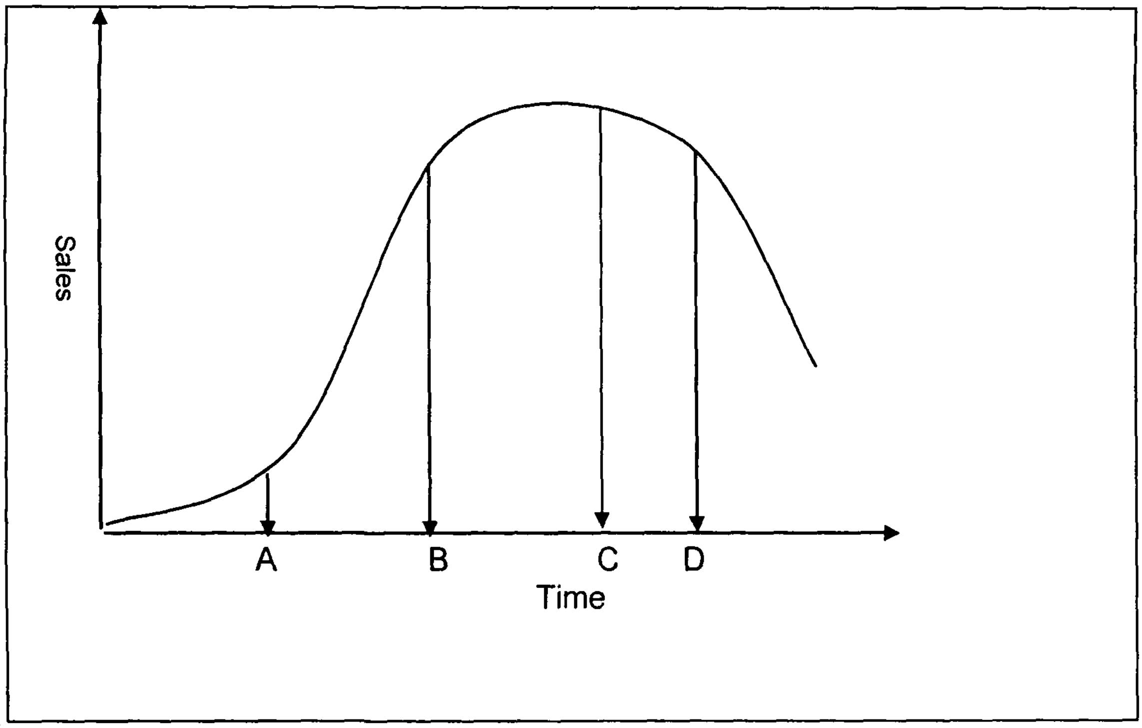
Distribution channel strategy best suited for the product is further based on the concept of 'product life cycle'. Different strategies are applied for distribution of the product depending on the phase of life cycle in which the product is. Figure 2.2 shows the typical 'product life cycle' of a product.

Philip Kotler suggests channels of distribution to be followed in the different phases of life cycle of the product [9].

Phase of product life cycle		Distribution Channel
• A	Introduction: A period of slow growth	• Selective
• B	Growth: A period of rapid market acceptance	• Intensive
• C	Maturity: A period of slowdown in sales as the product is accepted by most of the potential buyers	• New channels to be introduced
• D	Decline: the period when sales show downward drift	• Selective, phase out non profitable channels.

Figure 2.2

Typical product life cycle.



2.7 The Pull and Push strategy of marketing channels

A pull strategy in the channel of distribution is where the end user approaches the channels of distribution and demands for the products of particular manufacturer. In this case the customer is not satisfied with anything else. The distributor must stock and sell only the demanded products. This strategy pulls the product through the distribution channels. This strategy works on strong brand loyalty better products and superior promotion.

On the other hand when the channels of distribution tempt the consumer to buy the product of a particular manufacturer that the channel represents then it is the push strategy. For the push strategy to work the channel members need to be highly motivated must have trust in the manufacturer whose brand they sell. Promotional activities concerning the dealer need to be under taken to motivate the dealers to push the product into the market.

2.8 The number of distributors in the given market

It is common belief among many managers that the more number of dealers the more is the sale. Brand will sell more when they are available with most of the channel members, observe Anne T Coughlan (et al). One may conclude by casual observation that in general, brands that are more widely available do high sales and hence, they have higher market share. This may hold true but superior marketing, competitive pricing and better products can certainly be deciding factors for better market share. In continuation the authors add, consumers believe that cars with more dealers, have better servicing facilities and that the cars may fetch better resale value.

The case study relating to of number of dealers for the automobile industry in a given territory has been cited by Sally Clark [10] quoting Alfred P. Sloan, Jr. the Chief executive officer of General Motors in the years preceding the World War II. Sloan established an effective dealer network for an emerging mass market, way back in the year 1918.Sloan had great opinion of his dealers and understood the critical role dealers played. It has been quoted that Sloan was aware about the importance of relationship with the dealers (that being his specialized job). Sloan labeled his relationship with the dealers as friendly, efficient and he left no hint of conflict. The General Motors had exclusive sales arrangement with their dealers devoting all their energies to sell General Motors products. The officials at General Motors were worried that too much competition among the dealers could mar their profits, where by the customer service standards laid by the company would be affected. To avoid such situation the management had decided to limit the number of dealers in any given territory.

2.9 Qualities of the channel members

Kenneth Rolnicki calls dealers with the right qualities 'Eagles' He lists the qualities a channel-master must look in a dealer. The qualities that the channel-master should look for are classified into two broad criteria: a) Business and Operational criteria and b) Sales and Marketing criteria.

a) Qualities based on business and operational criteria:

i. Reputation: The dealer must be reputed among the customers, other manufacturers and dealers, among the peer, trade publications and related organisations, local community.
ii. The dealer must have professional background
iii. The dealer must have business and managerial stability
iv. The dealer must own financial strength
v. The dealer must have exemplary technical expertise
vi. The dealer must have knowledge of existing product lines and the market
vii. The dealer must have repair and service capabilities
viii. The dealer must possess good employee quality
ix. Must reflect managerial chemistry.

b) Qualities based on the sales and marketing criteria:

i. Sales force compensation
ii. Sales competency, number and quality of sales people, technical competency
iii. Local marketing activities
iv. Customer and order pursuit
v. Dealing with the competition
vi. Customer order fulfillment
vii. Price integrity
viii. Ability to develop new markets
ix. Participation in training programmes
x. Meeting assigned targets and willingness to accept sales quota
xi. 'Hunter' instinct to 'hunt' for the customers in the market
xii. Hunger for more sales
xiii. Willingness to participate in the strategic business planning

The list though very exhaustive yet is not conclusive. It may be a Herculean task to find such a dealer who has all the qualities but the adjustments may be made as the situation warrants.

2.10 Conflict and competition among the channel members

Anne T Coughlan, (*et al*) differentiates the conflict and the competition among the channel members. Conflict arises when the behaviour of a channel member is in opposition to his counterparts. Conflicting parties struggle against each other. Conflict implies an incompatibility at some level. Conflict, may also exist at some level where the channel members do not fully sense it.

Competition is behaviour in which a channel member is working for a goal or objective controlled by third parties struggling against obstacles in their environment.

The authors Adel El Ansary (*et al*) classify the conflict into four types.

i) Latent conflict: Interest of the channel members collide as all parties peruse their separate goals and strive to retain their autonomy and compete for limited resources. As the channel members are interdependent if each of the players in the channel could ignore the other, latent conflict would be nil.

ii) Perceived conflict: Perceived conflict is cognitive. When the channel members sense that some sort of opposition, such as perception, sentiments, interests, exists, it is a perceived conflict.

iii) Felt conflict: When the channel members experience negative emotions, tensions, anxiety, and frustrations then the conflict is termed as felt conflict. The organisations personalise the differences. Emotions of outrage and unfairness reach a point that managers of the organisations refuse economically sensible choices and though inadvertently hurt their own organisations in order to hurt the channel counter parts.

iv) Manifest conflict: It is visible because it is expressed in the behaviour, blocking each other's initiatives and withdrawing support.

Rolnicki suggests ways to over come the channel conflicts. He suggests that the best way to handle conflicts is not let the conflict occur in the channels. The vigilant channel-master senses trouble even before its occurrence. Another way to handle conflict says Rolnicki is maintaining power with the channel master. The task and the authority of each organisation must be spelled out right in the beginning when the channels come to existence.

2.11 Automobile Industry in India

The researcher reviewed the literature on the history of the Indian Automobile industry. The history here serves as an essential background and has a great bearing to the present day automobile industry. The history of the Indian Automobile Industry can be divided in three distinct phases.

i. Pre-Independence Era (Up to 1947)
ii. Post –Independence Era (1947-1982)
iii. Liberalised Era (Post 1982)

2.11.1 Pre-Independence era:

The first vehicle that appeared on the Indian roads was in the year 1898 and was an imported vehicle. Till about 1948, automobiles were still imported into India.

2.11.2 Post Independence era.

After attaining independence, the Government of India had taken keen interest to establish sound automobile manufacturing industry in India. In 1952, the Government directed the 'Tariff Commission' to enquire into ways of establishing automobile industry in India. On the recommendations of the Tariff Commission, the Government required the assemblers of automobiles to present progressive manufacturing programmes, in order to continue their operations in India. The mere assemblers of automobiles with no manufacturing plans were asked to terminate their activities.

The then Government seemed to believe that if India was to progress it must follow Socialist policies which ultimately gave the Government control over the policy that governed the industries. The Government controlled the automobile industry so much so that it decided 'Who is to produce what, how much they should produce, to whom they should sell and at what price'. The mark-up paid to the dealers too was decided by the Government. It has been citied by Dr. N Das [11] as of April 1966,the waiting list(pending orders) for the passenger car manufactured by Hindustan Motors were about 52,545 and that for Premier Automobiles and Standard Motors was 57,233 and 3,453 respectively. The government had fixed up the mark-up to be paid to the dealers of cars at 10% of ex-factory cost which was based on the recommendations of the Tariff Commission in 1956.

Based on the interview with Mr. Rahul Bajaj, Ms Gita Piramal [12] outlines the production activity of Bajaj Auto Ltd. In the first year of its production (1960-1961), the company manufactured 3,995 scooters. Mr Rahul Bajaj was said to be a frustrated man, as the Government did not allow him to increase production in spite of his persistent efforts and requests. "My blood used to boil. The country needed 2-wheelers. There was a 10 year delivery period for Bajaj Scooters...what kind of Socialism is this?" He has also been quoted in the interview saying, "I was ready to go to jail for excessive production, as my parents had for freedom struggle." Thus fumed and fretted Mr. Bajaj.

Even at that time, the automobiles were marketed through a network of dealers and sub-dealers appointed by the manufacturers. The importance of dealers was recognised even during that time. The dealers were said to be 'the eyes and the ears of the manufacturers'. The manufacturers selected dealers not only because of their sound knowledge of their automobile business but also because of their financial resources and their social standing in the community in which they operated. It was also accepted that an alert dealer organisation was in a position to offer sound and valuable suggestions for improving the quality and performance of the vehicles based on the evaluation and complaints of the users. The performance of the automobile dealer was also believed to be an indicator of the progress of the entire automobile industry.

2.11.3 Liberalised Era (Post 1982)

The automobile industry in India seems to be getting the facelift with the change in the Government policy to allow Foreign Investments in the automobile industry. In the initial stages, foreign manufacturers were not allowed to enter Indian market unless they had an Indian partner in the collaboration.

The first ones to enter in the market were the Japanese manufacturers in the 2-wheeler segment. Suzuki Motor Corporation collaborated with TVS Group to manufacture Ind-Suzuki motorcycles and later to follow were Hero Honda, Bajaj- Kawasaki, and Escorts-Yamaha. The consumers were benefited with the launch of 'People's Car – Maruti'. It entirely changed the automobile scenario in India. As of now, the government permits foreign direct investments in the automobile industry.

The dealers too are preparing themselves for this radical change. As it has been mentioned earlier, in the pre-independence era where government controlled the mark-up to be paid to the dealers , now the dealers are facing different sort of challenges. The Federation of Automobile Dealers Association in India (F A D A) publishes monthly news letters to bring out the issues related to the automobile dealers in India. Of recent, they have formed a 'G 10' (Group of 10, earlier it was G 20 Group of 20) a group of dealers which is supposed to inquire into all the operational aspects of the automobile dealers [13].

The manufacturers are paying due attention to the dealers. Third parties are also concerned with the dealers' satisfaction with their manufacturers. In the first ever 'Dealers satisfaction survey' [14] by NFO in 2003 the most satisfied dealers were of Kirloskar Toyota in the 4-wheeler segment and Honda Scooters and Motorcycles India Pvt. Ltd., in the 2-wheeler segment.

The Indian automobile Industry has come a long way from the controlled era to the present day liberalised era. The new era symbolises the beginning of the fierce competition and strategies that are built for the market share.

The biographies of the Sultans of the Indian automobile industry Hastimalji Firodia, Mr. Ratan Tata, Mr. Rahul Bajaj, and Brij Mohan Munjal were reviewed in order to understand their perspectives of the Indian automobile industry. Video Compact Disk 'Lessons in Excellence The Indian Story' containing the recorded interviews of Mr. Rahul Bajaj and Mr Brij Mohan Munjal with Late Prof. Sumantra Ghoshal and Ms. Geeta Piramal were also reviewed. These reviews were exciting. It turned out to be the most stimulating and encouraging experience. It spurred the researcher's inquisitiveness towards the Study.

2.12 Emerging channels of distribution in automobile industry

In order to understand how the vehicles are sold in different parts of the world the researcher was able to reviewed literature on the concerned subject. Yoshiro Miwa and J Mark Ramseyer in a draft discussion paper on the 'Japanese Distribution Background, Issues, Examples' [14] discuss the issues related to the distribution of automobile in Japan and compare it with that of the distribution system in the United States of America. They highlight the strategies that Japanese automobile manufacturers follow in order to maintain automobiles exports. In an abstract of the research paper 'Information Technology and Automobile Distribution: A comparative Study of Japan and the United States' [16] by Masataka MORITA and Kiyohiko. G. Nishimura brings to light the newer channels of distribution in the United States of America. The writers point out the fact that the buying vehicles through Internet was one of the popular channels in America and that the process of buying and selling on the Internet did not necessarily mean bypassing the dealer channel.

Further more they put forward that the per centage of the new cars sold by the Auto mall was 10% of all the new car sale in the United States of America. They believe that there are limitations to the economy of scale. The operations of each store are independent and lack coordination. This reference paper offered a comprehensive perspective towards the distribution channels design of the automobile industry.

In the Indian context in an article posted on the 'The Federation of Automobile Dealers Association (F A D A)' website, [17] the writer highlights the emerging challenges before the automobile dealers in India. The author claims that the major change in the distribution channels in the Indian automobile industry shifts from single channel marketing to multi channel marketing channels. The multiple channels being the Internet and the multi brand distributors.

In conclusion, it may be said the basis of the literature review formed strong inclination towards the study of 'The Distribution channel Design of the Automobile industry Passenger Vehicles Segment in Pune region' and the researcher was able to formulate the objectives of the study based on the literature surveyed and reviewed. In the final analysis, the entire progress of reviewing literature related to distribution channels design in automobile industry helped the researcher immensely. It was certainly a valuable experience to have and it gave perspective to the researcher whereby he could view distribution channels in automobile industry with more objectivity.

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