

Abstract of the Thesis

'Study of the Distribution Channel Design in Automobile Industry Passenger Vehicles Segment in Pune Region'

The Study was carried out to investigate the *modus operandi* of the manufacturers of new passenger vehicles in the field of distribution channels. The researcher intended to find out the type and the quality of the intermediaries employed by the manufacturers as well as the different strategies employed by various passenger vehicles manufacturers in their distribution channels. The impact of these strategies on the sale of passenger vehicles in Pune region was also investigated. The manufacturers and the dealers being two mutually inclusive factors of the distribution channels, understanding the opinions, the attitudes and the feelings of the dealers were also thought to be of utmost importance.

The passenger vehicles segment was defined as the vehicles of personal use which comprised of motorcycles, scooters and gear-less scooters in the 2-wheeler category and cars, multi-utility vehicles in the 4-wheeler category. The passenger vehicles segment forms the major portion of the vehicles manufactured in India amounting to about 96% of the total vehicles manufactured in India. There were 17,73,329 passenger vehicles in Pune region as of 31 March, 2005.

Pune region was defined as the jurisdiction of the Regional Transport Office, under the Motor Vehicles Department, Government of Maharashtra. It included geographical area under the administrative districts of Pune and Solapur in Maharashtra State. This geographical area consisted of three Municipal corporations viz Pune,

Pimpri-Chinchwad and Solapur. The Pune region comprised of highly urbanised, semi-urbanised and rural population. The population of Pune region is estimated to be 1,10,79,607 (2001,Census).

There were 22 manufacturers (nine 2-wheeler and thirteen 4-wheeler) of passenger vehicles as of September 2003, of which, five manufacturers (two 2-wheeler and three 4-wheeler) had manufacturing plants in Pune region.

To understand the concept of channels of distribution, the researcher made a beginning with understanding of the definition of the 'distribution channels'. The 'distribution channels' is defined as 'any series of firms or individuals who participate in the flow of products from the manufacturers to the final users or the consumers'.

Thus, it is evident from the definition that the manufacturers involve different firms in order to make their products available for sell to the customers. A casual look at the market makes one aware that some of the products are available at most of the market places such as stores, super stores or malls, but in order to buy certain products *the customers* have to visit 'exclusive' shops. In conclusion, it may not be wrong to say that there exists some relationship between the products and the place where they are bought from.

To understand how the passenger vehicles are sold in Pune region, the researcher explored the 4 'P s' of the 'marketing mix' in relation with the automobile industry.

The Product

There was varied product range of 2-wheeler as well as 4-wheeler vehicles. In the 2-wheeler category apart from the different types of 2-wheelers, the manufacturers had vehicles ranging from 60 cc. to 225 cc. (based on the engine capacity). In the 4-wheeler category, the range too was wide enough to cater to the different segments of the

customers.

The Price

In the pre-liberalised era the Government controlled the economy. In the automobile industry the Government decided 'who is to manufacture, how much to be manufactured, the mark up to be paid to the distributors and as if it was not enough the Government even decided to whom to sell. All in all it may not be wrong to say that the Government controlled the whole operations of the automobile industry. With liberalisation, the Government found its hold slackening on the industry. As an effect of this the customers were benefited with respect to the price of the vehicles. The customers not only looked for better price deals across the manufacturers but also across the dealers of the same manufacturers.

The Promotion

The manufacturers of passenger vehicles are not leaving any leaf unturned to promote their products in the market. The marketing managers are aware that, Cricket and 'Bollywood' are the weak points of the Indians. The manufacturers have well known personalities from Cricket and the film industry as their brand ambassadors. Perhaps, the automobile industry has always remained among the top ten industries to spend on the advertisements particularly in print media. In May, 2005 among the top ten brands to spend on advertisements in print media, five were from the automobile industry.

Having had an idea about the manufacturers' activities in the 3 'P s' of the marketing mix, the researcher got interested in finding out what strategies are being thought of by the manufacturers in the remaining 'P' of the marketing mix: the place.

The researcher surveyed and reviewed diverse literature from the initiation and exploration to the final structure, of the research. The writings of different authors on the subject of distribution channels not only enlightened the researcher but made him more inclined towards the study of the channels of distribution in the automobile industry passenger vehicles segment. The biographies of the pioneers of the Indian automobile industry and the views expressed by them guided the researcher through out the Study.

The objectives, the methodology and the hypothesis were then planned. These are discussed in Chapter III.

The objectives of the Study were:

- i. To undertake comprehensive study of present channels of distribution
- ii. To find out the factors taken into consideration while deciding need of a dealer in city/town
- iii. To investigate the association between the number of dealers of each manufacturer and the sales
- iv. To examine the association between the location of the dealers and effective functioning of them.

In order to fulfil the objectives of the Study, the methodology of the Study was planned. The method adopted for the Study was survey method. The tools used for the data collection were the questionnaires. The manufacturers that were to be included in the Study were identified from different sources such as:

- i. Regional Transport Office, Pune,
- ii. S I A M (Society of the Indian Automobile Manufacturers).

The data were collected from twenty manufacturers who had distribution network in Pune region, using questionnaire as the tools for

data collection.

The dealers to be included in the Study were identified from the respective Regional Transport Office in whose jurisdiction the dealers operated and from the manufacturers whose vehicles the dealers sold. The data were collected from sixty five dealers of the passenger vehicles in Pune region. A different questionnaire was designed to collect the data from these dealers.

The Study covered all the manufacturers and their dealers in Pune region, hence no sampling was done. The Study was more of a census study. However in spite of the persistent efforts of the researcher, there were two manufacturers who did not respond to the questionnaire, could not be included in the Study. Of the two manufacturers, one was a 2-wheeler manufacturer and the other was a 4-wheeler manufacturer. The total sales of these manufacturers were less than the 10% of the total sales in Pune region. Thus, the data were collected from twenty manufacturers of the passenger vehicles who had their distribution network in Pune region and sixty five passenger vehicle dealers who sold the vehicles manufactured by the manufacturers.

The hypotheses of the Study were:

- i. The present distribution channels design does not seem to be helping the manufacturers in sales
- ii. The automobile manufacturers seem to be planning to change their present channels of distribution
- iii. There may not be any association between the number of dealers of each manufacturer and the sales.

With the help of the data collected, the researcher was able to draw the profile of the manufacturers. The profile of the manufacturers is presented in Chapter IV. The salient features of the profile of the manufacturers are as follows:

- i. Channels of distribution employed by the manufacturers to sell the vehicles in Pune region
- ii. Number of dealers: The number and the location of dealers of each manufacturer in Pune region was found out and is presented in Table 4.3
- iii. Exclusivity of the dealers
- iv. Factors taken into consideration while deciding the need of a dealer in city/town
- v. Procedure followed while selecting a dealer
- vi. Preferences for dealer's premises
- vii. Qualities that a manufacturer looks in a person before appointing him as dealer
- viii. Infrastructure and the investments requirements of a dealer which are expected by the manufacturers
- ix. Functions of dealers
- x. How the presence of the dealers help the manufacturers
- xi. Supply of vehicles to the dealers
- xii. Inventory to be maintained by the dealers
- xiii. Financial support to the dealers
- xiv. Targets for the dealers
- xv. Involvement of dealers in launch of new models of vehicles and training the dealers
- xvi. Monitoring the dealer's satisfaction
- xvii. Relationship with the dealers
- xviii. Strategic location of the dealers
- xix. Optimal number of dealer
- xx. Increase in number of dealers
- xxi. Decreased the number of dealers
- xxii. Plans to change present channels of distribution
- xxiii. Idea about new channel of distribution

Similarly from the data collected from the dealers, the researcher was able to draw the profile of the passenger vehicle dealer in Pune region.

The following attributes were covered in drawing the profile of the dealer and the profile of the dealer is presented in Chapter V.

- i. Type of business concern of the passenger vehicle dealers in Pune region
- ii. Person in charge of the showroom
- iii. Average time spent by the person in charge of the showroom in the activities of the showroom
- iv. Earlier profession if any of the passenger vehicle dealers in Pune region
- v. Reasons for taking up the dealership
- vi. Ownership status of the premises of the dealership in Pune region
- vii. Minimum and maximum area of the dealer's premises
- viii. Work force purely on the commission paid basis
- ix. Support from the manufacturers in the initial stages of the dealership
- x. Customer satisfaction programmes
- xi. Participation in training programmes conducted by the manufacturers
- xii. Satisfaction level of the dealers with their manufacturers
- xiii. Redress of complaints and grievances
- xiv. Business competitors
- xv. State of mind of a dealer when a new dealer is appointed in the city/ town where the dealer is present
- xvi. Relationship: The best term to describe the relationship between the manufactures and their dealers
- xvii. Idea of selling the vehicles under the same roof

With the help of the profiles of the manufacturers and the dealers the researcher was able to attain the objectives of the Study. The findings of the Study are presented in the Chapter VI. The findings in brief are presented here.

Objective 1: Comprehensive study of the present channels of distribution

The channels of distribution is a straight path, the dealer is the only intermediary between the manufacturer and the customer. The manufacturers sold vehicles to the customers through exclusive dealers in Pune region. All the dealers were exclusive in terms of vehicles sold by them. The other factors of exclusivity of the dealer varied from the manufacturer to manufacturer whose vehicles they sold. Some new channels of distribution are emerging.

Physical distribution:

13 (65%) manufacturers supplied the vehicles to their dealers directly from the place of production.

The Functions carried out by the dealers:

- i. Sale of vehicles
- ii. Servicing of vehicles
- iii. Stock and sale of spare parts
- iv. A new function that the dealer has to carry is imparting safe driving training to the customers.

Profit ratio:

On an average the split up of the profits earned by a 2-wheeler dealer is:

- i. Profit through sale of vehicles is 41%
- ii. 33% from servicing of vehicles
- iii. 19% from sale of spare parts and
- iv. 7% from the add-ons.

On an average the split up of the profits earned by a 4-wheeler dealer is:

- i. 26% from sale of vehicles
- ii. 41% from servicing of vehicles
- iii. 25% from sale of spare parts and

iv. 7% from add-ons.

The researcher also covered following factors while discussing the comprehensive study of the distribution channels.

- i. Involvement of the dealers in launching a new product
- ii. Training imparted to the dealers
- iii. Targets set by the manufacturers to the dealers
- iv. Monitoring the performance of dealers by the manufacturers.

Objective 2: Factors taken into consideration by the manufacturers while deciding the need of a dealer in city or town.

The different factors that are taken into consideration in deciding the need of a dealer in city/town were enlisted and the manufacturers were asked to assign the weight on a ten point scale to these factors (The factor of least importance was assigned weight of 1 point and the weight of 10 points to the most important factor.) The findings are presented in Section 6.2.1

The qualities of a dealer that makes him the most preferred dealer were also found out and are presented in section 6.2.2.

Objective 3: Association between the number of dealers of each manufacturer and the sale of vehicles.

The Study revealed that there is positive relationship between the number of dealers of a manufacturer and the sales. Though the relationship was positive, it was not a linear relationship. The scatter plot of number of dealers of each manufacturer and the sales was drawn. It was perfect umbrella shaped. Indicating that as the number of dealers increases their contribution towards the sales may not be significant. On basis the scatter plot the number of dealers for each of the 2-wheeler manufacturers was found out to be 10 and that for 4-wheeler was 4, for Pune region.

Objective 4: Association between the location of the dealer and effective functioning of the dealers.

The association between the location of the dealer's premises and the attitude/ activities / functions of the dealers was found out using non-parametric test 'Spearman's Rho' The relationship is presented in a tabular form in table 6.12.

- i. The association between the location of the premises of a dealer located in a business complex and the feeling of a dealer when a new dealer is appointed by the manufacturer in the territory of the existing dealer, the existing dealer feels insecure is positive.
- ii. The association between the location of the premises on the main/arterial road of the city/town and the total number of employees working with the dealer is negative.
- iii. The association between the location of the premises on the main/arterial road of the city/town and the dealers provide service on the extended working day of the week for the customer's convenience is positive.
- iv. The association between premises of the dealer located in the automobile market and the feeling of the dealer when a new dealer is appointed by the manufacturer in the territory of the existing dealer the dealer feels insecure is negative.
- v. The association between the location of the Premises of the dealer located on the periphery of the city/town and the total number of employees is negative.
- vi. The association between the location of the Premises of the dealer located on the periphery of the city/town and the dealers provide extended working hours of the day for the customer's convenience is positive.
- vii. The association between the location of the premises of the dealer located on the periphery of the city/town and the feeling of a dealer when a new dealer is appointed by the manufacturer in the territory of the existing dealer the dealer feels insecure, is positive.

- viii. The association between premises is owned by the dealer and area of the premises is positive.
- ix. The association between premises is owned by the dealer and the satisfaction level of the dealer with the manufacturer is negative.
- x. The association between premises is owned by the dealer and total number of employees in the dealer's showroom is negative.
- xi. The association between premises is rented by the dealer and satisfaction level of the dealer with the manufacturer is positive.
- xii. The association between premises is rented by the dealer and total number of employees is positive.
- xiii. The association between premises is rented by the dealer and the dealer had some earlier profession is negative.

The Chapter VII deals with the validation of the hypotheses.

As already stated, the hypotheses of the Study were formulated. These hypotheses were then validated using appropriate statistical tests.

Hypothesis 1: The present distribution channels design does not seem to be helping the manufacturers in sales. This hypothesis was validated using test statistic 'Spearman's Rank Correlation Coefficient Rho'.

Hypothesis 2: The automobile manufacturers seem to be planning to change their present channels of distribution. This hypothesis was validated using non parametric test 'Chi-Square test'.

Hypothesis 3: There may not be any association between the number of dealers of each manufacturer and the sales. This hypothesis was tested and subsequently rejected using Pearson's correlation.

The suggestions that evolved from the Study are presented in Chapter VIII, same are enlisted here.

- i. Statistical model to predict the sales of a dealer based on the participation level in the training programmes:

It was found out that the manufacturers conduct training programmes. The dealers participate in these training programmes. The dealers were asked to mark their or their representative's level of participation in these programmes, on a ten point scale, where 1 represented low level of participation and 10 most active level of participation. The researcher, with the help of Multiple Linear Regression Analysis (MLRA) method, was able to build a statistical model to predict the sales of a dealer. The participation level of the dealer in the training programme independently predicted the sales after controlling for the location of the dealer and the type of vehicle the dealer dealt with.

- ii. Statistical model to predict the sales of a dealer based on the satisfaction level of the dealers:

On the similar lines the researcher was able to construct statistical model based on the Multiple Linear Regression Analysis (MLRA) method for the satisfaction level of the dealers with their manufacturers. On a ten point scale where 1 represented the low level of satisfaction and 10 represented the highest level of satisfaction. The satisfaction level of the dealer with the manufacturer independently predicted the sales after controlling for the location of the dealer and the type of vehicle the dealer dealt with.

The practicability of the above models developed was tested. The researcher was able to predict the sales of dealers using the models well within the permissible statistical limits.

- iii. The number of dealers for each of the manufacturers for Pune city:

The researcher had found out that there existed positive association between the number of dealers of the manufacturers and the sales (section 6.3). The researcher had also suggested the number of dealers of each manufacturer for Pune region. The researcher was further interested in finding out the number of

dealers required for Pune city as there were multiple dealers of the same manufacturer in Pune city. The scatter plot of the number of dealers of each manufacturer in Pune city and the sales was drawn. The association between the variables was positive, but it was not linear. It was inverted 'U' shaped. It implied that as the number of dealers of each manufacturer goes up their contribution towards the sales of vehicles may not be significant. The R^2 (Goodness of fit or Coefficient of determination) was 75%, which suggested that the number of dealers of each 2-wheeler manufacturer for Pune city was 4. The scatter plot could not be devised for 4-wheeler vehicles as the most of the 4-wheeler manufacturers had a single dealer in Pune city and there was only one manufacturer that had 3 dealers in Pune city.

iv. Suggestions for alternative channels of distribution:

The manufacturers' opinions were sought on the alternative channels of distribution. It was found out that two 2-wheeler manufacturers were planning to change their channels of distribution. The 4-wheeler manufacturers did not seem to plan to change their channels of distribution probably as they had already relaxed the exclusivity terms.

v. The dealers' opinion about the alternative channel:

The dealers' opinions about the alternative channel 'selling of different brands of vehicles under the same roof' too were sought. The Chi square test was applied; the result of the test suggested that the dealers were willing to sell different brand of vehicles under the same roof.

The Study concluded with the Chapter 'Limitations, extent and scope for further research'. In this chapter the researcher has discussed the limitations of the study that were beyond the control of the researcher.

The researcher feels that the outcome of the Study may be of help to the manufacturers and the dealers in building their strategies in the channels of distribution in automobile industry as a whole and more particularly in Pune region. A prospective dealer venturing into an

automobile industry may be benefited from the findings of the Study. It was also thought that a mere enthusiast of the automobiles may find the Study interesting. Especially the findings related to manufacturers' strategies, the qualities that qualify a person to be an automobile dealer, the dealers' opinions / attitudes and probably the changes in the distribution channels may add to his knowledge.

To sum up, it may be convincingly said that the Study has added to the body of existing knowledge about the distribution channels in the automobile industry in general and Pune region in particular. The findings of the Study may be of use to a large section of the society, the manufactures of passenger vehicles, the passenger vehicle dealers, any person venturing in the passenger vehicle dealership and even a casual enthusiast of automobiles.