Chapter I

INTRODUCTION TO THE STUDY

At the three-quarter point in a century of social and economic development in which marketing has played a major role, it is timely to consider the direction which its further evolution may take. The discipline emerged from economic theory to deliver the material products of the world's highest standard of living. The challenges ahead for it may be even greater than those of the past. At this time, however, a tendency to fragment marketing into "marketing" and "distribution" compels concern for whether the full potential of either can be achieved if such separation does occur, either in theory or in fact\(^1\).

Throughout its seventy-five year history, marketing has been the discipline concerned with the distribution of products and services, dealing with all phases of the process. Its evolution has been multi-directional, but centered on both the physical distribution of goods and the transfer of their title. Initially, individual marketing functions were the object of interest: selling, transporting, grading, financing, and others. Gradually, the larger integrated marketing programme gained importance; functional management branded into management of the entire micro marketing process. Early pre-occupation with institutional management evolved into systems management; managerial behaviour into consumer behaviour, domestic distribution into international trade; responsibility to corporate shareholders, into social responsibility; and product marketing into non-product marketing. Although diversified marketing continued as a unified discipline, and efforts were made, albeit not too successfully, to state general theories of marketing\(^2\).

Since 1960, however, there has occurred a fracturing of marketing, not along the lines of its previous development, but rather through the centre of its
character, by segregating "marketing" and "distribution", the former consisting of negotiator functions, the latter of functions of physical supply and distribution. Marketing originally was conceived as including both types of functions, and the subject was considered as a whole from managerial, systems, behavioural, and social standpoints. Now, the physical and negotiator functions are dealt with more separately, both from these same standpoints, and with little evident effort of integration.

Persuasive arguments are offered in support of this division of the subject. Marketing academics and practitioners, however, have become so pre-occupied with negotiator and promotional aspects of marketing that they neglected the function of physical distribution of products. Advertising, market behaviour, decision-making and social expectations became principal subjects of interest, and qualitative and quantitative models for research and practice gave guidelines to action.

On the other hand, others have undertaken to redress the fault of marketers by concentrating on the physical distribution function, but they, too, have been equally selective in their area of interest. They have concentrated on processes of physical movement, inventories, rates of flow, and location strategies and have been indifferent to other functions of marketing. They, too, have developed models, thus becoming somewhat mechanistic in their theorizing. At the same time, those concentrating on distribution have slowly assimilated from "marketing" elements of pricing, promotion, and customer motivation demand relevant to the flow and storage of products in the distributive systems.

Traditionally distribution channels have been viewed as closed-systems, but they can however, be viewed as open systems. Where there is shared responsibility for making products and services available to customers.
Understanding the characteristics of the market and provide as appropriate level of services.

Partnership marketing can be though of as a positive sum two-person game. That is, the aim of the procedures outlined in this section is to entrance the benefits occurring to both parties in a loose coalition.

These coalitions involve co-coordinating or sharing value chains with partners to broaden the effective scope of each individual firm’s value chain\textsuperscript{5}.

1.1 MARKETING CHANNELS FRAMEWORK

1.1.1 Marketing Mix and Relationship Marketing

The study of distribution and channel management will give the new trend of marketing mix decisions and new design of channel design like partnership marketing. The marketing channel framework is based on the following observations on the marketing mix and its connectivity with partnership marketing\textsuperscript{6}.

I. The marketing mix offers a means by which product, price, promotion, and place variables can be assembled to meet channel needs.

II. Important characteristics of the interface between product and channel include: a fusion of attributes, product evolution and value satisfaction.

A. Any product always includes both \textit{tangible and intangible} characteristics bundled together to create a market offering.

B. An \textbf{agile competitive environment} is a marketplace in which channel members constantly modify and improve their product offerings to better satisfy changing customer needs.
C. **Value satisfaction** is a channel member’s perception of the benefits derived from owning or consuming the product.

D. The **value delivery sequence** involves three stages:

1. Assess customer value.
2. Provide customer value
3. Communicate customer value.

III. Price is the ultimate measure of a good’s or service’s exchange value, as agreed upon by the seller and buyer.

   A. **Valuation**, or perceived value, is the simultaneous appraisal by buyers and sellers of the economic and psychological worth of a market offering.

   B. **A price premium** is a price level in excess of the normal market or industry value. Channel members may justify price premiums for a number of reasons including:

      1. Building a relationship.
      2. Preserving a relationship
      3. Reducing risk factors
      4. Obtaining perceived quality
      5. Possessing limited information

   C. **Price elasticity of demand** refers to a percentage change in the amount of a good demanded in response to a percentage change in the price.

   D. There are **three price-setting methods**.
1. **Algorithmic pricing** method may be viewed as an inside-out approach, in which price is derived from the channel members’ forecasts of their own costs and revenues.

Algorithmic pricing methods are based on the association between profits, revenues, and expenses.

a. Cost-plus pricing, where a percentage or fixed mark-up is added to the cost to establish a price.

b. Break-even analysis is based on the convergence between the costs associated with making a product and the revenues realized from selling the product.

c. Modified break-even pricing attempts to overcome the difficulties of elasticity by extending the break-even analysis across several estimations of quantity and price.

2. **Market-oriented pricing** methods represent an outside-in approach to valuation, in which pricing cues are generated from an evaluation of the constraints and opportunities in the marketplace, that is, outside the organization. This allows prices to be sensitive to customer needs, reinforcing the presence of agile competition in the marketplace.

a. Competitive pricing is the most common method, where channel members match competitors’ pricing. These strategies often provide a means of market entry for new channel members.

b. Market-entry pricing offers two strategies for pricing goods and services that are new to the marketplace:

   * Penetration pricing can be particularly effective as an entry strategy in markets where demand is highly elastic.
* Skimming-the-cream pricing, or price-skimming, where relatively high initial prices are established to attract those willing to pay.

Price skimming is often employed in an attempt to quickly generate positive cash flows to recoup research and development costs.

3. **Relationship-oriented pricing** requires a broader, more encompassing orientation.

Before a price is established, internal and external cues are simultaneously evaluated in an effort to build and maintain exchange relationships. This approach is grounded in a cooperative and collaborate orientation, involving volume, functional, and promotional allowances.

a. **Volume pricing** provides quantity discounts to channel members based on purchasing economies. Negative option contracts are agreements in which buyers accept an on-going flow of goods from vendors.

b. **Functional allowances** involve reductions in the list price in exchange for the buyer’s agreement to perform specific functions.

c. **Promotional allowances** are considerations given to channel partners in exchange for their agreement to provide promotions to current and prospective customers.

E. **Price legitimacy** exists whenever a buyer’s and seller’s perceptions of a market offering’s value converge or come together. Resellers now use several techniques to justify their pricing levels:

1. **Price guarantees**

2. **Price posting**

3. **Cost of service pricing**
III. The promotional mix can be divided into personal and non-personal persuasive communications.

A. Personal selling is defined as an interpersonal communication process by which a seller uncovers and satisfies the needs of a buyer, to the mutual long-term benefit of both parties.

B. Non-personal selling encapsulates all other types of promotions, including advertising, public relations/publicity, and sales promotions.

C. Promotions is predicated on communications aimed at reminding, informing and persuading prospects and customers of market offerings

1. The traditional communication model views information exchange as a series of transactional processes between senders and receivers, and moderated by environment and interpersonal perceptions.

2. The relational communication model recognizes that information exchange is ongoing and often simultaneous, and its goal is to achieve shared meaning among channel members.

3. There are five promotional objectives generally associated with relational promotions in marketing channels 7.

   ✓ Stimulating sales

   ✓ Differentiating offerings

   ✓ Sharing information

   ✓ Accentuating a market offering’s value

   ✓ Stabilizing seasonal demand
D. In marketing channels, **relational promotion tactics** can be classified into two categories.

1. **Pull strategy** describes persuasive communications aimed directly at the ultimate consumer.

2. **Push strategies** target their persuasive communications at intermediaries—pushing against the next link in the distribution chain.

3. Several issues should be considered by exchange partners when deliberating whether a push or a pull promotional strategy should be pursued:
   
a) Budgetary constraints

b) Nature of product offering

c) Product life cycle

d) Product valuation

e) Market conditions

IV. Placement indicates that there is a trade-off between channel costs and the benefits afforded to exchange partners.

V. The marketing mix is a set of marketing programs relating to product (development, positioning), promotion (personal selling, sales promotion, and advertising), pricing (skimming-the-cream, discounting), and distribution (logistics, channel structure, efforts at relationship management) decisions.

A. Within the framework of a strategic marketing channel decision, the three basic dimensions are:

1. A channel member’s markets
2. A channel member’s functional area strategies

3. A channel member’s strategic assets or skills.

**B.** The marketing concept asserts that customer satisfaction is the basis for all marketing mix decisions.

**C.** The relationship marketing concept delivers exchange value by addressing simultaneously the needs of each link in the marketing channel.

### 1.2 DISTRIBUTION CHANNEL

1.2 Distribution and Channel Management

**Distribution channels** can be defined simply as the *external* contractual organization which firms operate to achieve their distribution objectives. While there are other definitions of distribution channels, all convey the notion of the route, path, or conduit through which goods, products or things of value flow as they move from the producer to the ultimate user of the product. As products become less differentiated and more commodity-like, the competition among firms is rapidly moving away from products toward attaining efficiencies in distribution.

For most service, consumer, and industrial firms, the distribution channel, or inter-organizational network of institutions—comprised of agents, wholesalers, distributors, and retailers—plays a significant role in the flow of goods from producers to consumers. Because they depend on channel members to resell their products and perform a variety of distribution tasks, producers are increasingly concerned about the level of performance of these institutions. The growth in electronic channels has made both the sales managers' and the channel managers' jobs more complex.

### 1.2.1 Channel management
Many producers of products and services do not sell directly to their end users. They use a marketing channel. In its most simplistic form, a marketing channel performs the work of moving goods from producers to consumers.

A marketing channel includes one or more marketing intermediaries performing a variety of functions. Each channel member:

1. Provides value;
2. Performs a function; and,
3. Expects an economic return.

Channel Management is the process of analyzing, planning, organizing, and controlling a firm's marketing channels includes seven key decision areas:

(1) Formulating channel strategy
(2) Designing marketing channels
(3) Selecting channel members
(4) Motivating channel members
(5) Coordinating channel strategy with channel members
(6) Evaluating channel member performance
(7) Managing conflict.

These decision areas are explicated briefly in the following paragraphs.

1.2.1. **Formulating Channel Strategy.** Channel strategy refers to the broad set of principles by which a firm seeks to achieve its distribution objectives. It focuses on the "big picture," such as the role distribution should
play in the firm's overall corporate objectives and strategies, and the overall congruency between channel strategy and the marketing mix

1.2.2. Designing Marketing Channels. Channel design refers to the development of new channels or the modification of existing channel structures state that distribution channels must be aligned with the firm's overall objectives and competitive strategy. In devising the structure or "architecture" of the distribution channel system, three key channel design dimensions must be considered the following.

(a) **Number of levels in the channel**—levels may range from two

i. manufacturer—> consumer)

ii. Manufacturer—>agent—^>wholesaler—>retailer—^> consumer).

(b) **Intensity at the various levels**—the number of intermediaries used may be intensive (many), selective (few), or exclusive (one).

(c) **Types of intermediaries**—types of intermediaries used (e.g., agents, brokers, distributors, dealers, wholesalers, and retailers).

1.2.3 Selecting Channel Members. Once the distribution channel has been designed, channel members must be selected to represent the firm and resell its products to final customers.

A prospective channel member's qualifications—such as credit history, reputation, the number of product lines carried, market coverage, and the number of salespeople representing channel members need to be assessed for congruency with the firm's marketing objectives.

1.2.4 Motivating Channel Members. As independent institutions, channel members are not under the direct control of the firms they represent and
do not automatically cooperate. Thus, various motivational programs are needed to induce channel intermediaries to exert higher levels of effort. Strategies commonly used by firms to motivate channel members include paying higher slotting allowances, offering higher trade discounts, supplying strong advertising and promotional support, and providing training for channel members' salespeople.

1.2.5 Coordinating Channel Strategy. Distribution channels have conventionally been viewed as a network of dissimilar but interdependent institutions that have banded together for purposes of trade. Scholars have long theorized on the need for coordinating and integrating channel activities with other departments of a firm.

1.2.6 Evaluating Channel Member Performance. Channel member performance represents the degree to which the channel member engages in behavior that contributes to the fulfillment of the channel leader's objectives. By assaying the performance of channel members, companies can evaluate how successful they have been in implementing channel strategies as well as achieving their distribution objectives.

1.2.7 Managing Conflict. Distribution channels can be viewed as social systems influenced by behavioral dynamics (such as conflict) associated with all social systems. Conflict in distribution channels, which has been the focus of numerous channel investigations. Thus, when one channel member takes actions that another channel member believes will attenuate its ability to achieve its objectives, conflict is said to be manifest. And because conflict generally has a deleterious effect on channel member performance, firms must make conscious efforts to detect and resolve it using conflict management.

1.3 Partnership Marketing
“Partnership” is something that benefits both entities looking to find new revenue sources and business opportunities. Often, companies forget that once you find a partner, you need to nurture the relationship and cultivate opportunities so that you both can reap the rewards\textsuperscript{10}.

Before deciding to go headfirst into finding the next great partnership opportunity, think about a few things: “Distribution”

It is obvious that every business must take care of their distribution channel by making sure there is no shortage in inventory and controlling the distribution channel member. It is also important to consider the market penetration to make sure that the customer can actually purchase your products\textsuperscript{11}.

Distribution channel management usually focused on the manufacturer. It needs to understand that there are two types of decisions to take with respect to channel issue in order to gain competitive advantage:

**I-Channel Design Decisions:** How many levels of intermediaries needed? Number of competing/complementary of intermediaries. Open or closed nature of channel. Number of competing channels.

**II-Channel Management Decisions:** In this case you need to consider how can we manage the relationship between manufacturer and the different intermediaries so that a competitive advantage can be achieved? When and what type of contracts are needed? What kind of reward systems is needed? What kind of punishment systems is required? How can we build trust between the channel members?

**1.4 DISTRIBUTION TRENDS INDIA- AN OVERVIEW**
The distribution market in India is in a highly competitive frame and all the industries are trying to measure the existing channel member practices and to practice the partnership style of channel management. Buoyancy in the economy, growing consumerism (consumer spending has been growing at a pace of 6% per year over the past decade) coupled with the industry's efforts to create demand by launching innovative technology products and enhance availability in semi urban markets\textsuperscript{12}.

**Trends in the Distribution – Real Time Examples**

Asian Paints is an example of how the product characteristics and the consumer behavior influenced the modification of the channel structure. The paint industry is characterized by large no. of SKU's leading to high inventory costs. To cater to specific customer requirements would require stocking of huge inventory. Asian Paints tackled this issue by introducing "Colour Worlds". Customers could select their desired shades on a colour card at these outlets which would be prepared instantly using a Tint mixer. Thus only 23 basic shades were required to be stocked which could be mixed to give 150 Colours.

Godfrey Phillips Limited entered in to the tea business in 1988 by introducing the concept of branded loose tea. They offered customers the choice to choose their own blends at the "Tea City" exclusive outlets in Delhi. This was a new concept since till then the organized sector offered packaged tea through an intensive distribution system.

Titan- changed the face of retailing in the '90s with the introduction of the “World of Titan " exclusive showrooms. Although the concept of franchisees had already been introduced by Raymonds and Vimal in the garment business and NIIT in the services field it had not extended to other sectors. In anticipation of competition from bit, players such as Citizen, Titan created the "Time Zones". These were franchised outlets that stocked other brands too but
whose brand building activities were done by Titan in exchange for 60% counter space. In contrast, the market leader HMT still followed the Wholesaler route.

Subsequently the franchisee route was adopted by other companies too as part of their multi-marketing strategy.

HLL’s 'Operation Bharat' is a multi-marketing strategy that involves appointing HLL stockiest who engage in door to door selling of a special hamper of HLL's personal care products in villages. This direct selling approach has been initiated because sampling is important to generate trial and repurchase of personal products.

Some additional factors for determining channel structures are Technological, Cultural, Physical, Social and Political factors.

Spin-off “firms should outsource those marketing functions to specialists that can perform the function more efficiently. It can be used to anticipate the changes in the distribution Structure along the 4 dimensions13-

1. No. of channel levels- It is economically beneficial to spin off to marketing specialists those functions which exhibit economies of scale when the form has a relatively small volume.

MNC's piggyback on to the existing distribution structure of Indian companies initially -Coca-Cola and Parle, Walls and Kwality, Procter and Gamble and Godrej, Levers and Lakme, Birla 3M and Braun with TTK, Wrigleys with Parle sweets, Monsanto with Rallis .

2. No. of channels (multi marketing)- in the event of a distributive function having different cost curves in different markets the firm would have to adopt different strategies for each market. The market for a firm consists of a
few high value Institutional customers and many low value ideal customers the firm the cost of servicing both types of customers would be different. The firm would use a direct sales force for the institutional segment and an intensive conventional distribution system to service the rest.

3. Types of middlemen- the types of middlemen created are determined by the functions that have been spin off.

4. No. of middlemen that develop at each level - it is observed that the greater the market size in relation to the optimum scale size.

**The Current status of retailing in India.**

Retailing is not yet a structurally organized industry due to the sheer size of the country, its regional diversity and limited Infrastructural support. Multi brand independent outlets with stores usually less than 75sqm account for more than 95% of this has prevented the development of better systems and technology for bettering in store retail performance. Organized retailing, constitutes only 1%(Rs 5,000 crore) of the total market today and it will grow six-fold(Rs 30,000 crore) by 2005, with food and grocery accounting, for about 40 % of the total market. The organized food and grocery segment is projected to grow from Rs 4,400 crore in 1999 to about Rs 24,000 crore by 2005 and in the same period, the non food sector is set to grow from Rs 6000 crore to around Rs 6000 crore.

**Source**-" Bangalore Retail Summit", Feb 3-4, 2000.

**Foreign brands and retail chains in India'**

Most international brands which have entered India in the past few years have set up franchises to provide high visibility and retain identity, rather than succumb to the clutter of a 75 sq m multi-brand independent retailer. Many such
as Arrow, Lacoste and Lee, are not retailers elsewhere in the world, but their Indian licensees have reached sales through exclusive shops to be essential to establishing the brand successfully. Prominent International Retailers in India
<table>
<thead>
<tr>
<th>Brand</th>
<th>Product</th>
<th>No of Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrow (US)</td>
<td>Men's apparel</td>
<td>47</td>
</tr>
<tr>
<td>Bata (Canada)</td>
<td>Footwear</td>
<td>900+</td>
</tr>
<tr>
<td>Benetton (Italy)</td>
<td>Apparel</td>
<td>60</td>
</tr>
<tr>
<td>Coats Viyella (UK)</td>
<td>Men's apparel</td>
<td>75</td>
</tr>
<tr>
<td>Lacoste (France)</td>
<td>Apparel</td>
<td>21</td>
</tr>
<tr>
<td>Lee (US)</td>
<td>Apparel</td>
<td>40</td>
</tr>
<tr>
<td>Levi Strauss</td>
<td>Apparel</td>
<td>27</td>
</tr>
<tr>
<td>Makro (Netherlands)</td>
<td>Hypermarket</td>
<td>08</td>
</tr>
<tr>
<td>Mexx (Netherlands)</td>
<td>Apparel</td>
<td>10</td>
</tr>
<tr>
<td>Nanz (Germany)</td>
<td>Supermarket-</td>
<td>10</td>
</tr>
<tr>
<td>Nike (US)</td>
<td>Apparel, Footwear</td>
<td>27</td>
</tr>
</tbody>
</table>

Issues arising due to growth of Retail Store chains increased channel power: Due to the massive volumes of procurement, the retail store chains would have increased bargaining power with suppliers. Discounting of brands-The sanctity of the brands could be jeopardized by practices such as discounting, every day low price and cross subsidization (bundle pricing) of the product line.

India today has an estimated strength of distribution business in marketing. The future trends in distribution can be predicted by creating various scenarios. These scenarios would incorporate the effect of the factors that influence the channel structure and channel relationships. By grouping these factors based on their uncertainty occurrence and importance of outcome alternative scenarios are created taking into account the most unpredictable and important factors. The influence of some of these factors are given below, however these are discussed in more detail later in the report.
Factors influencing Channel Structure

Two main factors influencing the channel structure and relationships are given below: 1. Technology 2. Market

Technology:

Role of IT: IT can serve as an enabler of channel efficiency by improving coordination between the various channel members. When the supplier and the channel are connected online the flow of information is streamlined. This has ramifications on the power exercised by the supplier on the channel-members:\textsuperscript{14} One possibility is-

1. The loss of supplier power - suppliers would only be able to supply that quantity of stock which is required by the channel since the requirement is conveyed online to the supplier. The possibility of choking the channel with excess stocks is decreased considerably. The movement of goods through the channel becomes disciplined.

Impact of the internet: The increasing use of e-commerce would lead to drastic changes in the channel structure. Being a direct marketing channel e-tailing has implications on the conventional channel. From some of the possible changes are given below:

i). Channel dis-intermediation- the direct interaction between the manufacturer and the customer over the internet would lead to the decline of traditional intermediaries such as the brick and mortar retailer. Instead the customer would conduct the pre purchase search, evaluation and ordering over the internet.
ii). Emergence of new intermediaries (re-intermediation) - the outsourcing of a new set of functions would lead to the development of a new range of 'intermediaries, like payment channels, freight operators.

iii). Postponement - the backward shift in the channel functions would lead to the supplier behaving as the retailer. Hence the supplier can postpone assembly of goods till the very end on receiving the order from the customer.

iv). Market-The market comprises of a host of factors that continuously interact and influence each other. For simplicity only two factors are considered, namely the consumer and the competition.

iv). Consumer Behaviour- The emergence of nuclear families, DINKs (Double Income No Kids) and other new social groups reflect the changing consumer. Consumers are increasingly demanding more service from the channel in terms of increased spatial convenience, decreased lot size, decreased waiting time and increased product variety. This has led to a modification of channel structure that delivers the service Outputs more efficiently to the consumer. Multi-marketing initiatives by companies are formulated to cater to the changing consumer preferences more effectively than a single channel.

v) Competition- The entry of MNC s following the liberalization has increased competition to local players. Companies have had to restructure their systems to adapt to this change and remain competitive. Direct competition to the channels is seen in the emergence of retail store chains, a phenomenon which is still very nascent in India. Some of the effects of increased competition on the channel are: Increasing dealer power- the increasing demand for dealer shelf space and capital due to increased firm and brand competition would lead to increase in dealer bargaining power. This would affect the power-conflict dynamics between the supplier and the channel. Channel as a means of differentiation- due to increased competition the supplier may resort to
differentiate their offering by using alternate channels, retail store chains strategies.

With highest uncertainty and creates impact of the convenience desired and the facilitating infrastructure being expressed in scenario. This scenario would be elaborated further to understand the consequences to the channel over the next 5-7 years.

In a five to seven year time frame, a two-tier system in retailing is likely to appear - large chains with large buying power and marketing muscle on the one hand, and smatter operations. Surviving on lower overheads and catering to localized requirements on the other over the next 3 to 5 years.

In such a scenario the presence of retail stores would be limited to major-cities to facilitate the merchandising and supply chain management. Also, given the purchasing power parity of the Indian consumer. It would seem likely that the volumes required to cover the huge overheads could be generated only in such locations. The stores located in the major metros would be generalist stores offering high margin premium products and foreign brands initially.

1.5 NEED FOR THE STUDY

Channel marketing most often relates to the sale of products. However, it is not limited to the distribution of physical goods. Providers of services and ideas also benefit from channel marketing. For example, banks and credit unions depend on a network of ATMs to offer their services. Financial management and insurance organizations disseminate information through systems provided by other vendors. Health and medical organizations depend on a network of providers to offer their services. In the cases above, channel marketing offers better services at costs lower than offerings without the assistance of channel members.
Organizations can achieve differentiation through their distribution channels. Each of these channels may offer different coverage, expertise, and performance. They may also realize economies of scale that channels of distribution often offer\textsuperscript{15}.

Marketing channel decisions are among the most critical decisions facing an organization. The chosen channels intimately affect all other marketing decisions. The organization's pricing depends on whether it uses mass merchandisers or high-quality boutiques. The firm's sales force and advertising decisions depend on how much training and motivation the dealers need.

Procedure of goods and services, often fail to think a lot about Distribution channel, sending to take them as a given, rather than as marketing variable that needs to be planned mid managed with the same care as - their role in:

- Product profile
- Pricing strategy
- Communication efforts
- Promotional gifts
- Customer service/ customer care
- Market information

Market view about Distribution channel as static but varies through the Dynamic of market by complication and conflict often arises within the members of Distribution channel regarding the profit motivation factor. Different Industries have different styles in distribution channels handling. In fixing up the dealers mid middle-men's, suppliers normally decide the members based on influence rather than the importance of company sales objective.
Channel- members enjoy the benefits in the growth rate of market and market share. But if there is downfall in sales, members are trying to come out from the channel relations. This shows the non-participation of members in total business. Cost analysis point from the view of suppliers and from the view of middle members in channel regarding transportation, inventory warehousing differs always. Misappropriation of credit system by the channel members regarding the credit facilities leads to the improper utilization of this facilities and substantial margin (Vs) Sales volume. In the part of efficiency versus control in channel system generally the problem arises between intermediates (Vs) company as below:

Conflict arises between members exercise over power among these? As

1. The producers ---Develops, produces, and markets the product

2. The wholesalers ----Interact between producer and distributor/dealer

3. Distributor/Dealer---Interact between wholesaler and retailer

4. The retailers ---Interact between distributor/dealer and customer

5. Consumers ----The ultimate user

Doubt over whether retailer takes company image to sell the product or sell only a consignment basis. In the even of price fixation problem arises from the recommended price fixation of the product/service by the producer to the retailer been accepted (or) resorting to illegal behavior.

Role of channel member’s participation in promotional pricing programs. In advertising and Marketing communication the problem arises in whether the producers giving an opening to receive the suggestion from the channel members or not.
Behavioral pattern varies regarding the Distributors, wholesales, retailers and other members with producer on based upon the market like international marketing, National Market, Urban Market, Improper allocation of the dealer supply and storage requirement by the producer. Theses aspects highly motivated the researcher to take up the present study.

1.6 SIGNIFICANCE OF THE STUDY

The distribution management is of major decision for the marketer because it involves channel members and consumers in making the product to reach from producer to the consumer. Designing the channel style, channel intermediaries, channel members role and functions helps the marketer to focus on the product/services movement to the consumers through the channel intermediaries. Most of the companies’ performance and profitability is decided by the distribution and channel decisions. This study makes known the reasons for conflicts among the channel members in five industries like consumer electronics, health care product, life saving drugs, general health, paints and chemicals in Chennai city and provides models for designing the partnership marketing to the channel profile is known. The reasons for the channel members difference of opinion and their expectations further helps in implementing the significant practices of partnership marketing in different industries. This will be definitely helpful to the channel members to know their problems involved in the channel members and to evolve the partnership strategies to make them becoming the good channel partners.

The researcher has confined the study area to Chennai city, which is one among four metropolitan cities in India having 5.4 million populations. It is a potential market for all the products/services, because people with various religions, linguistics, cultural backgrounds, and demographic and psychographic characteristics live in Chennai city.
The Study period has been limited to the financial year (FY) 2000 - 2006

The distribution channel markets in India are broadly into nine channels titles. They are given in the following Table 1.1

<table>
<thead>
<tr>
<th>Channel Title</th>
<th>Channel's Role</th>
<th>Do they carry inventory?</th>
<th>Do they offer financing?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broker</td>
<td>Brings buyers and sellers together</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Distributor</td>
<td>Allocates goods to wholesalers or to retailers</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
<tr>
<td>Facilitator</td>
<td>Assists in the distribution process</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Manufacturer's representative</td>
<td>Represents and sells for several manufacturers to perform the same functions of an internal sales force</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Merchant</td>
<td>Purchases inventory to resell</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
<tr>
<td>OEM-Original Equipment Manufacturer</td>
<td>Initial producer of a product who agrees to allow another entity to include, remanufacture, or label products under their name and sell through their distribution channels</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
<tr>
<td>Retailer</td>
<td>Sells directly to the end user</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
<tr>
<td>Sales agent</td>
<td>Searches for customers and negotiates on a producer's behalf</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Wholesaler</td>
<td>Sells to merchants who the resell to end users</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
</tbody>
</table>
Since it is not possible to consider all the nine channel titles for the study, the researcher decided to select four titles (Manufacturer, wholesaler, distributor/dealer, and retailer) in channel management and the customers as an end user for the study. The researcher chosen the industry for the channel study are as follows:

1. Consumer Electronics
2. Paints
3. General Health
4. FMCG
5. Cements
6. Chemicals

The criterion for selection of such industries was more channel member interactions in these channels. A Manufacturers survey was conducted by the researcher for the purpose of finding out the channel interaction level and channel conflict level in each industry during the study period in Chennai city. The turnover details of various industries in Chennai city during the study period is given as below:

1.7.1 Turn over of different Industry in Chennai City during the year 2000-2006

1.7.1.1 The Consumer Electronics Industry

The consumer electronics industry continued its growth path. The consumer electronics industry in India aims a 20% growth per annum to reach $160 billion from the existing $ 22 billion (Rs 95,700 crore) in 2005. With a
market size of Rs.15, 897, 13 crore ($33.89 billion) in 2006, catering to a population of more than 100 core people17.

1.7.1.2 The Paint Industry

In India, Indian Paint industry’s total market size is US$1400 million. The organized sector of the industry is 55%. The 45% unorganized sector has about 2500 units. The overall size of the paint industry has increased to Rs 7,750 crore in 2004-05 registering a growth of 14 percent against 2003-04. The production of paints rose by 7 percent to 7.17 lakh tonne for the year ended March 200518.

1.7.1.3 General Health Industry

Facts about the health care industry trends:

The healthcare sector in India has been growing at an enormous pace. During 2002, India's health care industry contributed 5 per cent to the GDP and employed approximately 4 million people. By 2012, this industry is projected to contribute 8.5 per cent of GDP. Healthcare spending is expected to double over the next 10 years. It is expected that private healthcare will form a large chunk of this spending, rising from US$ 14.8 billion to US$ 33.6 billion in 201219.

1.7.1.4 The Fast Moving Consumer Goods Industry

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13.1 billion. It has a strong MNC presence and is characterized by a well established distribution network, intense competition between the organised and un-organised segments and low operational cost. Availability of key raw materials, cheaper labour costs and presence across the entire value chain gives India a competitive advantage20.

1.7.1.5 The Cement Industry-An Overview
Cement companies are fast developing plants to provide for a rapidly expanding economy. The cement industry is therefore poised to add 111 million tonnes (mt) of annual capacity by the end of 2009-10 (FY 2010), riding on the back of approximately 141 outstanding cement projects.

According to a report by the ICRA Industry Monitor, the installed capacity is expected to increase to 186 mt per annum (mtpa) by the end of FY 2008, and 219 mtpa by end of FY 2009, and further up to 241 mtpa by FY 2010-end. As a result, India's cement industry will record an annual growth at 10 per cent in the coming years with higher domestic demand resulting in increased capacity utilisation²¹.
1.7.1.6 The Chemical Industry – An Overview

Chemical Industry is an important constituent of the Indian economy having approx. US $ 28 billion turnover which is approx. 7% of India’s GDP. In terms of volume, it is 12th largest in the world, and 3rd largest in Asia. Within India, it constitutes about 15% of manufacturing capacity and 20% of the Excise revenue to the Government of India. Chemical industry has weightage of about 13% in the index of industrial production. The global chemical industry is valued at about US $ 1.7 trillion. Of which, India’s chemical sector accounts for just 2%.

Based on the findings of the survey, the following industries were (high channel interactions and channel conflict level) were selected from the six industries along with customers for the study:

1. Consumer Electronics
2. Paint
3. General Health
4. FMCG
5. Cement
6. Chemical
   I- Consumer electronics and for representing the manufacturers brand influence in durable consumer goods segment towards the consumers
   II- Paints, chemicals and cements for representing the influence of wholesaler and distributor/dealer
III - General health and FMCG products for representing the influence of retailer and consumer.

The researcher has considered the following values of channel members for the study:

i. **Information**

Collect and disseminate marketing information about potential and current customers, competitors, and other aspects in the marketing process.

ii. **Promotion**

Develop and share marketing communications designed to inform and attract customers.

iii. **Negotiation**

Reach final agreement on the price and other terms of the transaction.

iv. **Funding**

Acquiring access to funds to finance inventories at different levels of the marketing channel.

v. **Risk taking**

Take on risks associated with performing the functions of the channel. Obsolete or damaged inventory, bad debt, and slow payment are a few examples of this risk.
vi. Physical possession

Store and move products from raw materials to the final customers.

vii. Payment options

The buyers' payment of their bills to the sellers through banks and other financial institutions.

viii. Title

Transfer title of ownership from one organization or person to another. The researcher has considered the following channel members resources for the study:

Considering the respondents’ sensitivity and hesitation in revealing their turnover tax, the researcher did not collect that from the respondents. Since the family traditional trading business houses respondents are not suitable to the formal channel practices in Indian market situation, especially a city like Chennai, they have not been used for the study.
Figure: 1.1

Geographical map indicating Chennai city from where the samples were taken for the study