3. Origin and Evolution of Distribution Patterns
—Distribution Channels

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SECTION I

(A): Introduction

The flow of goods from the points of production to the consuming public in a smooth and uninterrupted manner is important in any economic system. It leads to more efficient exploitation of productive resources, and the improved distribution system yields the benefits (a) of mass manufacture to the entrepreneurs and (b) of mass consumption to the general public. Therefore, if production is one arm of the economy, distribution is the other one. In the field of cotton textiles, the distribution functions deliver the fruits of the progress of the textile mill industry, in general, and the marketing techniques, in particular, to the ultimate consumers as well as the industrial buyers.

Of late, the problem of distribution of cotton textiles has attained paramount importance because of the vastness of the country inhabited by increasing numbers of cloth users, scattered markets, a complex and everchanging demand structure, expanding multiplicity of varieties, finishes and styling. In such a situation the manufacturing achievements of the mill industry alone will not be sufficient; for, what our country needs is not a mere increase in production but 'humanised production and distribution'. The products manufactured by the industry must be distributed efficiently and economically among the different categories of consumers scattered through the length and the breadth of the country.
Efficient distribution depends upon the effectiveness of the distributive machinery, the pipeline or the distribution channels evolved and employed by the management. This vitally affects (i) the success of their marketing efforts, (ii) every established and potential textiles users, and (iii) those involved in the distribution framework. In one approach, the channels are declared to consist of too many stages, and a conclusion is drawn that they are necessarily inefficient. In another approach it is asserted that channels are too highly integrated, with obvious implications as to the growth of monopoly. Both these extremes are dangerous for the consuming public and the general welfare of the common mass.

In other words, this means that the increased efficiency in fabrics production must be matched by increased efficiency in distribution through the installation of suitable intra-company and extra-company distributive machinery.

It is true that, with the growth of the cotton mill industry, a great boost was given to commercial activities in Gujarat, as in the other parts of the country. In spite of this, a cry for fair distribution is heard from various corners. We have been having an age-old distribution mechanism, overcrowded with multiplicity of intermediaries.

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* Glewett, R.M., Marketing Channels—For Manufactured Products, 1934, (p.5).
These chains are being questioned by the cloth users, the politicians, the Governments and, in certain cases, by a few vigilant mill managements.

This is reflected on one hand, in the growing awareness of the need to have more equitable distribution of cotton textiles. The evolution of the public distribution system (discussed later) provided enough evidence of its adoption as a national objective these days. For accomplishing these objectives, the Governments have come out with different legislative measures to regulate resale price maintenance (R.P.M.) and to control the distribution of popular varieties of fabrics. On the other hand, mills have their own enterprise goals. They distribute their products by following the methods which are suited to their organisation and their firm's characteristics.

One of the very important features that makes the process of distribution more lengthy and complex is the distance involved. Fabrics in sizeable quantities are to be moved from a few production centres to numerous consumption areas and spots scattered therein. This and a few other factors compel the mill executives to exercise great care in having efficient distribution on which the health of the mutually interdependent classes—the mill industry, the persons involved in the vertical chain of distribution, the Government and the consuming public at large—depends. The manner
in which the distribution functions are performed by the mills and the commercial establishments influence everybody; because, like other activities, they involve expenditure that affects the per meter selling price of cloth. While the manufacturing aspect involves the conversion of cotton into usable textiles, i.e., adds form utility to the raw material, the distribution task adds time, place and possession utilities by making available the needed fabrics in appropriate quantities in a vast number of assortments at millions of scattered locations. Though the latter does not add to the product's physical properties, it has to be performed because cotton textiles, as said earlier, satisfy one of the basic needs of human beings.

In this chapter, an attempt will be made to examine the development of distribution patterns by mills, the managerial aspect of distribution, the major channel alternatives, the existing patterns of distribution devised by the mill management and those prescribed by the Government for the non-controlled and controlled varieties respectively.

(B): Channel Development and Structure

(1) Concepts of distribution & distribution channel

Distribution relates to the buying and the selling functions of marketing, and to the institutions and the methods
which implement them. It is thus the most important aspect of marketing, covering the physical arrangement, i.e., geographical inlets and outlets for the goods.

Sometimes, the term 'distribution' is loosely used to mean more or less the same as 'marketing'...... Actually distribution is an integral part of the marketing.

Thus, the distribution function of textiles includes all activities connected with the transfer and the flow of products manufactured by mills to the cloth users. The activities include all those undertaken by the manufacturers in addition to the principal ones carried out by the series of market intermediaries such as Selling Agents, Wholesalers, Semi-wholesalers, Commission Agents, Brokers, Retailers, etc.

Concept of channel of distribution

The marketing institutions or stages are collectively referred to as the channels of distribution through which the goods pass to the final consumers. The stages of distribution that constitute this course are the buying and the selling organisations that take title to and possession of the goods and also negotiate purchases and sales. In short, it is a

@ Rastogi, T.N., Marketing of Indian Manufactured goods at Home and abroad, 1965, (p.39).
chain of activities linking a manufacturer to his consumers, which begins at the factory gate and ends with the consumers. Thus, the word 'channel' which has its origin in the French word for canal is a route, trade process or path over which the goods travel in the direction of the ultimate consumers. There exist a number of facilitating establishments which perform number of functions within the channel.

The channel is, therefore, the vehicle for viewing marketing organisations in its external aspects, and for bridging the physical and non-physical gaps which exist in moving goods from producers to consumers through the exchange process, including the determination of price.

All these result in a flow of goods. There are two elements involved in this flow of goods: (i) the flow of transactions, and (ii) the physical flow of goods. The use of an agent middleman involves only transactions while, with the merchant middleman, the two elements coincide. Geographically speaking, the merchant middlemen and the agent middlemen (forming a link) bridge the gap between the producers and the users. In this sense, distance involved is not only in the usual terms of miles (or an equivalent measure) but also in terms of the time involved and the costs of communication and transportation.


The present day distribution channels employed by the mill enterprises in Gujarat (and, in the country as a whole) are an outcome of a long process, the roots of which extend far back to the primitive culture. In those days, persons with very limited wants were almost self-sufficient, and most of the needed items were either produced or collected by them. But, with the passage of time, people began (i) to come under the magic influence of the concept of division of labour and (ii) to specialise in one way or the other in some aspects of economic activity. At this stage of the development it was realised that some of the requirements of a group of potential consumers could be met more efficiently through exchange than production, and the first trade transaction took place when some one obtained a needed thing by exchanging it with the item he could part with.

It was barter.

This was the simple marketing situation. Distribution was direct, intermediariless.

Exchange through intermediaries

The direct exchange process presented certain difficulties. As a result, specialised agencies—middlemen—came into being to facilitate the process. This yielded additional advantages to both the producers as well as the
consuming public which can be seen from the two situations diagrammed in Chart 3.1.*

Today, some consider an intermediary to be an economic luxury. But, during the long past, the intermediary was really an economic necessity as (a) he freed the manufacturer from the botheration of performing so many marketing functions and (b) helped the consumers by providing goods as and when required. (Vide: Chart 3.1).

The number of the intermediaries grew as years rolled by, and their role was further enhanced by their alignment into distribution channels which helped overcome numerous distribution barriers arising out of greatly enlarged and concentrated manufacturing activity.

The channels of distribution undergo a slow change in response to pressures generated by business and economic growth. Just as the masses of water from rainfall and dissolving ice and snow in the mountains and uplands supply the energy which cuts stream and river channels in the soil to carry the water to the seas by the most direct route permitted by the terrain, so the production of goods creates a great force to provide effective marketing channels to consumers. And, it was the growth of industrial

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specialisation accompanied by improvement in the means of transportation and communication which had played predominant role in introducing and making the distribution channels more lengthy and complex.

Here, the essential elements which keep this chain going are (a) the capital invested by the trade at each stage, (b) the risk it takes in giving credit to the next link in the chain, (c) the margin it earns, the service it provides ultimately to the consumer and the producer, and (e) the innovative skills employed by the trade. (In addition to the institutions possessing these elements providing the flow of products, there exists a long chain of facilitating agencies performing auxiliary functions at different points within the framework of the channel.)

Early channels of distribution in the field of cotton textiles:

Before the foundation of the mill industry in India, the consumers used to satisfy their cloth requirements through procurement from the local handloom weavers and from the mills located outside the national boundaries. In those days, the marketers dealing in fabrics were overshadowed by their relations with the British regime. The consumers of cloth

* Speech delivered by T. Thomas, Chairman, Hindustan Lever Ltd. at the Annual General Meeting on 30-6-1975 at Bombay, published in the booklet form—Distribution of Essential Commodities, 1975, (p.5).
were also overburdened with costs resulting from the
distances involved among the channel components for imported
fabrics. The international trade had been making the
domestic trade subsidiary in the absence of mill units in
the State and the country as a whole. According to Odell,
even after the birth of the indigenous mill industry, up to
1914, India was the world's biggest import market for cotton
textiles.

During the infancy of the industry, as the units were
operating on a small scale with the age-old manufacturing
processes and were covering limited areas, the channels of
distribution employed were relatively simple and short. They
used Selling Agents as the immediate link. Because many
of the textile pioneers were foreigners having limited
knowledge of Indian languages and market conditions, they
took the opportunity of having responsible Indian agents to
conduct their selling activities. The numbers and kinds of
components forming the distribution patterns were very
limited. This is very well supported by the fact that in
1905, there were hardly 20–25 traders operating in the

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* Cotton from India was delivered to Britain and finished
  fabrics were brought from Britain to India.

† From the discussion with one of the leading textiles
  merchants of New Cloth Market, Ahmedabad.

§ Mehta, S.D., The Indian Cotton Textile Industry, 1953,
(p.131).

& Bartels, R. (Editor), Comparative Marketing : Whole-
saling in Fifteen Countries, 1963, (p.139).
Again, these intermediaries were operating their establishments mostly on consignment basis because of the poor means of transportation and communications.

All these indicate that in the early years, there was a practice on the part of large majority of the units to entrust the distribution task of their fabrics to outside organisations, instead of involving their own managerial personnel in it. But, gradually with the growth of the indigenous mill industry, the imports declined in importance, the volume of home trade increased and these strengthened the domestic trade structure. A new era dawned for the market intermediaries involved in the distribution of fabrics, where the whole textiles marketing activity was to be characterised by the seller/distributor seeking out the buyer instead, as previously, the buyer seeking out the seller.

In Gujarat, in the post-1947 period, the industry expanded on a scale never before witnessed and, as said earlier, acquired an eminent position in the country—both in terms of the quantity and the quality of fabrics. Simultaneously, the number of potential customers, their geographic distribution, their buying patterns, fabrics

* Ahmedabad Mankati Kapad Markit Mahajan, Navi Markit Udghatan Smarnika, 1962, (p.5).
features such as rate of obsolescence and extent of range of varieties, mills' financial resources, experience and efficiency of managements, their desire for establishing control over the distributive machinery, the availability of desired outlets and the services of the intermediaries, and, above all, the Government regulations exerted a vital influence on the process of designing a distribution strategy by each of the individual mill unit/mill managements.

Today, in the field of distribution of cotton textiles, we find a number of gap-bridgers, viz., the intermediaries at different trade levels, and their vertical relationships give birth to varied channels of distribution from which the mills executives can employ one or more pipe lines for moving their fabrics to the ultimate consumers.

(C): Available principal channels of distribution—
Integrated and non-integrated

The task of identifying the path/s followed by a particular manufactured article in its journey from its birth-place to an ultimate consumer in the modern marketing environment presents certain difficulties; for, the channels are made up of different kinds of building blocks including manufacturers, the wholesale and the semi-wholesale establishments, retail outlets, and the customers like Government and other institutional buyers, industrial users
and ultimate consumers. The possible number of different channel alternatives is large. Chart 3.2 attempts to show the general channels of the flow of goods in an economy, from the simple to the complex and lengthy one. It also mirrors the fact that the different links bear vertical and horizontal hierarchical relationships with one another, and give an indication of the direction and the extent of management control. The horizontally integrated channel involves a single management which controls a number of units all handling the same general assortments of commodities on the same business plane, viz., production, wholesale market or retail market; whereas the vertically integrated channel represents a channel arrangement in which the vertically integrated firm controls a number of different operations in production and/or marketing of similar commodities on successive business levels. From this viewpoint, the channels may be grouped into (i) Manufacturer-owned and controlled, (ii) Wholesaler-owned and controlled, (iii) Retailer-owned and controlled, and (iv) Consumers-owned and controlled.

Chart 3.2 indicates that the available principal channels for distribution fall into two broad groups—direct

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+ Ibid., p.118.
distribution, and indirect distribution.

Direct distribution, i.e., flow of goods from manufacturer to consumer is the shortest and the simplest channel, with no intermediary involved; it is usually executed through the manufacturer's own sales force. The producer may follow different methods such as door to door selling, selling at factory sales room/precincts or through the establishment of own retail outlet.

Manufacturers have other sets of channels where they can make use of one or more intermediaries, both merchant middlemen and agent middlemen, operating at different trade levels. The intermediaries may be independent establishments (non-integrated type channel) or may be owned and controlled either by the producer or by middlemen or by the consuming public (integrated type channel). All these channels involving outside organisations represent the indirect distribution.

The channels used for the distribution of consumer and industrial goods are rarely similar. Mostly one will find that a large majority of the consumer goods are distributed through indirect channels consisting of very many links, whereas quite a large portion of the industrial goods are moved through the shortest channel—direct or via stockist functioning between the customers and the producer.
The mill unit is viewed as the beginning of the distribution pipeline. Therefore, it stands first from which the fabrics are moved to the subsequent links in the channels that embrace not only extra-company dealers and agents but also intra-company organisation for establishing contact with the cloth users.

Where the mill executives in charge of the distribution function feel that the job of designing channel strategy is to do as the other units in the field or industry do, they are underestimating their task. In fact, they have to have 'package programmes', so to speak, in the selection of the channel/s that are best suited to them for securing optimal results.

Organisation for distribution—Mills' sales force

Before examining the channels of distribution of the mills, it may be desirable to study the organisational pattern of their sales force that looks after the distribution and other marketing functions for ensuring the steady flow of their fabrics to the consumption points.

The organisation is regarded as the establishment of authority relationships, with provisions for structural coordination both vertically and horizontally, between positions to which have been assigned specialised task
required for the achievement of enterprise objectives. The sales organisation is, thus, a structural relationships, a framework in which individual effort is coordinated for the performance of the marketing functions including the management of distribution.

(a) Structure of Sales Organisation

The organisation of the sales department generally varies from mill to mill because every mill unit has its own characteristics, even when the persons in the group may be holding the same designations. For instance, the designations of the persons in the sales organisation in a few mills of Gujarat are: Marketing Officer (Ahmedabad New Cotton Mills, Hutam Mills, Haipur Mfg. Co., etc.); Sales Executive (Mihar Textiles); Chief Salesman and/or Salesman (Bohit Mills, Manjusari Mills, Bihari Mills, Shri Vivekanand Mills, Silver Cotton Mills, Rustom Jehangir Vakil Mills, Arvind Mills, Petitad Textiles (NTC Group); Sales Manager (Ramkrishna Mills, Ahmedabad Advance Mills); Marketing Salesman (Commercial Mills, Manager, Civil Market & Manager, Experts (with some group managements—like Sarabhai, etc.).

Again, quite a large number of small mills are managed indigenously by the 'Shethia's, who consider convenience rather than scientific structures and rules as more important.

They believe in 'work to be done'. This presents difficulty in generalizing the structures and functions of the sales departments.

Information gathered through field-work relating to this revealed that there existed a certain relationship between the size of the mill enterprise and the nature of the sales organisation. Many of the smaller units reported that, with a view to avoid diseconomies inherent in the small scale, they depended chiefly on the local wholesale trade level establishments and that they had either not organised any sales departments or had depended upon skeleton ones.

There also existed mill managements which held the opinion that creation of a special organisation for selling goods was not their job, that they produced fabrics in the capacity of a manufacturer only and that the task of 'hunting customers' was the job of others. Thus, in such cases, it was the managerial attitude of the mill unit that determined the nature, the size and the working of the sales division. This attitude was generally found reflected in the managements of very small-size mills, where the small numbers of cloth-sales produced by each could be conveniently distributed by one of the top executives with the assistance of a few assistants or by a very small sales organisation headed by a person designated as Sales Executive/Sales Manager/Chief Salesman or Salesman. For example, Rajnagar
Mills, New Manekchaulk Mills, Bharuch Cotton Mills, Manjushri Mills, Petlad Mills have their salesmen who visit markets frequently to know the trends and who perform other functions relating to distribution.

Not only the volume of production of fabrics but also the varieties/categories of cloth they manufacture are an important determinant of the sales organisation. Mills producing limited lines of fabrics, mostly of coarse and medium varieties, enjoy wide rural market for their 'gamthi kapad', where the competition is less intense, while those producing finer varieties, with the consumers mostly from particular segments of the market, have to face keen competition. The later demands relatively better organisation.

(b) Influence of distribution channels and policies:

The specific distribution strategy—the channels and distribution policy—chosen by a firm determines in a large measure the breadth and complexity of the organisation and the functions of its sales department. The selection of distribution channel(s) sets the pattern for sales force operations, both geographically and from the standpoint of the classes of customers from whom salesmen solicit orders.

Another aspect is the necessity of determining the number of outlets which are to handle the product at each distribution level. This decision, too, affects the size
and nature of the manufacturer's sales organisation and the scope of its activities.*

Here, an attempt is made to examine how selection and employment of a particular channel of distribution sets the pattern of sales force of the mill enterprises operating in Gujarat.

**Mill managements having single units:**

There are many mill units in Gujarat which have been content with the handing over of their goods to specialised agencies for the purpose of distribution. Such units are found concentrating on the manufacture of fabrics and the improvement of the production processes, and do not devote adequate attention to the marketing function.

Moreover, many of them are very often handicapped by their limited financial and managerial resources. They usually employ the services of Selling Agents and/or 'Dalals' and do not have elaborate sales organisations.

For example, Soma Textiles, Ahmedabad, have entrusted

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Soma Textiles is a proprietary concern of M/s R.B. Roda & Co. Ltd., Calcutta, having a capital of Rs.26 lakhs (as per mill statement, The Millowners Association, Bombay, 1975). It is located at Ahmedabad, and manufactures different varieties of fabrics, with an installed capacity of 476 looms.
the task of selling fabrics to a Broker and some regional Selling Agents. These outside organisations maintain their own sales force in order to perform the distribution functions. This has relieved the mill management from the botheration of creating and maintaining an elaborate sales department in their administrative pyramid. The sales organisation is shown in Chart 3.3.

*The concern has its head office at Calcutta and its branch at Ahmedabad helps it in obtaining orders and performing other marketing functions in that region. Hence, it does not have selling agents there.*
The unit has a small group of persons consisting of a Sales Manager, Assistant and 5 to 6 clerks. The principal functions of this group is to go through the offers from the wholesale intermediaries submitted through their appointed specialised agencies and accept them after careful consideration, which then become contracts between the mill and the offerer. Thus, most of them perform only routine or procedural work. The departmental head, though enjoying the designation of Sales Manager, mostly assists the Broker and acts as production planning and control chief rather than a marketing man.

Of course, some of the executives of the mills following this approach had expressed during the interviews with them that, in view of the introduction of numerous legal measures by the Government like the obligations of the production and distribution of controlled cloth, running of mill's own shops at the factory gates and the implementation of such other policies, new responsibilities had to be shouldered by their departments.

Again, distribution through Selling Agents, whose agreements cover allotted regions and fixed quotas, demand

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* The Sales Department obtains the services of additional clerks working in other departments as and when required.

* Offers are in a printed form known as 'Kalaba Form' prepared by their Association.
more care as compared to the Saleselling Agency System, and
their coordination and control sometimes need more market-
ing efforts on the part of the principals, the mills.

**Mill managements controlling groups of mills:**

Some mill units under centralised control may, without
any formal combination of a rigid type and without losing
their independent legal and functional existence, realise
some of the economies of mass marketing, if not of large
scale manufacturing. Such integration tends to mitigate
some of the disadvantages in the field of distribution
arising largely from the small plant sizes.

The mill management groups in both the Sectors—
Private and Public—(i) controlling more than one unit, all
located in Gujarat, and (ii) having some units in Gujarat
and the others outside Gujarat are a major consideration
while selecting the mills to be studied as all exert a vital
influence on their distribution pattern.

**Private Sector Groups**

The managerial and financial integration of mill units
and their complex distribution patterns are vital deter-
minants of the nature, the composition and the working of

* As there is no weaving/composite mill in the cooperative
  sector in the State, the question of examining the
distributive machinery therein does not arise.
the sales organisation.

In Gujarat, some mill units are controlled by a few prominent families or groups, as shown earlier. Their large size, tremendous volume of output of countless offloom varieties, relatively better financial position supported by managerial integration, permit the managements to evolve an elaborate and scientifically developed marketing division that can manage both intra-company affairs and extra-company agencies and all the persons involved in the fields. Here also, the patterns of organization of the Sales Division are found to be dissimilar because every group has its own peculiarities and distribution strategies.

(a) Mafatlal Group:

The group, with its 10 mill units — 5 in Gujarat

* The distribution channel decisions are influenced by the group's characteristics, and the channel strategy affects the structure of the sales organisation. A few sentences will give some idea about the group's characteristics. Mafatlal's is one of the largest textile manufacturing organisations in India. Manned by highly skilled operators and managerial personnel, the Mafatlal Group of Mills produce nearly 6 metres of fabrics every second. Ceaseless research and development activities and rigid quality control help maintain the highest standards of production. ... The Group produce fabrics—in a dazzling variety of weaves, designs and textures. ... Their textiles and apparels are exported all over the world, the bulk of it going to the different countries— Australia, Canada, Denmark, France, Italy, Japan, New Zealand, Sudan, U.K., U.S.A., U.S.S.R. and East European Countries. (Ref.: Textiles in 1974—A Readers' Digest Advertising Supplement, sponsored by the Textile Association (India), pp. xxviii c.)

* Vide: Appendix 3.A.
The Group, instead of relying on orthodox specialised agencies and employing traditional approaches of managing channels like many more units of the industry, had evolved a three-tier system of distribution consisting of intermediaries operating at wholesale, semi-wholesale and retail trade levels.

Consequently, the distribution of fabrics manufactured by all the units of the group, needed a scientifically developed and an elaborate sales organisation that could handle the products of distantly located units and manage the extra-company channels of distribution. In addition to this, selling fabrics in tremendous quantities needed an active support of successful implementation of various policies relating to the products including product development, price, promotion, and general sales methods.

Moreover, the Group tried to establish control over its distribution channels not by promoting and operating its own wholesale and semi-wholesale depots and retail shops—as did the Calico and other groups—but, instead, they imposed social control on the functioning of their intermediaries. Their Approved Dealers had to deal exclusively in Nafatlal's fabrics and were required to sell at prices determined by the Central Marketing Division from time to time. The Group, in
this way, offered a unique system of resale price maintenance. This pattern of control measures helped create and maintain the fabrics' image and, in turn, lessened the botheration of marketing efforts. But all this did require organised and coordinated efforts on a continuing basis.

To meet these requirements, the Group has created the Central Marketing Division—Nafatilal House, as they call it—at Bombay. (See: Chart 3.4) The organisation is headed by a Director, Marketing, who takes care of cloth domestic and overseas trade. It is divided into millwise sections—like Secretariates—each headed by a C.S.M. (Chief Sales Manager), who looks after the distribution task of a particular mill allotted to him.

This organisation issues directives to the manufacturing group-units as regards the lifting of the packed bales from their respective (mill) godowns like a release order from a Textile Commissioner.

The units operating in Gujarat do not have a sales organisation in their respective administrative pyramids. Instead of having sales executives at the mill, they have their sales executives at Bombay. The C.S.M. remains in close contact with each of the mill units. For instance, C.S.M. (for Nadiad unit/s) visits, either alone or with his assistant, the unit/s three to four times in a month, and the Mill's Cloth Department (a) books a call every day at
3.30 p.m. to communicate to him the product details, the number of packed bales, packing details, etc. and (b) on the very same day dispatches samples through 'Angadia', for delivery to their merchants, on receipt next day. Sometimes, 'Kucho' samples are delivered to the merchants, and the transactions are finalised on that basis. Therefore, they say, 'Mahatilal Group of mills sale first and then manufacture.'

The opinions of these executives about the sales activities are of immense value to the Central Marketing Division. It was observed during my visits to these units of Gujarat that unlike the salesman/sales manager functioning in a mill unit, which has entrusted the task of marketing either to the Sole Selling or the Selling Agents merely acting as a manufacturing man, these Sales Managers, though they are away from the mill units, are sales personnel in the real sense of the term. It was once expressed by the Manager of one of the units of the Group: "Our salesmen are the real marketing executives who have to study the regional demand, find out the customers and sell the packed bales of fabrics by keeping themselves in touch with the pulse of the market/s of their region."

(b) Sarabhai Group:

The Sarabhai Group* has a different pattern of distribution. Their cloth distribution system was reorganised in 1955. Formerly they used to sell their fabrics to a few wholesale merchants in the main distribution centres of Ahmedabad, Bombay, Calcutta, Bangalore and Delhi, who, in turn, sold them to smaller merchants throughout India. After 1955, the Calico Mills organised sales directly to over 4000 merchants in small and big towns in the country. They restructured their distribution with a view to taking advantage (i) of wider coverage of market, (ii) of steady supply to all upcountry centres, (iii) of having not more than two intermediaries between the mill and the consumers, (iv) of the possibility of producing varieties and styles to meet the diverse tastes of people in different parts of the country, (v) of having semi-wholesalers who could get cloth directly from the mill at prices fixed by the company, and (vi) of prompt settlement of legitimate

* ... Sarabhai Group has grown, over the years into a vast industrial complex. ... is one of the India's leading industrial organisation.... Calico Mills is the largest single unit of the Group.... the name cali-cloth is a trusted name in textiles....both in India and abroad. It stands for the finest quality and most distinctive fashions in textiles. ... They added garments manufacturing. 
(Ref.: The Western Times, 24-12-1948.)

Today, they manufacture a full range of textiles; Cali-synth: 100% synthetics; Cali-blend: Synthetic/cotton blends; Cali-Cloth: 100% cotton, etc.
(Ref.: ICMP Journal, November, 1974, (p.572).)
complaints by the field staff of the mill.

The Group at present distributes their products under their own trade marks—cali-cloth—throughout the country. Its desire to control the distribution of fabrics all along the pipeline has created the necessity of having a unique distribution system.

With a view to widening the market and accomplishing the above objectives it has followed the practice of operating its own Depots (integrated links) at wholesale, semi-wholesale and retail trade levels instead of relying upon the social control measures undertaken by the Kafatlal Group. In addition to this, it also distributes part of its products through non-integrated merchant and agent middlemen such as Indenting Agents, Territorial Selling Agents (both for different varieties and for particular products, vis., Handkerchiefs), Brokers, and other whole-sales. Simultaneously, it has also granted franchise-distributorships—to some independent intermediaries to deal in cali-cloth. All these add to the complexity of the Group's distribution structure.
distinctively shaped organisation that could manage the company's own depots at the immediate and subsequent trade levels and the independent establishments dealing in their fabrics. (Vide: Chart 3.5*).

The group, in order to meet the requirements generated by its distribution strategies and resultant channels, founded, more than a decade and a half back, a wholly subsidiary company—ILAC Ltd.*, with an authorised and paid-up capital of Rs. 10 lakhs divided into 10000 shares of Rs. 100 each and having its registered office at Ahmedabad.

The ILAC Ltd. has a separate legal existence with a Board of 6 Directors functioning under the Chairmanship of a member of the Sarabhai Family*. However, in practice it is a notional separation as the Calico Mills exercises all rights in devising the policies in its capacity of the Holding Company. In fact, it is an intermediary owned by the Group that functions as a coordinating and distributing authority. And, it meant only an organisational transfer of the mill's marketing personnel to the new institution.

The product lines to be distributed through this

* Charted out on the basis of the Telephone Directory and personal visits to ILAC Ltd., Ahmedabad.

* The entire Share Capital of ILAC Ltd. is held by the holding company, The Ahmedabad Manufacturing and Calico Printing Co. Ltd. (Ref.: 16th Annual Report of ILAC Ltd., 1975, (p.4).)

+ Ibid, (p.1).
The institution forced the Group to divide the organisation into two segments: (1) Textiles Division, New Cloth Market, Ahmedabad. (ii) C.P. * Division, Sarangpur, Ahmedabad.

The Textile Division is further divided on the basis of geographical regions into two categories: Civil Market and Export Market headed by Manager, Domestic Sale, and Manager, Exports, respectively.

At a later stage in the development of the organisation structure, the method of distribution was an important basis, as the management of different links raised different problems. As they sold through their own Wholesale, Semi-wholesale and Retail Stores, there were different Sections headed by, for example, Manager, Wholesale; Manager, Semi-Wholesale; and Manager, Retail. Moreover, in the field, i.e., at each Depot located in Gujarat and outside the State, the institution had mini-organisation structures headed mostly by Regional Sales Executives/Assistant Sales Executives who looked after the distribution of fabrics at their respective trade levels in their areas.

The Chart also indicates that for the distribution of one particular variety only, viz., handkerchiefs, the Group has created one special section headed by Sales Executive

* C.P. = General Products. These include mosquito nets, yarn, socks, knitted banian cloth, blends, etc.
The problem of coordination and control of the performances of these Depots managed by paid employees was considered to be of vital importance in the complex organisation. For the purpose they had a Central Audit Section in the Calico Mills (now, Management Audit Section) with a Sectional Head, 3 Audit Assistants, 5 Audit Supervisors and 7 Audit Clerks, who paid visits to these Depots for audit purposes through which they exercised control. They were the employees of the mills and not of ILAC Ltd.(1)

Generally the question of organising sales forces in accordance with the channels of distribution did not arise in the case of other smaller mills as they did not have such a complex and elongated distribution patterns.

Public Sector Group

The National Textile Corporation Ltd., (NTC)* running

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* The National Textile Corporation was registered under the Companies Act in April, 1968, with Head Quarters at Delhi. The main objects of the corporation are: (1) to run textile mills entrusted to it by the Union Government; (2) to establish cotton mills and run them; (3) to enter into partnership business with any other company, body corporate or person carrying on textile business; and (4) to manufacture and deal in all kinds of threads and knitting yarn. Its initial share capital was of Rs.10 crores, divided into 1,00,000 equity shares of Rs.1000/- each.

(Ref.: ICMP, Report for the year 1968, (p.30).)
some 105* mill units, is the biggest mill management (Group) in the country. But one of the very important features of the Group is that it acts as the custodian general/hospital for the sick mills, with relatively poor health in terms of manufacturing and physical facilities resulting in limited range of fabrics, volume of production, etc. The mills of HTO are scattered all over the country and, in Gujarat, it is the National Textile Corporation (Gujarat) Ltd., that manages the 10 mills as shown in Chart 3.6. (Prior to this, the sales operations of these mills were being handled by individual mills or authorised controller elsewhere and by the Gujarat State Textile Corporation Ltd., Ahmedabad, in Gujarat. The distribution strategies were accordingly laid down by these authorities, keeping in view the practices prevailing in different areas. In Gujarat, the authorised controller continued following the traditional system of Sole Selling Agents, who functioned as Guarantee Brokers.)

Since after nationalisation, the distribution of the products of these mills has been organised through eleven Subsidiary Corporations (Depots) set up later, as depicted in Chart 3.6.

* Sandesh, 7-11-1976.
* Incorporated as a private limited company, wholly owned by the State Government, on 30-11-1968.
* The Chart is prepared on the basis of the information furnished by the office of HTO (G), Ahmedabad.
The Chart shows that the group has its marketing division at Delhi and has 11 Depots in different States that look after the marketing of fabrics. In Gujarat, the Director of Marketing is looking after the marketing of fabrics of all the units in Gujarat.

The Group has always looked at its performance from the viewpoint of the implementation of various socio-economic policies of the Government and not from the commercial angle. For example, it has been in the forefront in the sales of fabrics at controlled prices through mills' Fair Price Shops in predominantly rural areas. It had, by the end of 1978, opened nearly 375 such shops and had operated mobile shops to carry goods to the houses of the weaker section of the society. Similarly, the NTC has launched a scheme with a view to making available cloth to the rural population through the medium of deserving students on the strength of
University and will be extending, it to the other universities; and, through this they hope to sell 20 to 25 percent of their output. The Scheme would involve considerable managerial work.

In addition, the Group at present has its own retail shops at the mills' gates, near the mills and in the market (in Ahmedabad) and has also got franchised retail outlets—the mills' retail authorised dealers—in different districts in the country.

The distinguishing methods, approaches and distribution policies have impelled the Group to evolve a distinctive organisation to look after them. (See: Chart 3.6.)

The Chart shows that the two Chief Sales Executives (functioning under the Director, Marketing) are managing the sales force of the mill units. They perform the task as per the broad policy devised by the Group. Again, each mill has its own sales division. The head of the division submits the sales proposal showing the number of packings, the contents—quantities and varieties, prices, etc., which have to be (i) finalised in consultation with the Chief Sales Executives and (ii) approved by the Director, Marketing.

It is true that the local traditions do continue to influence the trade channels which, in turn, affect the

structure of the sales organisation. For example, out of the 10 units in Gujarat, in 2 units (NM and MM) they have employed the services of 'Dalal's who perform the marketing functions and, there, the Salesmen simply assist the Dalals, whereas in the case of the other mills, which go directly to wholesale merchants and/or territorial agents (for upcountry), the units have each a Marketing Officer or Sales Manager, with a relatively better organisation.

The prevailing textiles environment indicates that the mills are operating under the pressure of increased number of forces. The changing structure of demand for cotton fabrics is bound to bring about a further metamorphosis and the textile mills, in future, should experience great changes in fashions, fabrics preference, buying habits and patterns, tastes, etc. even among the masses. The ever-changing manufacturing and marketing methods, the Government-generated new-ideology-based public distribution system, and constraints on competitive distribution would all have their combined influence on the mills' operations.

These will necessitate, on their part, a constant review of the situation and the taking of quick ameliorative actions including the adjustments in the sales force to continue maintaining their competitive positions. In particular, those mills having no sales department or those having one but relegating it to a subordinate position will have to
exercise greater care; and, those who have elaborate organizations will be required to restructure them to make them more scientific and the intra-company marketing personnel more efficient. Simultaneously with this, the marketing efficiency of the wholesale trade level intermediaries on whom many of the mills still predominantly depend will also need to be improved for an integrated and coordinated growth. Thus, the twin-dim should be to improve distribution efficiency as well as lower the cost of distribution by raising the standard of operating skills of the unit's own marketing personnel as also by streamlining the extra-mill distribution system.

SECTION II

(E): Distribution pattern of cotton textiles:

Out of the numerous factors that affect the choice of the channels of distribution, the more important ones are:

(1) The nature and extent of market for the products, including the buying habits of customers and potential customers. (2) The existing trade channels for products of similar nature and the extent to which such channels are used by competitors. (3) The financial resources of the manufacturer. (4) The kind of assistance the manufacturer

plans to provide to the channel/s utilised. (5) The forms of cooperation which the manufacturer desires and expects to receive from his outlets. (6) The preferences of executives.

Above all, in India, the Government legislation and regulations relating to distribution of cotton textiles is a most powerful influencing factor.

The influence of these factors varies from unit to unit. Hence, the distribution patterns of cotton textiles market of Gujarat are characterised by exceedingly complex networks of intermediaries. Chart 3.7 indicates them. It also portrays some of the alternative channels employed by the mills for both the categories of fabrics, viz., the decontrolled and the controlled cloths.

The mills' products are mainly grouped under the category of consumer goods but, since they are used by a few industrial units as shown in Chapter 3, they can partly be put under the category of industrial goods; and, mills in Gujarat do deliver goods to some industrial establishments

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Cotton textiles produced outside the State are also distributed throughout the markets of Gujarat. But lack of precise information regarding the cloth coming from the neighbouring areas as well as from other distantly located mill enterprises has prevented me from sketching out a fuller picture of the distribution pattern of cotton textiles. The Chart, in other words, presents the networks of the cotton textile fabrics produced in Gujarat and distributed in Gujarat.
and institutional buyers, following shortest possible channels, as shown in the diagram. Again, as mentioned in Chapter 1, the mills of Gujarat have considerable shares in the total exports of fabrics to different countries; and, they usually make their own arrangements for the purpose.

As is clear from the Chart, for distributing their products in the domestic markets, the mill managements have a series of options for selecting the channels at the wholesale and/or the retail trade levels. The indirect distribution form linear and cross channels composed of a number of market intermediaries or an optional combination of both direct and indirect distribution systems.

In the present-day complex economic system, cloth being an essential commodity, it is widely realised that legislative protection to safeguard the interest of its users is necessary. Accordingly, the Government has taken various measures to ensure an adequate supply of cloth at reasonable prices. The statutory production, price and distribution controls imposed by the Government under the Cotton Textiles (Control) Order, 1948, also affect the distribution channels and standardise the latter, at least for the quantities of the output covered through the fixed percentages. The controls, therefore, restrict the freedom of mill managements to evolve and adopt the distribution channels according to their own total marketing strategy.
The channels of distribution employed by the mill enterprises in Gujarat can be divided in two broad categories:

1. Channels of distribution devised by the respective mill managements.

2. Government prescribed uniformly employed channels.

(1) Channels devised by Mill Managements (for non-controlled fabrics):

The mills are free to design their own distribution strategies for the cotton fabrics not governed by any statutory control. They can employ any one of the channels described earlier, or can evolve their distribution structures by combining more than one channel. Whatever may be the combination, basically the channels employed for this category of cloth can be further grouped into (i) indirect distribution, and (ii) direct distribution.

(A) Indirect Distribution

(a) Non-integrated

(i) Utilising the services of Selling Agents

Distribution of cotton textiles through Agent Middlemen at the wholesale level, acting as the first link in the vertical chain of distribution, is one of the channels widely employed

* These do not apply to those mills which are exempted from the controlled cloth obligation.
used by the mills in Gujarat. Usually, the mills which desire to concentrate only on the manufacture of fabrics favour the appointment of Selling Agents to disencumber themselves from the rigorous of distribution management.

As stated earlier, the Selling Agencies had their origin in the early years of the Indian cotton mill industry making efforts for supplying their goods for civilian consumption, and they are still important marketing organizations in the field of cotton textiles. The 'Selling Agency System' has been the prime mover of packed bales from the points of production to the different textiles markets, local as well as upcountry.

My field-work showed that the mills having Selling Agents as first link did not consider the distributorship at this stage as 'open'. They adopted a policy of selection and restriction rather than indiscriminate selling through any such establishments. They usually granted franchises to a selected few which resulted in exclusive or territorial (regional) distributorships in specified areas. Their appointments were made by the mill managements in accordance with the provisions of Section 294 of the Joint Stock Companies Act, 1956. Where the appointments were made by the Board, the approval of the Annual General Meeting was

* Singh, I.D., Marketing of Mill-made Cotton Fabrics, A study in Uttar Pradesh and Delhi, 1966, (p.40).
necessary. These agents were made responsible, under an agreement, to sell the mills' production as per the defined terms and conditions. They operated on behalf of the mill managements whom they represented, though they were not integrated managerially and operationally. Therefore, their organisations could be regarded as the extension of the respective mills' marketing divisions. Chart 3.8 exhibits the key position of this intermediary in the complex structure of distribution.

The Selling Agents practically enjoyed a key position from the viewpoint of the sales they effected. They often handled entire outputs of the non-controlled items. As per the estimates of the experienced business people, in Gujarat, between 50 and 60 percent of the total cloth gets, in the first instance, channelled through this link, leaving the rest getting out directly through the mills' own retail shops and the cooperative and other institutional buyers. Many a time, the Selling Agents extend financial facilities to and perform functions connected with credit and collection for their Principals, the mills.

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* Cf. "Any appointment of Sole Selling Agent made by the Board shall cease to be valid from the date of the meeting, if it is not approved by the company in the first Annual General meeting held after the appointment." (Ref.: Shukla, M.C., A Manual of Mercantile Law, 1974, (p.374).)
Apart from their financial soundness, capabilities and experience, integrity, preparedness to advance sizeable amounts as deposits, and such other factors, the handsome incomes that the Selling Agencies could earn motivated many mill managements to organise selling agencies as separate de jure establishments—the taxation laws were a major contributory factor. In most cases, they were de facto owned and managed by the members of their families or close relations of the respective mill-owners.

My analysis of the terms and conditions incorporated in the provisions of various franchise agreements showed that they were not uniform. The appointment pattern, the tenure, the amount to be obtained as deposits from them, the rates of commission, etc. varied from mill unit to unit. Table 3.1 represents the chief de
products, including yarn, to their common Sole Selling Agents—M/s Harivallabhdas Kalidas Private Ltd., whereas

The New Jehangir Vakil Mills had appointed two different Sole Selling Agents—one for the distribution of all varieties other than the higher medium categories, and the other for the sale of the higher medium categories only. In some mills, a combination of both—vis., sole selling agents/broker and regional selling agents—was adopted.

The mills which followed the practice of employing Regional Selling Agents were of the opinion that, compared to the Sole Selling Agents enjoying extended areas of operation, the Regional Selling Agents were more significant links that promoted and effected sales to the wholesale dealers in their respective regions. They also were better suited to keep the mills informed about the demand structure, the likely trends in the fabrics preference, the design, the colour combination, etc., and the practices of the competitors. Therefore, some of them employed 10, 15 or more such Territorial Selling Agents.

Tenure:

The periods for which the contractual relationship existed between the two parties were also found to vary from unit to unit, though in no case did the tenure exceed five
years. The mills appointed the Territorial Agents, in the first instance, usually for a period of one year each and, thereafter, depending upon the latters' performance, they reappointed them for further periods of one or more years. (Yes, the Ambica Mills, the Arbuda Mills and the Vivakanand Mills had appointed them for 5 years each.) Generally, this depended upon the relations between the parties.

Renumeration:

The franchise agreements embody the terms governing the rates of commission to be paid to the agents, which also vary from unit to unit. Normally, they fluctuated between 1/3 % to 2 % on the sales. The general practice is of the payment of commission at a flat rate irrespective of the quality sorts of the fabrics, the area of operation and other considerations. However, mills are also there, who remunerate their agents on the basis of categories of cloth. In such cases, the rates prevailing in Ahmedabad market are 1/2 %, 1% and 1 % for coarse, medium A & B, and rest of the varieties respectively.

It may be appropriate to mention here that the mills in

* In accordance with Section 294 of the Joint Stock Companies Act, 1956, no company must, after December 28, 1960, appoint a Sole Selling Agent for any area for a term exceeding 5 years at a time, the renewals for 5 years at a time being permitted.

(Ref.: Ibid, p.574.)
Gujarat pay commission only on the sales that are actually effected by the agents. But there are some exceptions to this, when a mill selling directly to the Wholesalers or other intermediaries in the defined territory of an Agent, also allows an over-riding commission to the Agent on such direct sales; e.g., The Arvind Mills Ltd. give $\frac{1}{2}$% commission to their agents on all sales effected by it either directly or through other links in the respective defined regions.

Similarly some mills prescribe different rates of commission for different territories. Thus the Marwadan Spg. & Mfg. Co. Ltd. gave 2½% commission to their agents for Madras, Mysore & Kerala, and only 1½% to those operating in the other States. The same was the case with the Arvind Mills Ltd., which had fixed 3½% for the sales in Ahmedabad & outside but 1½% for sales in the other States, where more than 16 Selling Agents were operating.

**Deposits:**

Some of the mills require deposits from their agents, which serve both as a risk cover and as a source of finance for them. In fact, the role of Selling Agents as financiers was recognised since the birth of the mill industry. The amounts of the deposits varied generally between Rs.20,000 and Rs.50,000, though there were mills like the Aryodaya Ginning & Manufacturing Co. Ltd., which prescribed a deposit of only a nominal amount of Rs.5,000. (The mills do give
interest on the amount of the deposits, though the rate varies from unit to unit.)

The widespread use of the services of the Selling Agents was an evidence of the faith the mill managements had in them. Moreover, many of the sales executives who were interviewed had pointed out the benefits of the system, viz., that it enables them to control the selling price and other terms of sale for the mills' fabrics.

It needs, however, to be noted here that, since the Selling Agents do not take title to the goods, the packed bales of cloth remain lying with the mill units until sales are negotiated and completed and the risks arising out of damage, obsolescence, decline in price, etc. have to be born by the mill managements. These mills sometimes faced the problem of maintaining inventories which, otherwise, was a function of the wholesalers. It was true that some 'boli' mills did not face this difficulty, but the situation with the less reputed ones was not so happy. It was also true that the Agents of the renowned mills sometimes were in a better position than their principals.

Secondly, the selling was a job entrusted to the Agents, for which they kept their own sales force over whom the mills

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* Mills enjoying greater reputation amongst the fabrics users.
did not exercise any control. Consequently, the degree of dependence on the firm was greater in each case. Those of the Agents who were affiliated to and financially interested in the respective mill's affairs, no doubt, exercised all prudence and care and remained loyal to the Principals. But, when the Agents represented competing unit/s, the concerned mills were hit hard, occasionally.

During my field-work at some of the mills, it was observed that the millowner had to be in the hands of their Agents who dictated the product planning & development as well as the distribution plan.

In spite of these limitations, as revealed by this study, apart from the smaller units, even large and long-established mill enterprises with relatively sound financial structures had been employing their services, even if for some of their products or selected territories. A number of mills had reported that, right from the days of their infancy, they had been using the services of Selling Agents. For example, the Ambica Mill, established in 1926, had been using the System during its life of over 50 years.

In other words, as long as the law would permit, the institution of Selling Agents would continue to exist where the mill enterprise (i) was small in size, (ii) needed financial support, (iii) produced limited range of
varieties* of fabrics, (iv) required constant market representations and merchandise distribution, and/or (v) desired control over distribution channel up to that stage.

(ii) Utilising the services of wholesalers

Another traditional distribution chain adopted by a number of mill enterprises in Gujarat appears as in Chart 3.9. Here the wholesale merchant middleman forms the first link in the chain.

Many mills in Gujarat deliver goods to the wholesale merchant middlemen directly or through their appointed agent middlemen. Generally, wholesalers themselves pay frequent visits to mills. A few mills reported that their salesman/sales manager paid visits to the central wholesale markets for obtaining orders. Their position in the distribution structure can be seen from Chart 3.9, where they appear as the first link.

The strength of independent wholesalers attached to each particular mill depends upon its distribution channel

* If the mills producing innumerable variety - fabrics with, for instance, advertisements reading: "Beautiful fabrics to adorn you beautifully—fabrics from Shri Ambica Group are designed to clothe you beautifully... In a provocative range of colours and patterns... All enticingly feminine... Made to fit every mood and every occasion " used
strategy which differs from unit to unit. But, from the viewpoint of the number of such middlemen, the mills which channel their packed cloth bales through these intermediaries can be classified into three groups: (1) Mills granting exclusive agency through franchise agreement. (2) Mills employing selective distributive organisation. (3) Mills keeping the distributorship open, i.e., intensive distribution.

(1) Exclusive wholesale middlemen:

Exclusive distribution is super selective; it gives a single middleman protection against competitors handling the same product.

Under this system/policy, a written agreement is made between the mill managements on one hand and one or more wholesalers on the other, each assuming certain obligations mentioned in the document.

There are some mills in Gujarat that grant franchises for the selling of their fabrics. For example, the Mafatlal Group has a policy of restrictions, and the distributorship at this stage is limited to a few who can act as exclusive dealers. Though, the wholesale establishment is not ownership—managerially integrated, the Mafatlals exercise great control

over the functioning of their dealers.

The practice of having sortwise/categorywise sole distributorship at this stage is also adopted by a few mills in Gujarat.

The field-work showed that mills which had established a name in the textiles world or which had other comparative advantage vis-a-vis an average mill could enforce the trade relations more strictly and employ only restricted number of selected wholesalers.

Here, the mill agrees to distribute its products within a defined region or market only through the wholesalers whom they grant exclusive dealership. These dealers, on their side, cannot deal in the fabrics of other mills as also cannot be partners in the firm/s dealing in competing products or substitutes. Unlike the Selling Agents, they buy packed bales on an outright basis.

The number of wholesalers per mill depends upon so many factors including the company's volume of output and the nature and extent of the market to be covered. For example, the mill units at Nadiad have 15 such exclusive wholesalers as against over 55 wholesalers attached to the entire group.*

* The Group appoints the wholesalers, millwise, zonewise, as also according to the types of fabrics. For instance, some wholesalers like M/s Dwarakadas & Co. and M/s Varadhlal Karshandas enjoy sortwise monopoly also.
They have to operate their business in accordance with the contents of the agreement. The fabrics in mill packed bales, allotted earlier, are supplied to these approved wholesalers at ex-mill price + excise duty, which in turn, would be sold by them at the resale prices fixed by the division to the next link/s or customers. This gives them a fixed remuneration or margin. For example, the wholesalers of New Shorrock Mills (Mafatlal Group) sell to their customers at 6 % (on ex-mill price) on cotton and plain varieties and $\frac{1}{2}$ % (on ex-mill price) in fancy varieties.

The payments of the invoices have to be made by the wholesalers to the mill management in only 4 days' time as against in 12 to 30 days allowed by a few other mills in Gujarat.

In addition to this, they are given a list of retail outlets—their approved dealers—to whom the goods have to be supplied by the wholesalers regularly as per the formers' needs at the prescribed prices.

The Group, in order to perform their planning functions accurately, compels its wholesalers to submit returns revealing the varietywise sales figures, the stocks and the claims from the subsequent links. This assists the management in visualising the demand trends. For instance, if the demand drops, the pipe-line will be overloaded and this information will actuate the mill unit/s to slow down their production.
Similarly, if demand increases, the pipe-line will be empty and this will actuate the mill unit/s to increase their production.

The two chief secrets of the success of the policies of the Mafatlal Group have been (i) the continuous assessment of the stocks lying in the pipe-lines, and (ii) the cash collection consciousness on the part of the mill management. Certainly their price strategy, too, is an important contributory factor. The prices are fixed by them on a long-term basis and frequent changes in them for the non-controlled varieties is a taboo, so to speak, to them. For instance, the price of Madhukunj poplin had remained unaltered from 1956 to 1964.

(2) Selective distributive organisation;

Selective distribution involves selecting only those wholesalers who can best serve the interests of the manufacturer. Here, most mills select and restrict their association to those wholesalers who have the best credit ratings, larger sales volumes, or some other qualitative ranking. The emphasis is more on the ability of a party to make sizeable contribution toward a large sales volume.


Based on the discussions with the mill's senior executives.
Though the number of such selected dealers also depends upon the size and the market area to be covered by the mill units, compared to the system of exclusive dealers, usually their strength is larger because their appointment/selection involves lesser commitment on the part of mill managements. The number of such wholesalers found with the mills adopting this system varied from 6 to more than 30. A large majority of the mills—particularly those producing finer varieties—in Gujarat employed this system. Over a dozen managements, from amongst the mill units which were depth-studied, had reported that they neither entered into an agreement with them nor defined any region for them or set any quotas to be supplied to them.

In the textiles trade, this type of franchised or selective distribution assists the mill managements (i) in obtaining preferred outlets possessing an ability (a) to perform distribution functions efficiently, and (b) to develop a regular, large dependable sales volume; (ii) in attaining relatively greater stability of distribution through the outlets owing to their sound financial position, credit-worthiness and long standing in the business; (iii) in establishing control over distribution by exercising control over some of the more significant aspects of their functioning (as explained earlier) including the elimination of dangers of price cutting, and (iv) in minimising the
distribution costs resulting from limited number of links and fewer accounts meaning, in turn, reduction in the clerical force needed for the performance of the functions like accounting, credit, shipping and correspondence. Sometimes, the excellent reputation of the selected intermediary may also help the mill managements to generate more sales.

So far as the reputed mills are concerned, the problem of protecting the wholesalers from the competitors does not arise. For instance, one of the approved dealers of Mafatlal Group had informed me: "The wholesalers of this Group are not wholesalers in reality. They simply act as financiers, as the Group always takes adequate care in developing products, exercises rigid quality control and promotes its products, which leaves very little marketing botheration for the wholesalers. They make immediate payment (within 4 days) and earn 6 to 6½% in nearly 30 days time."

(3) Open distribution system:

Some of the mills neither award franchise rights nor select dealers but distribute their fabrics through any of the wholesalers functioning in the market. The strength of the latter varies from mill to mill, depending upon the volume and variety of products manufactured, the structure of the sales organisation, etc. Usually, such mills are those having
no reputation (i) because their products are sub-standard or are of the generally accepted varieties like coarse or medium fabrics, or (ii) because they do not have long-term policies, or (iii) because it is a marketing strategy with them not to establish permanent committed relationships. Most of the NTC-mills, the Advance Mills, the New Gujarat Cotton Mills, the Vijay Mills, the Swadeshi Mills, etc. may be said to fall in this category. It was observed that, in their case, the terms and conditions of each transaction, though governed by the standard contract, depended upon the market conditions prevailing from time to time.

(iii) Utilising the services of Dalals:

Another first-stage intermediary employed for the distribution of cotton fabrics by some mills in Gujarat is the 'Dalal' for local and/or 'dasbaver' market. (Vide: Chart 3.10).

The Dalal neither takes titles to nor possession of the goods. He acts, so to speak, as a public relation officer and furnishes market information. He assumes a little more responsibility than an ordinary market broker. Many a time, the Dalals (i) negotiate sales and give guarantee that the concerned buyers will accept the bales of cloth and make the payment, and (ii) perform all marketing functions.

* Outside Gujarat.
Chart 3.10

PC = Prescribed channel
DD = Direct distribution
IU = Industrial users
RGP = Readymade garment plants

D/B = Dalals/Brokers
WS = Wholesalers
SWS = Semi-wholesalers
R = Retailers
SA = Selling agents
While they are considered as important first link in the distributive channel by the Vijay Mills, the Rustam Jehangir Mills and the Maneklal Harilal Mills, many other mills also employ the services of one or two selected Dalals who can successfully operate for them in the local market which takes up large volumes of their output. Thus, for example, Soma Textiles, Ahmedabad, employs the services of the Broker M/s Madanmohan Govindlal & Co. mostly for local markets on a commission of 1/2% on sales. The Broker keeps in constant touch with his known wholesalers and disseminates information about the sorts and varieties marketed by the mill he represents. And, all the orders from the parties will be placed through him in a 'Kabala' form (describing the terms & conditions of the contract). Occasionally the mill may book direct orders; but even there, it does so in consultation with its Broker, who enjoys a commanding position in the mill's distribution structure.

The conditions on which these Dalals function in the textiles market of Gujarat are also found to be varying from mill to mill. Many of them have long-standing mutual relationships that have their impact on the terms of the employment of the Dalals concerned.

This system gives rise to the need for having Selling Agents for the distantly located textiles markets. For example, Soma Textiles, using the Broker system, had
simultaneously appointed M/s Lakhota Trading Co., M/s Aggarwal Textile Agency and M/s Simplex Yarn Agency as Selling Agents for prescribed periods, rates of commission (varying between 1 % and $2 \frac{1}{2} %$ on ex-mill prices) and specified territories.

The Dalals in Ahmedabad keep themselves in touch with the central wholesale markets like Maskati Market, New Cloth Market, Panchkuwa Market, Surat Textiles Market, and even with some out-of-the-State markets. Some of them were found to be employing their own sales force for the performance of some of the marketing functions on behalf of the mill enterprises they represented.

Again, some of the Dalals were found running their wholesale establishments—like the wholesale merchant middlemen—in the central market from where they operated as Dalals also. This co-functioning as wholesaler and Dalal helps them in both hunting the customers or knowing them intimately as regards their credit-worthiness and reliability.

While the Dalals earn their lawful commission at prescribed rates, some of the mills executives, who were interviewed, had stated that some of the unscrupulous Dalals tried to inflate their incomes through underhand practices. They exist—and, occasionally flourish—owing to the operations of the sub-marginal and weak mill units in the market.
Direct sales to retailers or bulk buyers

Direct sales to the retail outlets are practically confined to very limited segments in the field of cotton textiles and are an exception rather than a rule. Firstly, the wholesale intermediaries on whom the mills depend generally do not permit the mills to do so. Secondly, the individual retail outlet's buying capacity per transaction is limited, which prevents the purchases of packed bales from the mills. Even if the mills are interested in effecting sales of assorted bales, owing to the problems of excise duties, etc. they will not be in a position to do so. Hence, such practices are restricted to a few big-buying units like Departmental Stores, Super Markets, Cooperative Sector establishments (as per statutory provision) and a few retailers who have close relationships with the mills.

However, as part of the marketing strategy, a few mills do, in order to regulate the prices of their fabrics, sell them at ex-mill prices to their approved retail outlets.

Franchised distribution—at retail trade level

Distribution of fabrics through exclusive dealers operating at the retail trade level is also a system followed by the mill units in Gujarat. These selected outlets are known as 'approved shop', 'approved retail agency' or 'authorised retail shop'.
While designating an outlet as an approved shop, the mill usually evaluates the potential outlet against the set criteria such as its ability to contribute towards the total sales, its capacity to promote local advertising and goodwill, its financial position, creditworthiness and integrity, etc.

Mills like those of the Sarabhai Group have been distributing their fabrics through their own retail shops as well as approved shops or retail agencies. In addition to their own 'Calico' shops located at Ahmedabad (3 shops), Vadodara, Navsari, Surat in the State, there were eleven exclusive stockists appointed by the Sarabhai Group at Bardoli, Himmatnagar, Jamnagar, Junagadh, Manasa, Petlad, Rajkot, Sathamba, Surendranagar, Una and Upleta in Gujarat.

On the other hand, the Mafatlal Group Mills follow the system of selling only through their authorised/approved shops. Table 3.2 presents the list of 15 such dealers located at 12 places in Gujarat.

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* Sandesh, 3-10-1976. The Sarabhais had also such exclusive stockists in a number of cities and towns in the other States in India.

† Sandesh, 29-9-1976. The Mafatlals had also appointed approved retail dealers in the other parts of the country; for example: Bombay—Colaba, Kalbadevi, Sheikh Nemon St., Opera House, Parel, Dadar, Khar, Andheri, Malad, Bion, Ghatkopar, Kalyan; Pune; Jaipur; Indore; Delhi; Madras; Calcutta; Bangalore, Hyderabad, etc.
The approved dealers are usually awarded a Certificate
on the following lines by the mills management:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name &amp; Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fair Price Cloth Stores, Ahmedabad.</td>
</tr>
<tr>
<td>2</td>
<td>Fair Price Cloth Stores, Ahmedabad</td>
</tr>
<tr>
<td>3</td>
<td>Shalibhadra, Ahmedabad</td>
</tr>
<tr>
<td>4</td>
<td>The New Shorrock Mills Cooperative Consumers' Society Ltd., Nadiad.</td>
</tr>
<tr>
<td>5</td>
<td>Fair Price Cloth Stores, Vadodra.</td>
</tr>
<tr>
<td>6</td>
<td>Fair Price Cloth Stores, Surat.</td>
</tr>
<tr>
<td>7</td>
<td>Cloth Centre, Surat.</td>
</tr>
<tr>
<td>8</td>
<td>Fair Price Cloth Shop, Navsari.</td>
</tr>
<tr>
<td>9</td>
<td>Fair Price Cloth Shop, Rajkot.</td>
</tr>
<tr>
<td>10</td>
<td>Prema, Morvi.</td>
</tr>
<tr>
<td>11</td>
<td>Bhavna, Junagadh.</td>
</tr>
<tr>
<td>12</td>
<td>Cloth Emporium, Jamnagar.</td>
</tr>
<tr>
<td>13</td>
<td>Riddhika Fabrics, Porbandar.</td>
</tr>
<tr>
<td>14</td>
<td>Ashwin, Upleta.</td>
</tr>
<tr>
<td>15</td>
<td>Anu Bharti, Anand.</td>
</tr>
</tbody>
</table>
CERTIFICATE

Date:

Name:

Address:

Are hereby appointed to act as

Approved Retail Dealers for

The Mafatlal Group of Textile Mills

consisting of:

   Standard Mills, Bombay.
   Standard (New China), Bombay.
   Standard, Devas.

   Mafatlal Fine Unit No.1, Navsari.
   Mafatlal Fine (Susan) Unit No.2, Bombay.
   Mafatlal Fine (New Union) Unit No.3, Bombay.

3. Mafatlal Industries Ltd.
   New Shorroek, Ahmedabad.
   New Shorroek, Nadiad.


 They will deal exclusively in fabrics manufactured by
the above Companies, they will sell these fabrics at prices
not higher than the retail prices approved by the manu-
facturers, and they will not stock and/or sell any goods
manufactured by others.

Stamp

(Signature of the
authorised executive)
The Certificate specifies the most essential conditions of the contractual relationship. Moreover, for establishing control over their functioning, some mill managements compel them (i) to submit the variety-wise stock returns, and (ii) to communicate the particulars of the sales realized by them every day.

This means that the implementation of this policy necessitates the running of an elaborate, well-structured marketing division equipped with competent sales personnel; for, great care has to be exercised in managing the distribution machinery. Again, for a long time, this policy was employed only by reputed mill enterprises like the Mafatlal Groups, the Sarabhai Group and the Tata Group* producing fabrics in a dazzling varieties of weaves, designs and textures which possess a high image among the consuming public.

Recently, however, the NTC Group has adopted this method for the distribution of both controlled and non-controlled fabrics produced by its mill units. It had

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*Cf.: An AIR CONDITIONED Retail shop dealing in fabrics of Tata (Textiles) Group controlling The Ahmedabad Advance Mills Ltd., in Gujarat and 3 mill units in Bombay (2) and Nagpur (1) was inaugurated on 2-5-1976 in Ahmedabad. A characteristic feature of the step was that it is owned by The Ahmedabad Advance Mills Employees Cooperative Credit & Supply Society Ltd. (Ref.: Sandesh, 1-5-1976.)
243 such authorised retail shops located in all the 10 districts of Gujarat.

The mill managements having Sole Selling Agents are not usually found to be having authorised retail shops as they have to depend to a great extent on the wishes of their agents.

(b) Integrated mill management-controlled channel:

Regardless of what distribution channels the mills use, some of the managements advocate the establishment of their own distribution depots and their own employees. In fact, the system is steadily becoming universal. In certain cases, it is the pressure of certain problems which the mills face while distributing their fabrics through independent wholesale intermediaries that impel them to bypass the latter and found their own depot/s at any level for marketing either the entire output or parts thereof.

Most of the mill managements exercise partial control over the distribution by operating their own shops only at the retail trade level. A unique exception is that of the Sarabhai Group which has its own closely guarded and efficiently structured network of depots at all trade levels in Gujarat as also in the other states in the country as shown in Chart 3.11.

* Source: Office of the MTC (G), Ahmedabad.
In fact, ILAC Ltd. itself is the first link in its vast distributive chain, that is owned by the Sarabhai Group, and to which the entire outputs of its constituent mills get transferred in the first instance. The organisation, with its geographically well-dispersed depots, replace the independent wholesalers, the semi-wholesalers and the retailers, to the extent the goods are delivered by them. Consequently, for these portions of the market they assume and perform all the functions and undertake all the responsibilities of the eliminated middlemen, such as staffing, supervising the sales force and coordinating their activities, financing inventories throughout their owned pipe-line and assuming risks inherent therein, and controlling and ensuring the flow of fabrics from the mills to various trade levels—links everywhere in the country.

The distribution through one's own depots means invitation to a multiplicity of managerial and financial burdens and problems. Hence, the adoption of the system—even if partially—is limited to the mills which have ample finances and numerous product lines. Viewed from another angle, it indicates that so long as mill units, which are financially not so sound and managerially not so competent, exist, the independent intermediaries—at all levels—will continue to play significant roles in the distribution of the mill-made cotton textile fabrics.
(B) Direct distribution: Integrated

It is the decentralised consumption of fabrics that requires mass marketing mechanism. The recent years have witnessed the introduction of a radical change from the traditional "Mill—S.A.—W.S.—R." channel to direct distribution. Though, it is impossible for a manufacturer to reach and establish relationships with all the innumerable fabrics users, a progressive and rapid expansion in the producers' entry at the retail level is a distinctive feature in the march.

Direct distribution implies the delivery of fabrics by mills to the ultimate consumers including the shareholders, employees and other institutional buyers without the involvement of any outside organisation. The mills employ their own sales force up to the retail trade level. Generally they deliver fabrics to the customers in two ways: (i) by establishing and operating their own retail shops in as close proximities to the consumers/users as possible, and (ii) by organising sales in the cloth department/factory sales room.

The genesis of the system can be found in the years of the Second World War, in particular. The mills used to distribute some types of fabrics at fair prices to their employees as part of the welfare programme prior to
Independence. The cloth was supplied to the mill workers and their dependents according to their wage-scales, under the Cloth Distribution Scheme which was in operation in October, 1946. Bonus in kind (cloth) is also granted to the mill-hands. For instance, in 1975, the mills had distributed cloth worth approximately Rs.1.25 crores among their more than 35 lakh workers free of cost.

Donations of cloth for destitutes and flood & earthquake struck people, cloth to the refugees, recovered women and children, etc. are the important ways through which the mills distribute the fabrics directly.

The system of distributing fabrics through own shops in the markets, on a commercial basis, has gained popularity, particularly, during the last decade to the chagrin of the independent retailers. The latter had, as early as in 1984, voiced their objections against this practice of the mills directly as well as through The Cloth Retailers' Federation and Gujarat Vepari Maha Mandal to the Ahmedabad Millowners' Association. It was expressed by the millowners that they

+ Sandesh, 15-3-1976.
- Communication No.45-54 dated 14-10-1984 addressed to The Ahmedabad Millowners' Association.
maintained their shops principally for the purpose of advertising and propaganda.

Initially, some mills had started their shops and showrooms to serve a two-fold purpose as a sound medium of publicity and sales promotion, and as a laboratory for market research. Later, the expansion aimed at competitive existence with the independent retailers in the cities and big towns and at gaining a partial control over the retail trade level.

Unlike the Delhi Cloth & General Mills Co. Ltd., Delhi which had about 550* own retail establishments in India, in August 1976, even these mills of Gujarat adopting the system had a maximum of a dozen-and-a-half each. Actually, the estimated total number of the retail shops owned by the entire Indian mill industry, located in Gujarat, was no more than 550 in September 1976.

The increasing pressure on the sales organisation, the inefficiency on the part of mills’ agencies to stimulate demand and widen market for mass manufacturing, the necessity of developing markets for newly developed fabrics, etc. are the chief factors that motivate the mill managements to distribute directly.

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* Gujarat Samachar, 28-9-1976. (Including retail agencies)
In Gujarat, apart from the shops in the mill premises, the mills have started establishing their own retail outlets in the markets or on the main roads chiefly in some cities and big towns. Thus, the Sarabhai Group has its shops in Ahmedabad, Vadodara, Surat and Navsari. In addition to this, the mobile shop—Cali-bus—of the group is a new medium developed by it for mass communication, which helps them generate larger sales volume and new markets. The Lalbhai Group with its 7 constituent mills have opened 8 such shops in Gujarat. The making available of numerous varieties and up-to-date fabrics of many mills under a single roof—in a departmental stores form—is the latest gift of the textiles industry to the Indian public.

The Marwadum and Monogram Mills, Mahendra Mills, Sarangpur Cotton Mills, Vikram Mills, Arun Mills, Maneklal Harilal Mills, and the NTC Group—mills, too, have their own retail shops located mostly in Ahmedabad. It was observed during my field-work visits to some of these retail shops that the product assortments therein consisted of greater number of up-to-date varieties and finer qualities.

**Selling at mill’s salesroom or cloth department:**

Some mills allow the visitors to purchase fabrics from

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* It has 9 more shops of its own located in Bombay, Trichi, Bengalore, Madurai, Delhi, Jaipur, Jalandhar, Patna.

(Ref.: Dharma Yug, November 14, 1978, (p.36).)
their cloth department or sales room. Generally, major portion of the sales there are made to their workers, executives, shareholders and their friends & relatives. The defectives and the unsold stocks resulting from obsolescence and accurate forecasting also form sizeable portions of the sales made there.

This arrangement requires the employment of additional personnel for effecting sales. It creates new managerial problems. Also, the formalities and problems relating to excise and small packings make the operations costly and cumbersome. Consequently, some mills have started their own retail shop/s at the mill gates in substitution of the sales room or cloth department sales.

My field-work showed that many mills, which did not yet have their own retail outlets, did want to establish control over their distribution channels. But, their financial position, extent of product lines, location of consumers, managerial skill, etc. have been the main limiting factors for their direct entry in the retail markets; for, the concerned mills will have to assume complete responsibility for the performance of all the marketing functions of the erstwhile intermediaries.

Unless the mill managements (a) improve their methods of performance, (b) reduce their operating expenses, and (c) make adequate sales of fabrics at remunerative prices,
there will not be any advantage in direct dealing. Again, the mills must be capable (a) of solving new administrative problems, (b) of providing marketing knowledge and skills to their employees, (c) of taking promotional measures, (d) of reducing the risks involved, and (f) of providing adequate finances for the establishment and the running of the retail outlets.

Mail order distribution:

On the one hand, the multiplicity of fabrics—different colours, shades, tints, designs, textures, varieties, patterns, etc., complex individual tastes and quick-changing fashion cycles call for a personal selection in buying; on the other, the easy availability of the supplies through the vast networks of the markets that have grown over decades in all the parts of the country, through verifiable and inspectable samples and stocks, renders the distribution of fabrics through mail order, insignificant—if not irrelevant.

(ii) Government-prescribed (statutory) channels:

(i) Channels for controlled cloth

Some of the distribution channels examined so far may be termed traditional in the sense that they have been in vogue for a very long time. But, those prescribed by the Government for the distribution of controlled cloth with a view to making the fabrics of popular varieties available to the
needy people at fair prices are different. The varieties covered are dhoties, sarees, long cloth, shirting and drills. Initially, there were only production and price controls. But gradually the control on distribution also was introduced.

According to the regulation, the mills are obliged to manufacture and distribute a fixed percentage of cloth—as revised from time to time—at the prices fixed by the Government, to the consuming public. The main responsibility for the distribution of controlled cloth was entrusted, with effect from 1972, to the consumers cooperatives. (The normal trade channels were removed from the distribution structure then.) Since then, the Government has made changes in the prescribed channels from time to time, on the basis of their experience. Prior to the latest revision, the controlled varieties were distributed through the following channels:

1. Mills' own Retail Shops, and Mills' authorised Retail Shops in semi-rural areas.
2. Super Basars in the Cooperative Sector.
3. NCCF & the chain of cooperative institutions

* The scheme was introduced by the Government on 20-10-64. A critical study of its implementation will be presented in a later Chapter.

° It is obligatory for all the mills to fulfil the controlled cloth obligation except for the financially weaker mills and those run by HPC exempted for one year. (Ref.: The Economic Times, December 3, 1975.)

affiliated to it.
4. Fair Price Shops run under the aegis of the State Governments.
5. Any other Agency in the Cooperative Sector as specified by the State Government concerned.

The mill's authorised shops in semi-rural areas were allowed to distribute controlled cloth from 19-12-72. The quantity of controlled cloth to be distributed through the mill's own retail shop was increased to 30% with effect from 19-12-72. (Prior this it was 10%).

As all the mills, except those exempted from the controlled cloth obligation, have to distribute it through the Government prescribed channels, there prevails much greater similarity in them. The pattern prevailing in Gujarat is sketched in Chart 3.12.

The four-tier structure of the consumer cooperatives—NCCF at the apex, State Federations, Wholesale Central Consumer Cooperative Stores and the Primary Cooperatives—formed a major distributive chain. Some cooperative establishments like the Seva Sahakari Mandlis are also found functioning as the channel component for controlled cloth.

* IGIF Journal, December, 1974, (p.666).
@ Letter No.MM/15/72/POL dated 19-12-72 from office of TC, Bombay, addressed to all Composite Mills.
Later, the mills were also allowed to distribute through private-sector wholesalers and retailers approved by the Food and Civil Supply Department of the State.

Moreover, as per a confidential source, the wholesalers who got themselves registered with the Textile Commissioner (if they had any difficulties in registering with state authorities) were also permitted to deal in the controlled cloth. These wholesalers had to sell the cloth to the retail outlets, which were duly registered or approved as retail shops for controlled cloth by the state authorities concerned to ensure that all sales through private trade took place subject to the discipline of the State Government and that no person charged more than the prescribed price.

(ii) Channel for reserved quotas for priority distribution:

The mills in Gujarat (as elsewhere in the country) are expected to supply cloth directly to the consumer cooperative stores functioning under the centrally sponsored scheme and to the Fair Price Cloth Shops approved by the State Government, out of the 10 percent reservation quota of each mill's volume of output specifically earmarked for the purpose.


Even after the imposition of statutory control on distribution of controlled cloth, the mills have been required to continue the practice of distributing cloth of both the controlled & non-controlled varieties to the Consumer Cooperatives and FPs at ex-mill rate in respect of 10% of each mill's total packings of cloth for civil consumption.

Chart 3.13 depicts the flow of goods from mills to the ultimate consumers. While the state level organisation and some Purchase and Sale Unions operating at the district and the below-district levels bought, in the first instance, from the mills directly, majority of the primary cooperatives and the Fair Price Shops as also some of the mill executives were found, during the field-work to be unaware of the Government orders.

(v) Observations:

The distribution patterns have not been static. A number of new links forming non-traditional channels have entered the field of textiles distribution. Some of them have been the mill managements' own creation—may be, a passing reflection of the momentary displeasure with earlier links or, may be, because of its desperate search for alternative channels during the 'mandi' (depressed trade conditions). The others have been the result of the controls levied by the Government. In consequence, most of the mills
Chart 3.13

N.C.C.F. = National Cooperative Consumers' Federation
GSCCF = Gujarat State Consumers Cooperative Federation Ltd.
CWS = Central Wholesale Society (CCCS)
SSM = Seva Sahakari Mandli
FPS = Fair Price Shops
PCC = Primary Consumers' Cooperatives

CONSUMERS
in Gujarat employ both direct and indirect distribution systems of distribution.

It is true that the mills have started introducing the elements of non-traditional patterns, but even then they distribute relatively large volumes of fabrics through their established, traditional channels—evolved chiefly before the turn of the century—consisting of a chain of specialised intermediaries.

At the mill level, the wholesale establishments are the first link. Sales through the wholesalers either directly or through appointed Selling Agents and/or Dalals are preferred because these links enable them to have speedy disposal of their fabrics.

Forward contracts by the wholesale intermediaries permit the mill units to concentrate on other important manufacturing tasks like product development and design; for, they are freed from the botheration of finding out the customers and/or undertaking promotional measures. Again, as the mills' transactions with the wholesale intermediaries are governed by the 'Standard contract' (Kabala form) developed by both these parties, the immediate payment relieves them of the burden of blocked-up capital. Also, it eliminates the risk arising out of the short- or non-payment, particularly when the goods are directly sold to intermediaries.
located far away. Moreover, it covers the provision to settle disputes amicably. Many of them also reported that this arrangement freed them from the botheration of financing the inventories all along the long pipe line, the responsibility for it being of the intermediaries at the different stages.

Many mills in Gujarat enjoy wide markets. But, most of them have neither competent nor adequate sales forces. It was found during the field-work that even the long-experienced executives belonging to the old school of thought, who otherwise relied on whims, caprice or hit and miss methods, favoured the shifting of the responsibility of finding out the markets to outside organisations! Again, many of the mills were continuing with the selling agency system to maintain their historic affiliations and relations.

Distribution of fabrics though own depots at wholesale and semi-wholesale levels was restricted to a few financially sound and reputed mills; for, in so doing, numerous personnel, financial and marketing functions had to be assumed by them.

The recent trend has been to limit the number of the intermediaries and circumvent the non-integrated, wholesale establishments, to move nearer the retail outlets and finally directly to the cloth users. Yes, this may not be true with
all units. Also, as the tight money market situation is expected to continue for some years, by implication, the functioning of financially strong intermediaries will continue; and, in no case will it be eliminated in toto.

The other noteworthy twin-developments in the field of fabrics distribution in Gujarat, though quantitatively insignificant yet, are those of the setting up of their own depots and the granting of franchise to the independent retailers by some of the mills, despite the added headaches and responsibilities of the systems.

The large-scale entry of the cooperative sector-establishments at the wholesale, the semi-wholesale and the retail levels and of the Fair Price Shops at the retail level in the distribution of textiles is a significant development; for, they distribute considerable volumes of controlled and non-controlled varieties of the mill-made fabrics. Their impact has begun to be felt by the other channels of distribution, both on the latter's operations and practices. It is bound to be tremendous as years roll by under the Prime Minister's New Economic Programme.

The earlier discussion further reveals (a) that there is a greater scope for the employment of different and varied

distribution channels and policies, and (b) that the development of non-traditional channels may pay large dividends to alert managements as is seen from the practices of the few reputed mills. This necessitates a constant review, by every mill, of the effectiveness of its distribution system in the light of the fast-changing textiles environment.

Again, since the modern buyer has become more responsive to variations in prices, a basic guiding principle to determine the extra-company distribution network is that the successive links in the chain of intermediaries should not increase the total cost of distribution which, in turn, might raise the per meter price for the final cloth users. (For the manufacturer, the reduction in distribution costs may serve as an augmentative of profits, the production costs remaining constant.)

Finally, there is a severe constraint that has been created by the operation of the Monopolies and Restrictive Trade Practices Act. Conflicting statements were heard by me during the interviews with mill executives and the franchised distributors. Secret and underhand practices, if any, are not only anti-legal but also are anti-social, and sooner the temptations to succumb to them are ended, the better for all including the mills.
Two models may be profitably considered by the mill managements for action in this direction.

**Model 1:** A marketing management expert, John Howard, suggests three criteria in choosing a system of distribution: (i) market coverage that makes the product widely available; (ii) promotional efforts by middlemen that can relieve the manufacturer of promotional expenditure, and (iii) all these be obtained at a cost that gives benefit to the manufacturer.

**Model 2:** The problem of selecting the distributive outlets for a product is two-dimensional. The vertical aspect of the problem requires decisions as to the appropriate length of the channel. It is imperative that the manufacturer take into account the long-run as well as the short-run impact of his selection upon sales, costs and net profits. The horizontal aspect of the problem relates to the intensity of distribution. Decisions in this area essentially require the manufacturer to start with a consideration of the consumer and then to work back to his own shipping docks. After determining the size of the group of potential consumers, the manufacturer must calculate the number of retail outlets needed to reach enough consumers and number

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of wholesale outlets needed to service the requisite number of retailers. Thus, the manufacturer arrives at his decision to use mass distribution, exclusive agency distribution or one of the intermediate forms of selective distribution.

Appendix 3.A

10 Mills of the Mafatlal Group

Located in Gujarat:

4. Surat Cotton, Surat.
5. Mafatlal Pice, Navmari No.1 Unit.

Located outside Gujarat:

7. Standard (New China), Bombay.
9. Mafatlal Pice (Sasun) Bombay, No.2 Unit.
10. Mafatlal Pice (New Union) Bombay, No.3 Unit.

It was the same mill unit on Asarwa Road, Ahmedabad that bore the name "The New Shorrock Spinning & Manufacturing Co. Ltd." Unit, 24 January, 1974. (Gujarat Samachar)