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4.1 INTRODUCTION

The manufacturers of computers have to use appropriate marketing channels or network like any other type of manufacturer. A marketing channel links particular producing units with particular using units. A channel consists of interdependent organisations through which the marketing effort is directed. It performs the work of moving goods from manufacturers to endusers. "It overcomes the critical time, place and possession gaps that separate goods and services from those who would use them".


Types of Channels

Prominently two types of channels are being used in computer marketing. They are:

1. Manufacturer to endusers
   This is an important distribution channel for all types of computers. Direct sale involves the establishment of sales branches with resultant merits and demerits.

2. Manufacturer to distributor to end users.
   In this channel, distributors or dealers operate as connecting link between the manufacturer and the end-user. These intermediaries are playing increasing roles in computer marketing.

Steps in Channel Design

1. Decision on Channel levels
   A marketing channel has one or more levels. Each organization operating in the channel constitutes a channel level. Since both the manufacturer and the final user perform some work in the marketing flow, they are parts of every channel. The number of intermediary levels indicates the length of a channel.

A zero level channel consists of manufacturer selling directly to end users. This is carried out through the manufacturer's own sales offices.

A one-level channel contains one selling intermediary, such as distributor or dealer. The length of the marketing channel is generally restricted to one level for computer marketing.

2. Establishing the channel objectives: This is the second step in designing the marketing channel. The objectives are stated in terms of targeted service output levels.

According to Bucklin, under competitive conditions, channel institutions should arrange their functional tasks so as to minimize total channel costs with respect to the desired level of service output. A manufacturer develops his channel objectives in the context of constraints stemming from products, intermediaries, competition, company policies, environment and the level of service output desired by the users.

3. Identifying channel alternatives: The manufacturer should identify his major channel alternatives. A channel alternative is described by three elements: the types of business intermediaries, the channel configuration, and the distribution intensity. The channel configuration refers to the number of levels in the channel.

4. Types of Intermediaries: The manufacturer should identify the types of intermediaries available to carry on his channel work. As stated earlier, the most common types of channel intermediaries available in the computer marketing are own sales offices and distributors (or dealers).

In designing marketing channels, a computer manufacturer has to compromise between what is ideal and what is available. This process calls for analyzing user needs, establishing channel objectives, identifying the major channel alternatives and evaluating them.

Analyzing user needs. The manufacturer must know the service output desired by the average user.

Bucklin identified four service outputs:

1. Lot size: It is the number of units that a user buys in any given purchase. The smaller the lot size, the greater the level of service provided by the marketing channel.

2. Waiting time: This is the time duration between ordering and receipt of the goods. Buyers prefer fast delivery.

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3. Special convenience: This means market decentralization. It is measured by the number of distribution outlets. Greater market decentralization means reduced transportation and search costs for the buyers.

4. Productivity: The greater the breadth of assortment provided by a marketing channel to the ultimate buyer, the higher the service output level of that marketing channel.

The distribution intensity refers to the number of middlemen to be used in each channel level. For this, three strategies are available:

1. Intensive distribution: It refers to the use of all or most of the distributor outlets in a trading area.
2. Exclusive distribution: It represents the selection of only one dealer to distribute the product in a trading area. The dealer is required not to carry competing lines. Exclusive distribution tends to enhance the product's image and allow higher markups.
3. Selective distribution: It denotes the use of a selected few dealers for distributing the product in an area. This strategy enables the manufacturers to gain adequate market coverage with more control and less cost than intensive distribution.
FACTORS INFLUENCING THE CHANNEL-DESIGN DECISION

The channel-design decision is influenced by several factors. Important influencing factors are identified below followed by a brief analysis of the same:

1. Customer considerations.
2. Product characteristics.
3. The manufacturer's capabilities.
4. Middlemen characteristics.
5. Competitive situations and
6. Distribution functions.

Customer considerations: The customer's needs, preferences, buying habits, demand pattern, and service requirements influence the choice of channel type and distribution intensity.

Since products are made for selling to potential users, no factor is more important in selecting and managing a channel of distribution than a clear understanding of the users' needs and preferences.

Product characteristics: All types of computers viz., Micros, Minis and Main Frames are sold through own sales outlets and only micros are sold through dealers. Computers need installation service, testing, after sales service and availability of replacement parts. This therefore requires different activities of middlemen than those for which no such service is necessary.

The manufacturer's capabilities: They play an important role in channel selection. The firm's size determines the size of its market and its ability to secure desired dealers. Its financial resources determine which marketing functions it can handle and which to delegate to intermediaries. The firm's product mix influences its channel pattern. The wider its product mix, the greater its ability to deal with users directly. The greater the depth of the firm's product mix, the more it might favour exclusive or selective dealers. The management's desire for flexibility and the extent of control preferred also influence the channel design.

Middlemen characteristics: Marketing intermediaries differ in their aptitude for handling promotion, negotiation, storage, contact and credit. For example,
dealer's representatives are able to contact customers at low cost per customer as the total cost is shared by all the clients. The selling effort per customer therefore would be less intense than that of the manufacturer's own sales office.

The requirements of intermediaries must also be considered along with the manufacturer's desires in controlling and motivating. For instance, exclusive distribution offers a powerful incentive to intermediaries and also simplifies management and control for the manufacturer. But if the exclusive dealer is unable to serve the needs of target customers fully, then the manufacturer will not be in a position to achieve the desired sales results.

Competitive situations: The nature of the design is influenced by the nature and extent of the market and competitor's channels. As is known, the number of customers and their spatial concentration influence channel design. A large number of small customers, for a product, calls for the use of a big number of middlemen. A geographically compact market encourages short channels than widespread market does.

Distribution functions: There are several functions that are to be performed in moving products from producers to end-users. These include buying and selling, transportation, financing, risk-bearing, servicing, etc. Decision about the functions that are needed and designating the organization to be responsible for each function are the major influencing factors in the channel design decision.

4.2 DISTRIBUTION NETWORK OF COMPUTER MANUFACTURERS - AN ANALYSIS

An examination of the distribution network used by the computer manufacturers covered in this study reveals that they are using both the direct sales method and a method of sales through dealers. The data presented in Table - 4.1 substantiate this point.
TABLE - 4.1

TYPE OR DISTRIBUTION CHANNEL USED BY MANUFACTURERS

<table>
<thead>
<tr>
<th>SI.</th>
<th>Channel type</th>
<th>No. of Manufacturers</th>
<th>% age to total no. of manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Direct Sale through</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>own sales offices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Sale through dealers</td>
<td>16</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Personal survey data

As stated above, the figures in the table show that all the manufacturers covered by this study are selling their products through their own sales offices as well as through the dealers.

RELATIVE IMPORTANCE OF CHANNEL TYPES

A detailed analysis of the sales performance of the two major channels (viz., direct sales and sales through dealers) reveals the fact that 60% to 95% of sales (units) are made through own sales offices and the remaining 5% to 40% of sales (units) are made through dealers.

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### TABLE - 4.2

% AGE OF SALES THROUGH DIFFERENT CHANNELS

<table>
<thead>
<tr>
<th>Direct Sales (%)</th>
<th>60 - 70</th>
<th>80 - 90</th>
<th>90 - 95</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 - 10</td>
<td>--</td>
<td>--</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>10 - 20</td>
<td>--</td>
<td>3</td>
<td>--</td>
<td>3</td>
</tr>
<tr>
<td>30 - 40</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>3</td>
<td>12</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: Personal Survey data

From the above table, the following points become clear:

i) Out of 16 companies, 12 are selling 90-95% of the units through their own sales offices, and balance 5-10% through the dealers;
ii) 3 companies are selling 80-90% of the units through their own sales offices and balance of 10-20% through the dealers; and

iii) The remaining one company, sells 60-70% through its own sales office, and the balance of 30-40% through the dealers.

From the above, it is obvious that all the companies are effecting at least 60% of their sales through their own sales offices. That means, they are relying more on their own sales offices for higher sales turnover.

TYPES OF PRODUCTS SOLD THROUGH DIFFERENT CHANNELS

As is known, all products are not sold exclusively either through one method or the other. One can witness a combination of both the methods. In the case of computer manufacturers, large systems (Main Frames), Minis and Micros are sold through manufacturers' own sales offices. Only the micros are sold through dealers.
4.3 DIRECT SALE THROUGH OWN SALES OFFICES

An analysis of the sales reveals that the direct sale to endusers is the most important distribution channel for computers. But one should not neglect the problems and the risks associated with the direct sales. This has rightly been said by Carman as: "No manufacturer, of course, should undertake a direct selling programme without giving careful consideration to the problems and risks it involves". One of the important problems is finance. Direct sale involves, amongst others, establishment of sales offices, organizing and training of a larger sales staff (than would be necessary otherwise) and extending credit to a large number of buyers. For all these, the companies need a very huge capital. Therefore, only a manufacturer who is financially sound and whose product characteristics call for direct sale can afford to go in for direct sales.

The degree of risk involved in direct sale is higher as, marketing expenses associated with direct distribution are more or less fixed in nature and therefore, they do not vary much as sales fluctuate. On the other hand, the marketing expenses of distributors vary with the sales made by them.

PROBLEMS

A number of managerial problems are also involved with the direct sales. Some companies may be better producers but they may not be good marketeers. They may produce first rate goods, but they may lack the ability to formulate and carry out an effective direct selling programme. Hence, the selection of direct sale channel should be justifiable from the point of view of product characteristics & other strategic considerations.

FACTORS FAVOURING OWN SALES OFFICES:

A large number of both the internal and the external factors influence the decision about the channels of distribution. Some factors influence the decision of the management in a particular direction. The following are the most important factors responsible for preferring the direct sales through their own sales offices in computer marketing:-
1. Volume of business
2. Requirement of customer support (Pre and after-sales service)
3. Desire to put in better sales efforts
4. Lack of capable dealers.

Of the four factors listed above, the first two (viz, volume of business and the requirement of customer support) appear to be playing a decisive role for setting up own sales offices. Since computers are hi-tech equipment, stationing of service engineers at required places happens to be an important factor for setting up own sales offices.

The most common form of organisational structure of a branch office is presented in figure 4.1:

A branch office is headed by a branch manager. He is entrusted with the responsibility of supervising the activities of three major sections viz, sales, service (customer support) and administration. The sales section is headed by a area sales manager to whom sales executives report. The service section is headed by a customer support manager and all the customer service engineers have to report to him. The administrative wing of a branch office is headed by an Administrative officer who is assisted by accounting staff.
ORGANISATION STRUCTURE OF BRANCH OFFICE

Figure - 4.1.
Important functions of a branch office are as follows:

1) Tendering/quoting: Normally, all the works pertaining to tenders will be done by the branch offices. Hence, branch office has to submit tenders/quotations to end users. However, the branch offices will avail of the assistance of the head office whenever the need arises.

2) Execution of orders: A Branch office is empowered to accept orders from both the end-users and the dealers and to execute the orders. It also maintains an up-to-date list of pending orders from the dealers with anticipated date of delivery.

3) Collection of accounts receivable: A Branch office should independently maintain dealer-wise statement of outstandings' statement and monitor the collection. Any default by a dealer has to be reported to the head office, and restrict supplies to the dealer till outstandings are cleared by him.

4) Stock Maintenance: A Branch should maintain adequate stocks of equipment depending upon the needs of the market and exercise proper control over inventory.

5) Monitoring the performance of Dealers: A branch monitors the performance of the dealers every month in terms of:
a) actual sales of each product as against the target set;  
b) the number of customers to whom sales were made;  
c) the dealer's stock level;  
d) the number of pending orders with the dealer;  
e) the amount of net proceeds realised and the average rate of discount allowed on the sales made by the dealer;  
f) the mode of advertisement made by the dealer and the amount of advertisement charges incurred by him;  
g) spare parts availability and after-sales services offered by the dealer; and  
h) outstandings, if any.

The details of performance review are to be sent to the marketing department of the company in the first week of every month.

6) Dealer Counselling: In addition to monitoring the performance of dealers, the branch staff should visit dealers periodically, study their working methods, housekeeping, sales promotional efforts, etc., and offer suggestions to the dealers to improve their working methods and performance.

7) Communication: A branch should maintain prompt communication with dealers.
8) Visit to Dealers' Customers: A branch should know the customers of the dealers and it should chalk out a programme in consultation with the dealers to visit the customers periodically and maintain goodwill.

9) Sales Promotion: The branch should organise exhibitions, demos, road shows, etc., of computers and make efforts to promote sales. They should follow up enquiries and convert them into orders.

10) After-Sales Service: A branch should render effective after sales service to end-users and guide and assist the dealers in improving the quality of their after sales services.

11) Market Information: A branch should collect information about the market situation, demand potential and the activities of the competitors and send feedback reports to the head office and thus serve as a market intelligence centre.

4.4 SALE THROUGH DEALERS

Despite the importance of direct sale in the marketing of computers, dealers also play a significant role in this field. Dealers are of two types:
1) General line distributors who deal in a broad assortment of items in a number of related lines.

2) Specialists who handle limited number of related products.

FACTORS FAVOURING SALE THROUGH DEALERS

The factors that influence the manufacturers' decision to have a dealer network are (in decreasing order of importance) listed below:

1. Economy in the cost of distribution;
2. Increase in geographical reach;
3. Easy availability of the product to the customers; and
4. Lack of facilities to make direct sale.

The cost consideration and increase in geographical reach happen to be the prime factors for setting up dealer network for distribution.

PROFILE OF DEALERS

All the 40 dealers located in Bangalore and Mysore were contacted for obtaining their response. The result of the responses is enumerated in the following pages:
1. Form of Organisation: Out of 40 dealers, majority of them are having partnership form of organisation followed by private and public limited companies. This is evident from the following table (Table-4.3).

**TABLE-4.3**

DISTRIBUTION OF DEALERS BY FORM OF ORGANISATION

<table>
<thead>
<tr>
<th>Form of Organisation</th>
<th>Number of Dealers</th>
<th>% age to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnership</td>
<td>24</td>
<td>60</td>
</tr>
<tr>
<td>Private Limited</td>
<td>14</td>
<td>35</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Limited</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Personal survey data

From the above, it is clear that out of 40 dealers, 24 dealers (accounting for 60%) have partnership form of organisation. Out of the remaining, 14 dealers have Private limited company form of organisation and the remaining two have Public limited company form of organisation.
2. **Staffing Pattern**: All the 24 partnerships are managed by the partners themselves with the assistance from technical and office personnel. The dealers having limited company form of organisation (both Private and Public) have one or more managers, sales and service engineers and office personnel.

3. **Products Handled**: Number of products handled by the dealers differs as shown below (Table-4.4):

<table>
<thead>
<tr>
<th>No. of Products</th>
<th>Number of Dealers</th>
<th>% age to Total</th>
<th>Form of Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24</td>
<td>60.0</td>
<td>Partnership</td>
</tr>
<tr>
<td>2</td>
<td>11</td>
<td>27.5</td>
<td>Private Limited Co.</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>2.5</td>
<td>Public Limited Co.</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>7.5</td>
<td>Private Limited Co.</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
<td>2.5</td>
<td>Public Limited Co.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Personal survey data*
From the table, it is evident that majority of the dealers (60%) deal with only one product each. That means, these dealers exclusively market with one product each. The remaining 40% of the dealers handle two or more products each. Consequent to this, one can observe that the majority of the dealers represent only one manufacturer each. This is evident from the following table (Table - 4.5).

### TABLE - 4.5

NUMBER OF MANUFACTURERS REPRESENTED BY DEALERS

<table>
<thead>
<tr>
<th>Number of Manufacturers</th>
<th>Number of Dealers</th>
<th>%age to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24</td>
<td>60.0</td>
</tr>
<tr>
<td>2</td>
<td>11</td>
<td>27.5</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>5.0</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source : Personal survey data
It is clear from the above that 24 dealers out of 40, represent only one manufacturer each, 11 dealers represent 2 manufacturers each, 2 dealers represent 3 manufacturers each and the remaining 3 dealers represent 4 manufacturers each.

4. Annual Turnover: As is known, the quantum of revenue earned differs from one dealer to another depending upon a number of determinants such as number of products handled, territory, efficiency, promotional strategy, etc. The figures presented below substantiate this point.

<table>
<thead>
<tr>
<th>Annual Turnover</th>
<th>Number of Dealers</th>
<th>%age to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>upto Rs. 1 Crore</td>
<td>32</td>
<td>80</td>
</tr>
<tr>
<td>Rs.1 Crore-Rs.5 Crore</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Above Rs.5 Crore</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Personal Survey Data
The data collected from the dealers show that the annual turnover of the dealers ranges from Rs. 0.6 crore to Rs. 10 crore. It is evident from the table that 80% of the dealers numbering 32 earn a sales revenue of less than Rs. 1 crore each. Six dealers have an annual revenue of Rs. 1 crore to Rs. 5 crore each and only two dealers earn more than Rs. 5 crore each.

5. Sales Experience

The selling experience of the dealers varies from 3 to 24 years. Out of 40 dealers covered by this study, majority of them have dealership experience of less than 5 years. This is evident from the following Table (Table-4.7)

TABLE - 4.7
DISTRIBUTION OF DEALERS BY EXPERIENCE

<table>
<thead>
<tr>
<th>Experience</th>
<th>No. of dealers</th>
<th>% to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 5 years</td>
<td>37</td>
<td>92.50</td>
</tr>
<tr>
<td>5 to 10 years</td>
<td>02</td>
<td>5.00</td>
</tr>
<tr>
<td>Above 10 years</td>
<td>01</td>
<td>2.50</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Personal Survey Data
From the above it is clear that out of 40 dealers, 37 (accounting for 92.50%) have less than 5 years experience, and out of the remaining 3 dealers, 2 have experience of more than 5 years and 1 has more than 10 years experience.

6. Capital Employed: Amount of capital employed by the dealers varies from Rs.15 lakh to Rs.200 lakh. Majority of the dealers have employed a capital of less than Rs.20 lakh each. This is evident from the following table (Table-4.8)

<table>
<thead>
<tr>
<th>Capital employed Rs. in Lakh</th>
<th>No. of dealers</th>
<th>% age to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 20</td>
<td>28</td>
<td>70.00</td>
</tr>
<tr>
<td>20 to 50</td>
<td>06</td>
<td>15.00</td>
</tr>
<tr>
<td>50 to 100</td>
<td>05</td>
<td>12.50</td>
</tr>
<tr>
<td>Above 100</td>
<td>01</td>
<td>2.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Personal Survey Data
From the above table it is clear that 28 dealers (70%) are employing a capital of less than Rs. 20 lakh each and 6 dealers (15%) are employing capital between Rs. 20 lakh and 50 lakh each, 5 have employed capital of more than 50 lakh each and 1 dealer has a capital of above Rs. 100 lakh.

SELECTION OF DEALERS

Selection of dealers is as important as taking on partners. In fact, dealers are working partners to the manufacturers.

Manufacturers vary in their ability to attract qualified middlemen for their products. Some manufacturers have no trouble in recruiting middlemen. In some cases, the promise of exclusive or selective distribution will draw a sufficient number of applicants. At the other extreme, there are manufacturers who have to work hard to line up the desired number of qualified middlemen. Whether manufacturers find it easy or difficult to recruit middlemen, they should at least determine what characteristics distinguish better middlemen. For this purpose, they have to evaluate the number of years in business, the other lines carried, growth and profit record, solvency, cooperativeness and reputation of the middlemen.

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A mere product-suitability alone does not guarantee success. There are many pitfalls which should be avoided in the selection of dealers.

1. **Market Segment**: Many producers think primarily in terms of geographic coverage before considering market or customer segments in selecting dealers. Such thinking leads to limited sales as customers prefer to deal with distributors who know their industry's language. A wise producer thinks of different types of distributors to serve different or specialized market segments in the geographic regions.

If one manufacturer is already penetrating a market segment, the second or third entrant to that market segment should carefully consider all the relevant factors. The producer should also be aware of total market potentials for each market segment and geographic area. He can then compare the potentials with each distributor's actual sales. This information helps him to develop annual distribution quotas around the local market size and growth rates.
2. Life cycle changes: Many companies fail to recognize that selling requirements for a product change over its life cycle. A product unknown to the market requires a specialized dealer who can provide technical knowhow to prospective customers. As the product matures (i.e., becoming more standardised and better known), less amount of specialized knowledge is needed to sell it. At this stage, producers should think in terms of increasing the number of general dealers in nonexclusive territories.

3. Getting products specified: A manufacturer should not assume that his dealers will get his product specified. If required specification is not done, the dealers will not receive orders. What a producer can do is to have a product specialist to get the company's products specified or qualified at enduser's workplaces. This is to be done especially for government organisations.
4. **Producer-distributor policies**: A producer must carefully develop distribution policies in such a manner that it will not conflict with those of the dealers. Before franchising dealers for his product, the producer should develop policies together with the dealers covering the following aspects.

a. **User Information**: The dealers may be required to report each sale by part number, type of the product configuration used, customer, destination and place of billing. This information is necessary to make effective market analysis for distributors.

b. **Serving large accounts**: When a dealer has developed a large end user account, a clear policy is needed to determine whether the account remains with the distributor or is handled directly by the producer.

c. **Inventories and pricing**: Since a portion of dealer's capital is committed to the producer's inventories, the producer's pricing practices should protect the margins on the inventories.
5. **Assessing qualifications**: Producers should not choose dealers who are already overloaded with products. A technical product usually has to be demonstrated to customers. Distributors with few product lines are often able to provide that concentrated technical assistance. A manufacturer should choose a promising distributor, and disenfranchise dealers who are not aggressive enough or overloaded.

6. **Dealer training and support** - A manufacturer should give effective training to dealer's sales personnel. He should also provide dealers with technical assistance for potential key accounts. He can further support his dealers by supplementing product literature with trade magazine advertising to generate enquiries and sales leads.

**CRITERIA ADOPTED FOR DEALER SELECTION BY MANUFACTURERS UNDER STUDY**

In selecting dealers, the manufacturers under study have adopted various criteria such as dealers technical background, their financial strength, sales experience, coverage strength, past performance, capability for long term association, managerial ability, and warehousing facility.
The first factor (viz, technical knowledge) has received the highest weightage (46 out of 50) followed by financial strength (45), Sales experience (42), and others (30 to 41). Surprisingly, the manufacturers are not according much importance to the managerial ability of the dealers while selecting them. This is evident from the following table (Table-4.9)

**TABLE - 4.9**

CRITERIA ADOPTED FOR SELECTION OF DEALERS

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Criteria</th>
<th>Relative Weightage out of 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Technical Expertise</td>
<td>46</td>
</tr>
<tr>
<td>02.</td>
<td>Financial Strength of the dealers</td>
<td>45</td>
</tr>
<tr>
<td>03.</td>
<td>Sales experience in the concerned line</td>
<td>42</td>
</tr>
<tr>
<td>04.</td>
<td>Coverage Strength</td>
<td>41</td>
</tr>
<tr>
<td>05.</td>
<td>Past performance</td>
<td>40</td>
</tr>
<tr>
<td>06.</td>
<td>Capability for long term association</td>
<td>36</td>
</tr>
<tr>
<td>07.</td>
<td>Managerial ability</td>
<td>33</td>
</tr>
<tr>
<td>08.</td>
<td>Warehousing facility</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Personal Survey Data
Since computer is a high tech product, it is understandable that technical expertise happens to be the most significant criterion for the selection of dealers. There seems to be no justification for not giving due importance to dealer's managerial ability.

DEALER'S CHOICE OF MANUFACTURERS

When a manufacturer offers dealership to a trader, the latter does not accept the offer automatically. He considers several factors before accepting or rejecting such an offer.

First, the middleman does not consider himself as a sales representative of the manufacturer. Rather, he considers himself as a purchasing agent for his customers. Consequently, a reseller will judge the addition of a new product in terms of its complementary to the products he carries. He will also consider whether the new make/product would strengthen his market position in that product category.

The middlemen will also consider the following additional factors: The product's sales appeal and its quality, the producer's advertising and sales promotion strategy, the producer's reputation and the brand name, the competition for the product, logistical considerations, and terms and conditions of dealership.

Factors considered by dealers while accepting dealership

Before accepting the dealership offer made by the manufacturers, dealers consider the following factors:

A. Reputation of the manufacturer;
B. Ability of the manufacturer to provide technical support;
C. Terms and Conditions;
D. Popularity of the brand;
E. Sales promotional activities of the manufacturer;
F. Compatibility with dealer's business line;
G. Demand for the product; and
H. Credit facility.

The weightages (1 to 5) given to the above factors by the dealers are presented in Table-4.10.
### TABLE - 4.10
WEIGHTAGE GIVEN TO THE FACTORS CONSIDERED BY THE DEALERS

<table>
<thead>
<tr>
<th>Factors</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weightages</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td>1</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>6</td>
<td>10</td>
<td>-</td>
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<td>20</td>
</tr>
<tr>
<td>3</td>
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<td>6</td>
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<td>-</td>
<td>-</td>
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<td>30</td>
</tr>
<tr>
<td>4</td>
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<td>116</td>
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<td>150</td>
<td>25</td>
<td>125</td>
<td>150</td>
<td>50</td>
</tr>
<tr>
<td>TOTAL SCORE</td>
<td>195</td>
<td>191</td>
<td>156</td>
<td>184</td>
<td>155</td>
<td>185</td>
<td>190</td>
<td>140</td>
</tr>
<tr>
<td>RANKINGS</td>
<td>I</td>
<td>II</td>
<td>VI</td>
<td>V</td>
<td>VII</td>
<td>IV</td>
<td>III</td>
<td>VIII</td>
</tr>
</tbody>
</table>

Source: Personal Survey Data

From the respondents' rankings, it may be observed that the dealers lay emphasis on the following, while taking the dealership of a company.

1. Manufacturer's reputation
2. Manufacturer's ability to give technical support.
3. Demand for the product.
4. Compatibility with dealer's business line.
5. Brand popularity
6. Terms attractiveness
7. Manufacturer's sales promotion support and
8. Credit facility.

Dealers are primarily interested in the sales volume, anticipated commission, and the equipment maintenance revenue. Sales volume is influenced by a large number of factors. But the most important are the reputation of the manufacturer, functional value of the product and manufacturer's ability to give technical support. These will help in repeat purchase of the product by the customer.

DEALERSHIP AGREEMENT AND TERMS OF DEALERSHIP

Once a dealer decides to accept the dealership offer of a manufacturer, the terms of dealership are negotiated, and the manufacturer and the dealer will enter into an agreement. The agreement normally covers the following:

1. The territory in which the dealer has to operate,
2. Prohibition of handling competing product lines,
3. Minimum sales volume to be maintained by the dealer,
4. prices to be charged to the dealer,
5. the rate of discount to be allowed to him,
6. sharing of advertisement and sales promotion responsibility,
7. customer service,
8. terms of payment,
9. information feedback to be provided by the dealer, and
10. technical support to be provided by the manufacturer.

DEALERSHIP TERMS : RESULTS OF DEALERS' SURVEY

The dealership terms cover security deposit, advance payment, sharing advertisement expenses sales promotion and the like and these are discussed very briefly in the following paragraphs.

1. Security Deposit : 50% of the respondents have stated that they have paid dealership deposits of Rs.50,000 to Rs.60,000 to the manufacturers. The manufacturers pay 18% interest per annum on this deposit. This serves as a source of capital for the manufacturers.
2. Advance payment: Most of the dealers have reported that advanced payment is to be made on orders secured by them. This varies between 10% and 25% of the value of the equipment.

3. Advertisement and Sales promotion: 60% of the dealers have reported that the manufacturers bear 50% of the advertising expenses subject to the ceiling limit fixed, and the advertisement copy and the media are determined by the manufacturer.

DEALERS FUNCTIONS

The dealers provide services to both the selling manufacturers and the buying users. They render the following service to the manufacturers:

1. Achieving sales targets: The dealers try to achieve sales targets fixed by the manufacturer. The targets are set in consultation with the dealers. Higher the volume of sales made, higher is the return on sales. Hence, they have direct interest in increasing sales.

2. Locating prospective customers: Most of the dealers adopt the following methods to locate prospective customers:
a. Visiting customers;
b. Mailing campaign;
c. Advertisement in local newspapers, computer journals, etc;
d. developing business contact through membership in local clubs/associations,
e. introduction from the existing customers; and
f. registering as a major supplier with government and other private industries.

3. Maintaining stock of products so as to make them readily available to the end users. Stock levels are determined in the light of past demand pattern and forecasted demand levels.

4. Sales promotion: Dealers undertake advertisement and sales promotion activities and suggest methods for improving advertisement and sales promotion programmes.

5. After sales service: All the dealers have reported that they render the following after sales services
a. Installation and testing of the equipment;
b. Replacements within the warranty period;
c. Repair and rectification; and
d. Training of clients' personnel.
6. Market Information: Dealers furnish the information to the manufacturers on market conditions, competition, etc., and other useful information for developing their business. All the dealers have stated that they give feedback information to the branch office to which they are attached and also to the branch manager or marketing executives whenever they visit them.

7. Improving customer satisfaction: The dealers highlight the problems faced by the end users and enable the manufacturers to take appropriate remedial and corrective actions so as to promote customer satisfaction.

8. Financial Support: Dealers extend financial support to the manufacturers by paying dealership deposits and advances on orders and by making regular and prompt payments of amounts due to them.

9. Storage facility: All the dealers have adequate storage facilities for warehousing the equipment. Thus they provide a decentralized network of warehousing facility for the manufacturer's products.
Many dealers provide the following facilities to the buyers:

1. Technical information about the product.
2. Advice regarding the correct selection of the product. As computers are available in different configurations, the selection depends on the current and future requirement of the customer and the application for which he is buying the equipment. Based on his requirement, the dealer suggests proper hardware and software packages.
3. Prompt delivery, installation and testing of the equipment.
4. Training of client's personnel for operation of the equipment.
5. Replacement of defective parts free of cost during warranty period.
6. Servicing of the equipment after entering into a service contract with the clients.

FEEDBACK INFORMATION FROM THE DEALERS

The computer manufacturers covered in this study secure the following information from their dealers:
<table>
<thead>
<tr>
<th>Type of information</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Service report</td>
<td>Weekly</td>
</tr>
<tr>
<td>2. Sales report</td>
<td>Monthly</td>
</tr>
<tr>
<td>3. Dealer's control over the market</td>
<td>Monthly</td>
</tr>
<tr>
<td>4. Competitor's marketing strategy</td>
<td>Monthly</td>
</tr>
<tr>
<td>5. Problems faced by the dealers</td>
<td>Monthly/Quarterly and Yearly</td>
</tr>
<tr>
<td>6. Ways of improving business</td>
<td>Monthly/Quarterly and Yearly</td>
</tr>
<tr>
<td>7. Support required from the company for dealer's growth</td>
<td>Quarterly and Yearly</td>
</tr>
<tr>
<td>8. Suggestions for making the company's publicity and advertisements more effective</td>
<td>Monthly/Quarterly and Yearly</td>
</tr>
<tr>
<td>9. Dealer's plans for the coming year</td>
<td>Quarterly and Yearly</td>
</tr>
</tbody>
</table>

Normally, it is the responsibility of the concerned branch office to collect the above information from the dealers and send it to the head office. In addition, dealers conference, once in a year, is held involving personnel from head office and branch offices which will help in collecting additional information on the conditions of the market and the difficulties faced by the dealers in meeting the needs of the market.
The manufacturers extend support to the dealers in the following ways:

1. They send the customer service engineers to the dealers whenever they require technical clarification/guidance.

2. They impart training to technical staff and sales representatives of the dealers.

3. They organise periodical seminars and dealers conferences to understand the problems and to take remedial measures.

4. The marketing manager normally visits the dealers once in a quarter and branch managers visit them more frequently to know their problems in person and to receive the feedback information on market situation, etc.

5. They provide specific guidelines in the form of highlighting the company's policy, norms for development strategy for dealers operation, sales promotion and dealers conference.
Dealers conference: The manufacturers organise dealers conference annually. The objectives of such conferences are to understand:

a. the problems faced by the dealers

b. the dealers' control over the market

c. the competitors' marketing strategy

d. the problems faced by the end-users

e. the plans of the dealers for the coming year

f. the methods for improving business

g. the support required by the dealers from the company for their growth

h. the methods for effective advertisement and publicity

The annual conferences will be held on all India basis involving all the dealers in the Country and the top management. The conference will be useful in finding out the day-to-day problems faced by the dealers/branches and arriving at appropriate solutions.
DEALER SATISFACTION:

Dealer satisfaction refers to his overall approval of his relationship with the manufacturer. Any tension or frustration in this relationship adversely affects dealer satisfaction. The greater the incompatability and tension between a manufacturer and dealer, the lower would be dealer's overall approval of the channel arrangement. A manufacturer is expected to generate demand through sales promotional efforts and extend technical support to the dealers.

A manufacturer who performs his duties excellently would be viewed by the dealers as being concerned about their welfare. In a situation like that, the dealer satisfaction enhances.

The dealers contacted by the researchers were asked to state whether they are satisfied with the commercial policy and the terms of sale of their principals. 90% of the dealers have reported that they are satisfied with the commercial policy of their principals. 10% of the dealers have expressed their dissatisfaction with the commercial policy of their principals.

DEALERS' PERCEPTION OF THE MANUFACTURERS FUNCTIONS

The dealers were asked to specify their expectations from the manufacturers and to rank them as 1, 2, 3, ..., in order of their preference. The ranks were assigned scores in the reverse order. That is, rank one - five scores, rank two - four scores and so on. The analysis of their responses is presented below:

The dealers expect their manufacturers to:
A. Ensure short and prompt deliveries;
B. Offer better margins and discounts;
C. Extend technical support;
D. Help in expanding market coverage; and
E. Allow them (i.e., the dealers) to decide when to buy and how much to buy.

The overall ranking in the order of preference is presented in Table-4.11.
TABLE - 4.11

DEALERS EXPECTATIONS FROM MANUFACTURERS

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
</tr>
<tr>
<td>D</td>
<td>4</td>
</tr>
<tr>
<td>E</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Personal Survey Data

From the above, it is obvious that the dealers accord priority to better margins and discounts followed by the short and prompt deliveries.

INTER-DEALER COMPETITION

The question of competition among the dealers of the same manufacturer was also studied. 80% of the dealers have stated that there is a inter-dealer competition among the dealers of the same manufacturer. In this type of situation, the competition takes the following forms:
1. Giving higher discount to the buyer
2. Quoting shorter delivery
3. Waiving advance payment
4. Diluting the commercial terms such as absorbing local tax, etc.

It is reported that the inter-dealer competition covers about 20% of the cases the dealers handle.

DEALERS SUGGESTIONS TO MANUFACTURERS

During the discussion with the dealers, many of them have offered the following suggestions to the manufacturers to improve the dealers' performance:

1. Secrecy of different policies should be maintained by the manufacturers;
2. All technical updating of products should be promptly communicated to the dealers;
3. Sufficient copies of product description folders/leaflets should be supplied to the dealers as and when required;
4. The frequency of advertisements is to be increased;
5. Prompt delivery of equipment is to be ensured; and
6. Spare parts should be supplied promptly.
DISCONTINUATION OF DEALERSHIP

Out of 40 dealers covered in this study, 8 have discontinued their dealership for one or more of the following reasons and hence taken the dealership of some other computer manufacturers.

1. The profit margin allowed was too low.

2. Manufacturers were not adhering to the committed delivery schedules

3. The dealership was terminated by the manufacturers.

MANAGEMENT PROBLEMS OF DEALERS

Despite the fact that the average dealer has grown in size, there is no evidence that he is better managed. The average dealer is still quite small employing about 10 to 20 persons including a few sales and service engineers. He cannot be expected to have sophisticated management systems or to employ highly paid professional managers. His standards of selection and
training of personnel are not as high as those of many of his suppliers. So the main area of management's problems of dealers is that of management competence. It becomes a problem due to four important reasons.

1) The dealer management competence is typically low;

2) Goading by suppliers to improve management practices or systems (i.e. inventory control, accounting procedures, etc.,) does not result in improvement as the dealer is unable to take desired steps;

3) Manufacturer-designed programmes for dealers fail to get implemented at the dealer level; and

4) The retirement or death of the partner-manager of the dealer firm results very often in a very shaky period of operations.

The second area of dealer management problems is the relationship with the customers especially large ones. Both the dealer and the manufacturer view the customer as his own. The manufacturer wants to use the dealer to reach and service the customer and maintain control over the relationship with the customer. This conflict is acute in the case of big customers. The manufacturer wants to maintain direct dealing with large accounts, because of sales volume, latter's need for special technical services, customerized products, etc. The dealer cannot help but view the manufacturer as a competitor under these circumstances.

The third area of management problems is associated with the manufacturer's desire to expand markets either by developing new accounts, introducing new products or expanding into new geographical areas. The typical dealer wants to build relationship of mutual confidence with his customers and he may regard aggressive selling as inconsistent with the service role. So he is not going aggressively to promote new products or to develop new accounts. He may regard outlying areas as his own area. He therefore resists whenever his manufacturer appoints new dealers for his areas.

Each of these problem areas viz, management competence, control of customer relationship and market expansion reflects conflicting perceptions of the dealers role. These problem areas will persist until steps are taken to make the manufacturer-dealer relationship a full partnership based on mutual respect and support.

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CONCLUSION

To conclude, it may be said that both the manufacturers and the dealers are considering a number of factors before entering into an agreement. In spite of this, one can find that the procedure followed by them is not a comprehensive one as a number of important influencing factors have not been reckoned before entering into an agreement.

MAJOR FINDINGS:

The major findings of this chapter are as follows:

1. While large systems, minis and micros are sold through own sales offices, only micros are sold through dealers;

2. Though technical expertise happens to be the most significant criterion for the selection of dealers, the companies have failed to consider some of the important influencing factors for selection of dealers; and

3. 80% of the dealers have stated that there is an inter-dealer competition.

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SUMMARY:

The manufacturers of computers use both direct sales method and sales through dealers as distribution network. The factors favoring own sales offices, the organisation structure of a branch and functions of branch office are studied under direct sale through own sales offices. Distribution of dealers by form of organisation, products handled by dealers and number of manufacturers represented by dealers are dealt with under 'sale through dealers'.

Criteria adopted for selection of dealers, dealer's choice of manufacturers, dealership terms are dealt with in this chapter. Dealers' functions, feedback information required from dealers and manufacturers' support to dealers are also studied. Dealer satisfaction, inter-dealer competition, dealers suggestion to manufacturers and management problems of dealers are also analysed in this chapter.