

A critical analysis of its distribution channel marketing essay



Abstract

Distribution channel is having an important role in positioning of the product because we know that distribution channel is tool by which we can make reach our product to the final consumers. That's why selecting a distribution channel is an important aspect of building a competitive advantage for businesses of every size. Distribution channels include your own direct sales force, retailers, distributors and the Internet. The right distribution channel ensures that customers in different locations around the country, or around the world, can buy your products and get the right level of service from your company. To select the right distribution channel for your business, you need to consider what a channel can offer, including location and reach, skills and resources, management costs and degree of control.

This is a project to study, analyze and report the distribution channel of the FMCG giant ITC. The project would take help of various sources of secondary data about the organization; it's functioning in terms of distribution channels it employs and the management of these channels in order to stay competitive and ubiquitous against competition. For that we have reviewed the organization and its product lines on a macro level and critical analysis of distribution channel for a specific product line. In that way we would be able to ascertain what are strength and weaknesses of the given distributions channel. We have also drawn out certain similarities and contrasts between ITC's and other FMCG's distributions channel to help us add some recommendations at the end of the report on how the potential of the distribution channel and its efficiency can be improved.

Contents

Introduction – ITC

ITC was incorporated on August 24, 1910 under the name Imperial Tobacco Company of India Limited. As the Company's ownership progressively Indianised, the name of the Company was changed from Imperial Tobacco Company of India Limited to India Tobacco Company Limited in 1970 and then to I. T. C. Limited in 1974. In recognition of the Company's multi-business portfolio encompassing a wide range of businesses - Fast Moving Consumer Goods comprising Foods, Personal Care, Cigarettes and Cigars, Branded Apparel, Education and Stationery Products, Incense Sticks and Safety Matches, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business and Information Technology - the full stops in the Company's name were removed effective September 18, 2001. The Company now stands rechristened ' ITC Limited'.

Though the first six decades of the Company's existence were primarily devoted to the growth and consolidation of the Cigarettes and Leaf Tobacco businesses, the Seventies witnessed the beginnings of a corporate transformation that would usher in momentous changes in the life of the Company.

Key landmarks in history of ITC limited

1925 - Packaging & Printing Business was set up as a strategic backward integration for ITC's Cigarettes business

1975 -Launch of Hotels business with the acquisition of a hotel in Chennai which was rechristened ' ITC-Welcomgroup Hotel Chola'

1979 - ITC entered the Paperboards business by promoting ITC Bhadrachalam Paperboards Limited

1985 - Surya Tobacco Co. set up in Nepal as an Indo-Nepal and British joint venture.

1990 - Acquired Tribeni Tissues Limited, a Specialty paper manufacturing company and a major supplier of tissue paper to the cigarette industry later merged with the Bhadrachalam Paperboards Division to form the Paperboards & Specialty Papers Division in November 2002

1990 - Agri Business Division set up
returnviewimage. jpg

2000 - Entered Lifestyle retailing business with the Wills Sport range of international quality relaxed wear for men and women. The Wills Lifestyle chain of exclusive stores later expanded its range to include Wills Classic formal wear and Wills Clublife evening wear

2000 - ITC spun off its information technology business into a wholly owned subsidiary, ITC InfoTech India Limited

2001 -Introduction of ' Kitchens of India' ready-to-eat Indian gourmet dishes

2002 - ITC entered the confectionery and staples segments with the launch of the brands mint-o and Candyman confectionery and Aashirvaad atta (wheat flour).

2002 -Premium range of notebooks brand Paperkraft launched.

Classmate range of notebooks was launched in 2003

2003 - Introduction of Sunfeast as the Company entered the biscuits segment

2005 - Launch of Personal Care portfolio that has grown under 'Essenza Di Wills', 'Fiama Di Wills', 'Vivel' and 'Superia' brands which have received encouraging consumer response and are also being progressively extended nationally

2007 - ITC entered the fast growing branded snacks category with Bingo!

2010 - ITC launched its hand rolled cigar, Armenteros, in the Indian market , available exclusively at tobacco selling outlets in select hotels, fine dining restaurants and exclusive clubs

Recent financial results

Financial Results for the Quarter ended 30th September, 2012

Net Profit up by 21. 3%

Highlights

Net Revenue : +19. 6%

Profit from Operations : +21. 8%

Profit Before Tax : +20. 1%

Net Profit : +21. 3%

Non-Cigarette FMCG segment registers robust revenue growth of 26. 4% and improves profitability

ITC Grand Chola, the world's largest LEED Platinum rated hotel in the New Construction category, launched in September 2012

Gross Revenue/Income from Operations at Rs 10223. 86 crores grew by 19. 9% driven primarily by Branded Packaged Foods, Agri business and Cigarettes. Profit from Operations grew by 21. 8% to Rs 2499. 41 crores while Profit before Tax and Net Profit at Rs 2661. 10 crores and Rs 1836. 42 crores registered a growth of 20. 1% and 21. 3% respectively. Earnings per Share for the quarter stood at Rs 2. 34.

Literature review

Gaining Supply Chain Advantage in Emerging Markets

(Solving Efeso white paper, written By: Mr. Clive Geldard, Group Vice President, Retail and Supply Chain)

This white paper was published by VP of Solving Efeso group which is top management consulting group operating in more than 50 nations across the world. This white paper throws light on the following aspects:

Triple A-rated supply chain- affordable, available, appealing

“ One size fits one” against “ One size fits all”

Grow your own talent and close the skill-gap

Buy in or settle in

Supply everybody, everywhere

The author also lays stress on the fact that how important are emerging markets for the companies in current economic scenario. He suggest that any for any to grow emerging markets such as those of BRIC countries are an area of immediate focus and cannot be neglected. He also cites the following facts:

Around 77% of Asia’s population resides in only two countries China and India

Big FMCG players like Coca Cola, Unilever, Danone and Pepsi Co are currently earning more than 20% of their revenue from the latest emerging markets

FMCG Distribution Channels in India: Challenges and Opportunities for Manufacturers and Retailers

(Published in Journal of Global Business Issues, 2008 Written by – Debi P Mishra, University of NewYork)

This article explores strategic role of distribution channels in FMCG sector. It also Comment upon state of current distribution channels in India and the issues relevant in the current scenario. It identifies four archetypes that FMCG firms can use based upon axis of access and per capita demand. It basically classifies markets into 4 types:

A1 i. e. Urban markets: These markets have a High per capita demand of goods and have an easy market access

A2 i. e. Emerging markets: These markets have a Low per capita demand of goods and have an easy market access

A3 i. e. Oasis markets: These markets have a High per capita demand of goods and have a difficult access to market. These markets have huge potential because of high per capita demand. These markets are the future Urban markets in the making

B i. e. BOP: These are the bottom of the pyramid markets and have a Low per capita demand of goods and have a difficult access to market. These markets will not provide immediate profits but are vital considering the long term impact of any strategy

Exploration of Sales and Distribution Channel Structures in Industries in India

(Presented at the Academy of marketing conference- 2009, United Kingdom, written by - Dr Prathap Oburai, IIM- A, Prof. Michael J Baker, University of Strathclyde, U. K)

The study offers a classification scheme for grouping marketing channels into homogenous clusters based on similarity/dissimilarity using multivariate multidimensional mapping techniques. Most of the findings of this research are particular to the Indian scenario, though some of them may be used even in the international scenario. Extrapolation of certain findings can be done. The parameters on which research was conducted were as follows:

The clusters identified were as follows:

Cluster 1: Cars and Motorbikes

Cluster 2: Credit Cards, Cell Phones, Footwear

Cluster 3: Tobacco, Chocolate, Ice cream

Cluster 4: Toothpaste, Detergents & Shampoos and Newspapers

Cluster 5: Fertilisers and paints

The Base of Pyramid distribution challenge

(Published by IFMR research in 2011, Written by Sachin Shukla & Sreyamsa Bairiganjan)

This article talks about the challenges in the distributions of goods and services to the BoP consumers. BoP is defined as households who spend less than \$75 per month. This accounts for 114 million households in Rural market which accounts for about 76% of the rural market in India. It talks about the complexities that are associated with the BoP markets. These are as follows:

Rural BoP consumer profile:

Income Levels & Volatility

Savings Pattern

Language & Literacy

Mobility & Travel Patterns

Customer Preferences

Product Challenges

Push vs. Pull products

Unavailable Complementary Products & Services

Need vs. Latent Need

Logistics Dependence

Operating Environment

Government Interventions & Policy Support

<https://assignbuster.com/a-critical-analysis-of-itc-distribution-channel-marketing-essay/>

Infrastructure Constraints

Geographical Challenges

Population Densities

Non-homogenous Stakeholders

Scarcity of Data Sets

It emphasizes that the role of Government is huge in stimulating the rural economy and creating incentives for organized players. Without proper government support in establishing distribution networks and supporting these people it is hard that an efficient distribution network can be achieved for these markets. Government and private players need to work hand in hand to help in the cause of upliftment of these masses and developing these markets as future markets to nurture profits for the organization.

Objective

Review the Organization and its product lines on a macro level

The study includes the ITC as a company and its product lines on a macro level. The company has a wide range of product in the FMCG industry and is growing day by day in terms of revenues and profits.

Analyze the distribution channels employed by the ITC

We have analysis the distribution channels strategy which is followed by ITC

Review in detail the distribution channel for a specific product line

We have to study and do an analysis of distribution channel which is employed by ITC for a specific product line

Do a critical analysis of the distribution channel strategy adopted by ITC

We have to study and do a critical analysis of the distribution network strategy adopted by ITC.

Methodology

Literature Review about Company Domains and Operations.

We have review literature about the company and its operations .

1) Gaining Supply Chain Advantage in Emerging Market (Solving Efeso White Paper, written By: Mr. Clive Geldard , Group Vice President, Retail and Supply Chain)

2) FMCG Distribution Channels In India : Challenges and Opportunities for Manufacturers and Retailers (Published in Journal of global business issues, 2008 written by -Debi P Mishra , University of New York)

3) Exploration of Sales and Distribution Channel Structures in Industries in India (Presented at the Academy of marketing conference -2009, United Kingdom , written by -Dr. Prathap Oburai , IIM-A, Prof. Michael J Baker, University of Strathclyde , U. K)

4) The Base of Pyramid distribution challenge (Published by IFMR research in 2011, Written by Sachin Shukla and Sreyamsa Bairiganjan)

Secondary Research on ITC distribution channels (Macro on Product-lines)

<https://assignbuster.com/a-critical-analysis-of-itc-distribution-channel-marketing-essay/>

A research on ITC as a whole was done to build a basis on the target organization.

Secondary Research on a specific product line for its distribution channel

The secondary research with respect to the distribution methods, strategy and channel for ITC has been done for the cigarettes product line.

Focus Product Line

ITC one of the leading FMCG in the country which operates in Foods, Personal Care, Cigarettes and Cigars, Branded Apparel, Education and Stationery Products, Incense Sticks and Safety Matches, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business and Information Technology, Category, has come a long way from the when it started. The biggest harbinger in the ITC growth story has been Cigarettes, The category in which ITC still is the major player in the country.

ITC's highly popular portfolio of brands includes Silk Cut, Insignia, Lucky Strike, Classic, Bristol, Gold Flake, Players, India Kings, Scissors, Capstan, Berkeley, Flake, Duke & Royal, Navy Cut. The Company has been able to maintain its Market leadership through complete focus on ceaseless value creation for consumers through substantial investments in creating & bringing innovative product designs to market, ensuring consistent & superior quality, state-of-the-art manufacturing technology, & superior marketing and distribution.

However the effect of cigarettes as a category has not been limited to making ITC a Cash Surplus company. What Cigarette as a category did was it

laid the foundation for the Marketing channel of ITC, which arguably is considered the Best in the country? In the early days cigarette consumption was confined to the urban centers in the country however ITC saw an immense potential for growth in semi urban and rural India. Thus began the expansion of the channel, ITC gained inroads into the remotest of the places of the country eventually leading up to the E-chaupal model. Cigarettes owing to the Inelastic nature of demand provided ITC with a lot of bargaining power to further push their other products and hence turned out to be very instrumental in establishing The ITC Marketing Channel.

Channel Design

MANUFACTURING UNIT

CUSTOMER

HAWKERS

RETAILERS

HAWKERS

WHOLESALE

DISTRIBUTORS

WAREHOUSE

Data/Information Flow in the ITC Distribution Channel

Information flow plays an important role in communicating strategies from the top management to the ground staff who are responsible for the ultimate

<https://assignbuster.com/a-critical-analysis-of-itc-distribution-channel-marketing-essay/>

implementation of these strategies. In case of FMCG business these information flow can be in the form of gaining more market share strategy (taken by the top management) to lowering product prices to achieve the said strategy at the lower level.

The Information flow in ITC generally follows a hierarchical structure where it percolates down from the top management to the area executives through several layers. Most of this information flow is in the form of changes in strategy that ultimately changes to volume of sales and other review metrics.

The following figure shows the information flow as it happens in the ITC organization:

If we look at the information flow particularly in the cigarette business we find the way information flows from the top to bottom of the organizational pyramid. It starts with the General Manager for the particular business vertical which in this case is the Cigarette business. This information is typically in the form of strategy measures that the top management takes. An example can be a strategy communication from the general manager to improve the market share in the cigarette business. In such a case the next line managers who would typically be the product managers would translate this strategy into implementable product strategies (e. g. new product development or cutting prices based on the particulars of the strategy). In case of simpler strategy like improving sales, zonal managers would be communicated this strategy. From the zonal managers this information will flow to the branch managers who typically manage specific branches within

a zone. This information next flows along to the assistant manager and from there to area managers who deal with the wholesalers in implementing these changes. In the organizational hierarchy the information flows to the area executives who interact directly with the retailers.

After this initial information flow there is data flow in the reverse direction as well to help the managers to evaluate the attainment of strategy objectives. These are mainly in the form of sales report that are produced in a weekly, monthly and yearly basis.

Example of sales position report:

These reports are generated on a weekly basis

These reports are generated by the managers at the distributor level

Reports are submitted to the Areas sales manager or Asst. Manager

Typical contents of the report include Opening stock, closing stock, ordered stocks, received stock and damaged stock.

Document regarding the flow of information

A sales position report is generated weekly by the manager (cigarettes) at the distributor level. This report is submitted either to the area sales manager or the assistant manager.

The report contains the following:

Opening stock : It is the stock of an item (cigarettes) present at the beginning of the week . The stock which is left at the end of the week

<https://assignbuster.com/a-critical-analysis-of-itc-distribution-channel-marketing-essay/>

becomes the opening stock for the following week. The distributor takes the order every week whereas the retailers take the order after every two week. At the point of delivery distributors need to pay cash and collect stock, no credit is given on cigarettes.

Received stock : It is the stock which each distributor obtains at the beginning of the week from the godown(Area manager) and further distributes it to the wholesalers (maximum 1 month credit) and hawkers(1 day credit).

Sale of the stock : This includes the total sale done by the distributors and the retailers from the stock in a week.

Damaged stock : Cigarettes have a shelf life of 3-6 month as they are highly hygroscopic. All damaged or unsold stock is bought by the company and sent to the factories where the tobacco is extracted, processed and new cigarettes are produced.

Closing stock: The stock which is left at the end of the week .

Channel member management

Monetary and non monetary methods of rewarding: According to the HR policy of ITC there are no monetary or non monetary rewards given to the channel members i. e. the distributors and the retailers. No benefits, no freebies or paid vacations etc are provided to the channel members. Very rarely cash gifts are given which is related to the performance. No credit is given to the distributors for the purchase of stock (cigarettes). Even the retailers do not get any credit from the wholesalers and have to pay cash.

The wholesalers however get a maximum of one month credit from the distributor.

Target setting mechanism: There is a certain target which is set for the distributors. For the retailres there are no targets set. The target for the distributors is in terms of M-S, where 1 M-S is equivalent to 12000 sticks and 1 case is equivalent to 12 M-S. The distributors are given a target of 200 M-S per week.

Monitoring Mechanisms : The distributors are monitored by the Area Sales Manager and the retailers are monitored on by the Area Executives. The parameters on the basis of which the distributors are monitored are the following:

- (a) Visibility of the products
- (b) Availability of the products
- (c) Maintenance of the existing.

Training and HR Inputs : The distributors are not given any training or HR inputs by ITC.

Management of Field Force

Monetary Method of Rewarding: As per the HR policy of ITC Ltd the field force is monetarily rewarded on the basis of the number of bills drawn on the distributors.

Non Monetary Method of Rewarding: The field force of ITC Ltd is given unlimited medical benefits in terms of non monetary methods of rewarding.

Target setting Mechanism: The field force is given targets in terms of the number of bills generated by an individual.

Monitoring Mechanism: The members of the field force reports to their immediate supervisor and this follows throughout the hierarchy.

Training and HR Inputs: The sales men of the distributors are under the payroll of ITC Ltd. In case of mass recruitment the new sales force is given training by the HR department of ITC Ltd. As per the HR norms, ITC Ltd provides training to its own employees of the distribution network at regular intervals.

Transportation and Logistics:

Company sourced 3rd party truck

Company sourced 3rd party truck

Distributor Sourced third party Vehicles

Distributor Sourced third party Vehicles

Third party owned trucks are used to transport the cigarettes from the production plant to the company depot/warehouse. Similarly, third party owned trucks are also used to transport the goods from the warehouse to the distributors. All these transportation costs are borne by the company.

From the distributor's place, the cigarettes are distributed to the

wholesalers & the retailers (panwalas) through the user delivery vans, rickshaw, cycles, motorcycles, autos. All these transportation costs are borne by the distributor. ITC Cigarettes have consolidated their inventory by deploying SAP module of Information technology in their warehouses. The stock positions are automatically updated in the database as & when goods are sold from the warehouse. Accordingly, replenishment orders are generated to the company when the stock level goes below the benchmark level which takes into account the order lead time as well. This way ITC cigarette reduces its inventory holding costs by deploying proper inventory management.

Critical factors in Cigarette distribution

Consumers

There are approximately 120 million smokers in India, about 37 percent of all men and 5 percent of all women between the ages of 17 and 69

Source - [http://environment. about.](http://environment.about.com/od/healthenvironment/a/smoking_deaths.htm)

[com/od/healthenvironment/a/smoking_deaths. htm](http://environment.about.com/od/healthenvironment/a/smoking_deaths.htm)

Due to large consumer base, there are large number of layers in the whole distribution hierarchy and many intermediaries involved in the whole system

Geographical Distribution of Consumer base

POP points are geographically dispersed across India including rural and urban areas. Since above mentioned requirement points are large and geographically dispersed

The POPs for cigarettes include Paan shop around the corner of the street, street tea stalls, kirana stores, Supermarkets, Hypermarkets in the urban areas

In the rural areas POPs of cigarettes includes dhabas along the highways, tea stalls in the melas, haats, paan shops etc

Purchase Frequency

Cigarettes are addiction based products

The frequency of purchase of cigarettes is very high, so availability becomes critical

The delivery in „ the last mile“ is very critical

Therefore, the whole supply chain is backed by strong transportation and logistics support

Product Familiarity

Consumers are familiar to the product

Thus importance of field force is limited to the extent of making the product available

Degree of Brand Loyalty

Cigarette brands enjoy the highest brand loyalty of all consumer products, with less than 10% changing brands annually

So in this case the availability is more important as their will be pull demand

Impulsive Nature of Product

Nicotine is a highly impulsive product

So availability is the most critical factor

Therefore, delivery should be supported by a strong and efficient supply, logistics and transportation system

Speed and complexity of decision making

Speed of decision making process is high and complexity is low

Thus the importance of expertise of field force is low

Crisis Purchase

As cigarette is an addictive product, so element of crisis purchase becomes relevant here

So availability is the most important factor

Perishability

Cigarettes are not perishable items. The shelf life of cigarettes is quite high

Preservation is also not a critical factor for cigarettes

Seasonality of Product

No specific time band attached with the purchase of cigarettes

There is a consistent demand for the product

Degree of customization possible

Not possible, It is a highly customized product

Hence from this aspect criticality of sales force on field is low

Negative and Positive Re-enforcement

Cigarette is a product which is not subjective to either positive or negative re-enforcement as because it is more of an addiction based product

So for this building a right ambience and a shopping experience are not vital

Financial Aspects (Advertisement vs S&D efforts)

ITC's net cigarette sales rose 16.6 per cent to Rs 12,324 crore in 2011-2012, against Rs 10,574 crore in the year-ago period. Profit before tax from the cigarette business rose 19.8 per cent to Rs 6,908 crore, against Rs 5767 crore in the year-ago period.

Revenues for the first quarter of the financial year 2012-2013 was 3304 crores, up 15% from the revenue of 2874 crores from the same quarter in previous year while the profit for the quarter stood at 1900 crores.

Cigarettes account for about 80 per cent of ITC's total profits

Source: <http://www.business-standard.com/india/news/cigarette-sales-push-itc-etmarginally/481554/>

Components of Market Spend

Amount(Rs) In Crores

Advertisement

514.66

Selling and Distribution

887. 78

Distribution between the S&D and Advertisement expense for ITC cigarette business

Competitor Analysis

Godfrey Phillips India Ltd

Components of Market spend

Amount(Rs) In Crores

Advertisement

197. 85

Selling and Distribution

75. 87

Source: Distribution Dossier of ITC Ltd, Praxis Business School S&D Report

A clear inference that can be drawn from the above tables and pie-charts is that there is a major difference between the policies adopted by these two competitors as far as the expenses related to advertisement and sales & distribution is concerned.

ITC as per its strategy has concentrated mainly on its Sales and Distribution partners and has spent a major chunk of their expenses on this parameter, however Godfrey India has been spending a lot on advertisements.

The strategies can be understood by two facts that were quite equivocally placed in the critical factors that were listed earlier.

The Cigarette distribution and sales can be widely based on the these critical facts which are -

The product is an addictive product hence once a consumer is made, it is easy to retain him. Hence, advertisements looks to be a better bet in order to make sure that the product is known and tried by target group (new)

This also leads to the fact that the product once accepted becomes a pull based product hence the advertisements becomes all the more important.

On the other hand, in order to ensure that product is available to the far flung areas and the geographical regions where the product is expected to find a market. This calls for more expenditure on sales and distribution. This is what precisely, ITC has been doing.

As we have seen there has been a difference strategy devised and implemented by these two competitors based upon theory on insights and objectives that suit the companies individually.

Team Analysis

A comprehensive analysis of the distribution channel of the cigarette portfolio of ITC was done and the following key areas were investigated

<https://assignbuster.com/a-critical-analysis-of-itc-distribution-channel-marketing-essay/>

Document regarding the flow of information: The report contains all the relevant information about the stock

Channel Member Management : Includes Monetary and non monetary methods of rewarding, Target setting mechanism, Monitoring Mechanisms and Training and HR Inputs

Management of Field Force: done through use of variety of incentive schemes

Transportation and Logistics: Third party owned trucks are used to transport the cigarettes from the production plant to the company depot/warehouse. Similarly, third party owned trucks are also used to transport the goods from the warehouse to the distributors

Critical factors in Cigarette distribution

Consumers

Geographical Distribution of Consumer base

Purchase Frequency

Degree of Brand Loyalty

Impulsive Nature of Product

Speed and complexity of decision making

Crisis Purchase

Perishability

Seasonality of Product

Degree of customization possible

Negative and Positive Re-enforcement

Financial Aspects (Advertisement vs. S&D efforts): ITC as per its strategy has concentrated mainly on its Sales and Distribution partners and has spent a major chunk of their expenses on this parameter

Data/Information Flow in the ITC Distribution Channel : The Information flow in ITC generally follows a hierarchical structure where it percolates down from the top management to the area executives through several layers

Conclusion

The key objectives of the project that were successfully studied were:

Review the Organization and its product lines on a macro level

The study includes the ITC as a company and its product lines on a macro level. The company has a wide range of product in the FMCG industry and is growing day by day in terms of revenues and profits.

Analyze the distribution channels employed by the ITC

We have analysis the distribution channels strategy which is followed by ITC

Review in detail the distribution channel for a specific product line

We have to study and do an analysis of distribution channel which is employed by ITC for a specific product line

<https://assignbuster.com/a-critical-analysis-of-itc-distribution-channel-marketing-essay/>

Do a critical analysis of the distribution channel strategy adopted by ITC

A detailed study was performed and a critical analysis of the distribution network strategy adopted by ITC was done.

This was project to study, analyze a