

A STUDY OF THE CHANNEL DISTRIBUTION OF THE AUTOMOBILE INDUSTRY IN THANE CITY

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Abstract

The Automobile Sector is one of the fastest growing manufacturing sectors in India. In the 1990's the industry witnessed an average growth rate of above 20%. Indian Automobile Industry is characterized by a very high 21% (75%) of two-wheeler production, ranking second only to Taiwan. India is also the largest Manufacturer of Tractors. India has a large diverse population which consists of various categories of people and therefore it provides better opportunities for the automobile industry in India they have the capability of expanding to every sector due to the large density of population. Although over the years has been a great competition in the automobile industry and therefore providing the product at the right place and the right time within the right market becomes of utmost importance to the company, therefore automobile companies need to build a distribution channel that is most effective and efficient and a channel that also leaves a mark on the consumers in terms of the after sale services, the Ambience, the services provided, the design and setup of the showroom etc.

Introduction

The early cars were sold by automakers to customers directly, or through a variety of channels that included mail order, department stores, and traveling representatives. The first dealership in the United States was established in 1898 by William E. Metzger. Direct sales by an automaker to consumers are now limited by most states in the U.S. through franchise laws that require new cars be sold only by licensed and bonded, independently owned dealerships.

A **car dealership** or vehicle local distribution is a business that sells new or used cars at the retail level, based on a dealership contract with an automaker or its sales subsidiary. It employs automobile salespeople to sell their automotive vehicles. It may also provide maintenance services for cars, and employ automotive technicians to stock and sell spare automobile parts and process warranty claims.

It becomes much efficient for companies to set up this car dealership where they select designated dealers on the basis of various factors. In certain cases they also set up a set of rules of policies that have to be followed by the dealers to maintain the dealership.

Most producers use Internet eateries to bring products to the market a try to develop a distribution channel that is more convenient for them channel intermediaries are formed the individual such as

wholesalers, Dealers, brokers etc. who help to move the product to the market. Distribution decisions can sometimes give a product a distinct position in the market.

Objectives

The objective of the study is as follows:

- I. Understanding the various distribution strategies used by various companies to market their products
- J. Analyzing an understanding the ordering process
- K. Analyzing the sales support provided by the company
- L. Understanding the various promotions both and the customers end and the dealership's end
- M. Understanding the training and other development programs provided by the company to the dealers
- N. Understanding the estimated customer preferences
- O. Understanding how the dealers order products using Technology and the Lead time for various brand

Literature Review

When viewed in isolation, distribution in itself represents a cost for the producing organization (Bertaglia, 2005). The transfer of a product from the producer to the buyer generates costs that will be paid in the end by the consumer. For the producer, a reduction in distribution costs can result in improved competitive conditions in the consumer market. Lassa and Kerr (1996) point out that producers will ground their choice of distribution strategy on the relationship between the desired amount of control, or power, over the channel, and the resources that are required to maintain it. The choice is also determined by the type of consumer goods, which can be classified as: convenience, comparison or specialty goods (Novae's, 2004; Lambert and Stock, 1992; Bucklin, 1963). Those three types of goods entail respectively three basic forms of distribution: intensive, selective and exclusive (Novae's, 2004; Lambert and Stock, 1992; Bucklin, 1963). These alternative forms characterize marketing channels in terms of their distribution intensity (Kotler, 2000; Millen, 1996; Capsids, 1988). The present case deals with specialty goods. These are typically expensive and are purchased sporadically. In general, they are associated to characteristics such as brand, prestige, quality or some specific aspect of performance. Automobiles, perfumes and designer clothes are examples of specialty goods. They usually require adequate spatial environments to receive clients, and sometimes specialized technical assistance is necessary. The usual distribution form for specialty goods is exclusive distribution. In that case, producers generally choose one representative for each region. The relationship between producer and distributor tends to be intensive, including strong exchanges of information, training and mutual commitments. Exclusive distribution has been the choice of automakers to deliver their product to consumers. Such choice is related to the characteristics of the product, which can be classified as a specialty good (Bernheim and Whinston, 1998; Li and Dant, 1997). Automobiles are usually associated with high costs, brand name, prestige and specific performance aspects. Therefore, the maximization of results by the producer (automaker) would be obtained together with the maximization of results by the distributor, since the latter represents a single product (Coughlan et al., 2001).

The Internet is another influencing factor on channel structure, due to its widespread access on the part of the producer, the distributors and the final consumer. The Internet improves product commercialization, increases information flows and enhances coordination among agents in the channel (Grande, 2004; Pitt, Berthon and Berthon, 1999). The intensive use of that technology by consumers forces distributors to be well informed about the products they represent; otherwise they will be disregarded by their clients. Transaction costs also influence the distribution channel. The transaction cost economics approach presupposes that economic agents operate in a context of bounded rationality and opportunism (Grande, 2004; Williamson, 1996). Thus companies would seek to establish governance structures to minimize transaction costs. Such costs depend on transaction attributes, asset specificity and uncertainties involved (Williamson, 1996). The advantages associated with returns to scale achieved by organizations with higher distribution capabilities are intrinsic to transaction costs. Hence the size of distributors could contribute to reduce their basic operational costs (Williamson, 1996).

Research methodology

We have performed an exploratory research approach where the universe is Thane region. Data was collected in two ways that is secondary data from Research that has been conducted in the same field and primary data via personal interviews the research is conducted with the help of interviews and discussions carried out during which information and other details are taken down.

Significance of the study

This paper helps us understand the distribution strategy used by various companies for different automobile and their relationship with the dealer's/franchise that helps the company bring it product to the market.

Inventory management and Technology Used to maintain inventory

In case of car dealers inventory consists of a large amount of the business as most of their finances are block in the form of inventory. Therefore maintaining this inventory becomes at most important for these dealer. The dealers make use of a FIFO technique which is known as the First in first out technique. The car that comes within the inventory first is first sold to the customer and the chain of inventory is thus maintained in this format.

Dealer at times stock up inventory in the form of spare parts and the entire product that is the car as a whole either at the dealership location, service centers or even set aside warehouse at Bhiwandi where a certain level of stuff in the form of cars and complete products is maintained. Inventory is ordered to the dealership location from me where houses that are owned by the dealers themselves. The Inventory stock within the warehouses is also looked after by the dealers. Whenever the inventory at the warehouse runs low the dealers place an order with the parent company for the procurement of your products.

Most dealers store a very Limited stock of cars and spare parts that I used only for display and test drive purpose so that the customer can have a look and feel of how the car would be. They make use of an inventory software program to keep track of inventory on hand and location for pulling products of an older stock. The more inventory the wholesaler carries the more space and staff it takes to manage. data is imported into this software ERP systems such as the Oracle + Natsu which is a Saas best business solution providing variety of features like ERP inventory management accounting fulfillment of Orders and also keep the track on the inventory and its storage location. Software changes form distributor to distributor depending upon the franchise and the company it serves

Sales support provided by the company

Most of the dealers receive assistance in the form of banners, posters and even pamphlets containing various details regarding a specific brand. Whenever whenever there is launch of a new car product support is provided by the parent company in terms of providing training to the managers of the franchise and educating them on the various features that are added or subtracted from the product. They also give a complete demonstration from the look and feel of the product to all the other features that the customers are entitled to.

The company also launches various promotional schemes when it launch is a new product. This game is a standard set by the company that all retailers have to provide your customers with. Apart from this the retailers can also provide additional benefits like free car services and other financial assistance to the customers. All these additional benefits are provided from the retailer or the dealers end and not from the company's side.

Therefore there are certain differences in the schemes and offers that are provided on the same product by different dealers.

In certain places for a particular area or a territory the company usually designates identifies a particular dealer as the regional dealer or a dealer that would be operating in that specific area. These dealers are also known as authorized dealers for that particular company. They (dealers) have an advantage as they have been identified by the parent company as they are designated dealers and also the parent company advertisers about these dealers via print media or other social media website theft creating a publicity for they are franchise in a particular area. All other form of advertisement regarding creating awareness about the franchise and other promotions to the customer has to be provided by the dealer itself and not the parent company.

Training provided by the company

The parent company specifically does not provide a sales training but only promote the retailers by demonstrating to them new product and new features that may be added in the old products. Although this demonstration is only done to the top level executives that work with the franchise and not all sales executives.

Time to deliver a product

The time taken to deliver a car may vary from model to model depending on the type of car. Cars that have a higher demand often take a longer time to be delivered. But on an average the time taken to deliver a car is 1.3 months. In certain cases where there is a newly launched car sometimes customers even have to wait for a waiting period of 6-8 months. This occurs due to the high demand of a certain car variant. For example in the case of the new Swift Dzire there was a waiting period of about 4 months. This means that even if the dealer had placed an order with the parent company for the arrival of a batch of Swift Dzire cars the company would still not be able to fulfill the entire demand of the retailer and provide only a limited number of cars depending upon the size of the dealer and the sale that the company acquires through the dealer resulting in a wait period for the customers.

Trade promotions

In certain cases the parent company would like to put forth the products into the market via the dealers and thus of a dealers with a certain Trade Promotion. This promotion could be in the form of an additional incentive or a great a margin over the sale of that particular product. In some cases when dealers order products in bulk they also receive a certain amount of discount on the products. In case of automobile usually dealers go forth with a pre order process in which they inform the parent company on the quantity of product it may require in the entire month. The parent company then therefore promotes dealers and offer them a greater incentive. This incentive may vary on the basis of the product itself depending upon which range that is luxury car, sedan or a hatchback.

Credit provided to the dealer

In most cases no credit period is provided to the dealers that is they have to make an upfront payment to the parent company when they order a vehicle. therefore dealers usually go on to developing relationships and forming an Alliance or a tie up with certain Bank so that the bank and then provide them with the finances required for the upfront payment of the vehicles .The dealer can also extend the relationship with the bank by promoting its customers to go in for car loans with data benefits and lesser interest rates with that particular Bank. Thus making process at both ends.

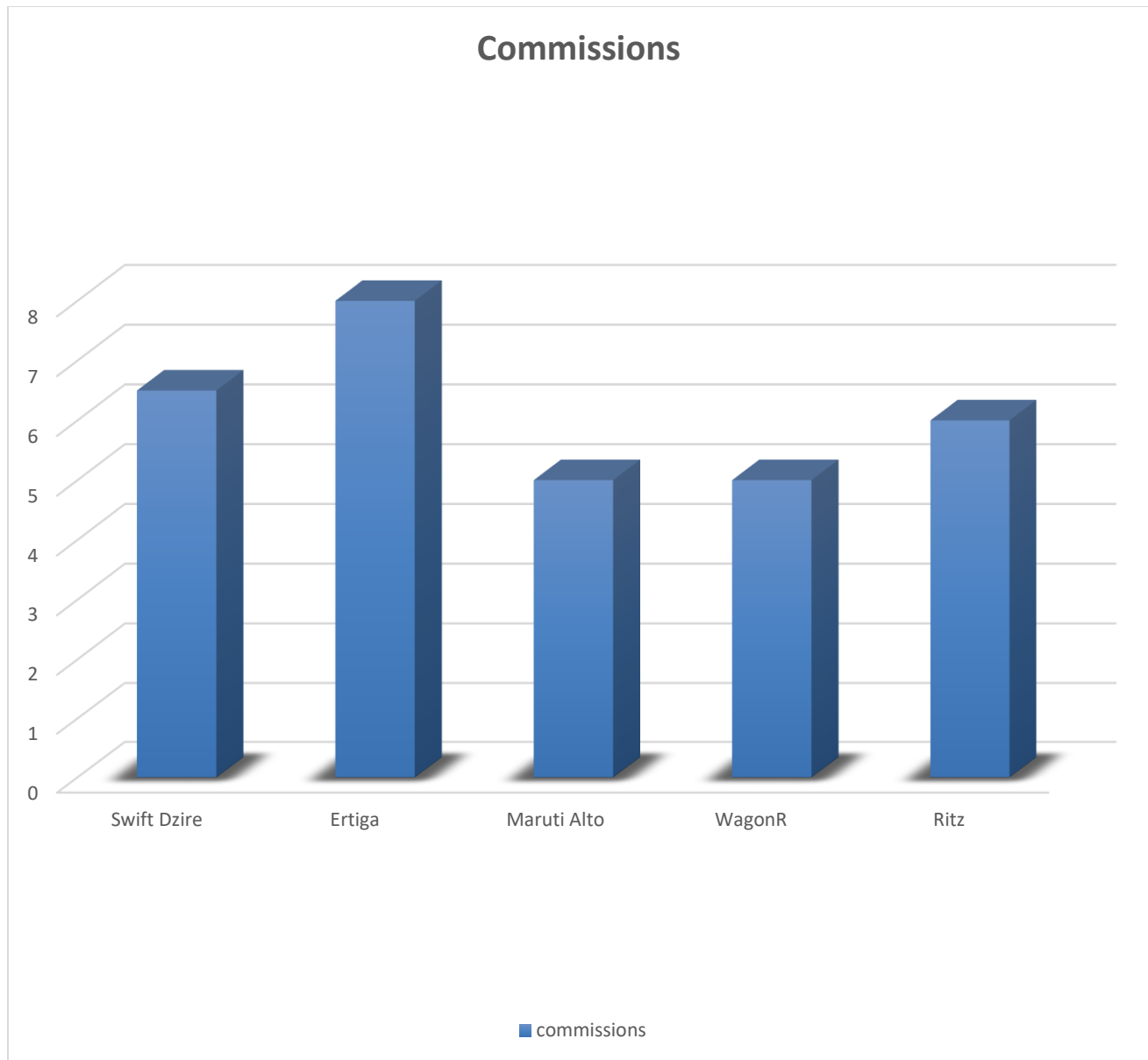
Commission on car's

Greater the sale value of a car greater is the percentage of commission that the dealer received from the parent company. This commission is a standard for all dealers in a particular area as the parent company would not want to have any conflict between dealers. The commission is provided to the franchise as a whole on the sale of a particular car and not individual sales executives. It is left up to the franchise how it would like to distribute it in come with its sales representatives or executives

The following is a list of commissions that is provided on particular cars of Maruti Suzuki.

| Name of the car | commissions |
|-----------------|-------------|
| Swift Dzire | 6.5% |
| Ertiga | 7 to 10% |
| Maruti Alto | 5% |
| WagonR | 5% |
| Ritz | 6 % |

The following table is a tentative list that contains commissions that are obtained on various cars by the dealers. The figures mentioned in the above table are tentative as the dealers do not disclose they are entire margin.



Cost of the car and the services

The cost of the vehicle is set by the parent company out of which consumers have to pay the entire amount to the dealers where the dealers get a certain Commission or share of the price that the consumer pay them. But it usually occurs that on road prices of certain vehicles may vary from dealership to dealership this happens because curtain dealers may provide additional promotional offers and discounts to the customers. Although this discount is provided from the dealership and therefore the dealer might be giving up on a certain amount of the commission.

The car services have to be provided by the dealers under certain company’s standards. The standard the set by the parent company and the dealer have to follow them compulsory. Also the prices of the services may vary from dealership to dealership the parent company only provide certain standards of ratios of percentage that have to be charged from the customers every time they avail of a service. Most

of the save that is achieved from the servicing of cars goes to the dealership directly while only the cost of replacement of car parts or spare parts have to be paid to the parent company.

Preference of the consumers

According to the visited dealers in Thane City most of the customers prefer the purchase of Maruti Suzuki Swift Dzire. According to the dealers the customer prefers this vehicle because it is the combination of a Hatchback and Sedan at an economic Price value. it therefore gives the benefit of both the car categories that is It requires less space to park and therefore is compact and smaller as compared to others Sedan available in the market but also provide the luxury and comfort and the required leg space for the customers as compared to the other hatchbacks in the market.

Moreover according to the dealer the pricing of this vehicle is at a much economic value and the car comes in 3 variable ranges with additional features third providing the customers the freedom to choose between the various options.

Conclusion

- From the following we can arrive to the conclusion that companies like Maruti Suzuki, Tata and various other automobile dealers make use of dealership to deliver cars to the consumer.
- These dealers act like a bridge between the parent company and the customers and the dealers are also entitled to provide services on behalf of the parent company.
- The dealers make use of a high-tech inventory management system which helps them to Store the desired inventory quantity.
- The dealers have to make a pre order to order automobiles from the parent company and therefore they have to manage their Lead time accurately so as to reduce the waiting time for the customers to receive their vehicles.
- The automobile companies provide sales support to the dealers in the form of demonstration and also a certain extent of advertising with regard to the authorized dealers
- Automobile companies also provide dealers with certain trade promotions during launch of new vehicles and other incentives such as a launch price to its customers but on the other hand for ordinary waited that already have been launched the dealership them self-provide certain from of promotions and discounts to its customers.

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