

**Role of Community Dominance of
Trade Channels in India:
Exploratory Study**

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Exploratory Study**

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Abstract: The process of liberalisation of the Indian economy and efforts to integrate it with the global economic set up has led to a lot of changes in the way business is being organised and conducted. One of the sectors of the economy which has seen important, if not actually dramatic change in the past decade has been the trading segment. Lot of companies including multinationals are trying to introduce novel practices in their distribution and retail systems in order to penetrate the Indian market. But so far their efforts in this direction have not been supported by an ability to understand the community dimension with respect to the channel members for whom their community affiliation is not just a question of identity, but also one that provide strong business support. Though channel members themselves are well aware of the existence of community dominance, this issue has mostly been neglected in academic research and has in no small way contributed to lack of understanding of the Indian market situation particularly among managers with a multinational background.

In this study we present results of an exploratory field study carried out over nine industry segments. Apart from probing the issue of the existence of dominant community groups in the trade channels, we also explore the implications of the existence of these groups for the relationships that exist between the trade channels and other components of the value chain with whom they interact.

Key Words: Trade Channel, , Community Dominance, Channel Management.

Introduction:

The process of liberalisation of the economy and efforts to integrate it with the global economic setup has led to a lot of changes in the way business is being organised and conducted. One of the sectors of the economy which has seen important, if not actually dramatic change in the past decade has been the trading segment. Trade channels account for approximately 12.3 % (1998-99) of the GDP of the country. These changes can actually be seen as the extensions of developments in the trade sector which were experienced to the earlier in the developed countries. Coupled with this has been the phenomenal changes due to the emergence of the new economy which has brought with it, its own set of rules and regulations. In this flux a lot of companies including multinationals are trying to introduce novel practices in their distribution and retail systems in order to penetrate the Indian market.

But so far their efforts in this direction have not been supported by an ability to understand the community dimension with respect to the channel members for whom their community affiliation is not just a question of identity, but also one that provide strong business support. Though channel members themselves are well aware of the existence of community dominance, this issue has mostly been neglected in academic research and has in no small way contributed to lack of understanding of the Indian market situation particularly among managers with a multi national background. To study and document the existence of this phenomenon is the central motive of our research.

State of Distribution Channels:

A quick glance at what is new and happening in the trade and distribution channels may serve as a useful starting point.

Changes in the context and way of internal processes:

New Entrants: With the easing of norms for manufacturing the number of companies wanting to establish their presence has increased. This has increased the power of the distributors (distributor refers to wholesaler as well as retailer) who now have a wide array of suppliers to choose from. The retailer is now the proverbial king in the value chain. The locus of bargaining has now shifted to the distributors particularly the big wholesalers getting the best terms possible. This process has been accentuated by the entry of cash rich multi nationals for whom winning distributor loyalty is the first step towards achieving market dominance. Correspondingly the product variety and stock keeping units (SKU) have also increased tremendously which again pushes the bargain more in favour of the distributors. Dealer targeted promotion schemes are increasingly used as sales enhancement tools by the manufacturers.

Service Orientation of Channels: More and more retailers are now moving from being just stockists of goods to value added intermediaries in the value chain. Part of the package of goods they sell are, bundled services which enhance the pull of the product .

A few examples will clarify this point. Ceat Shoppe which is the retail chain for selling Ceat tyres keeps the customer entertained while his tyres are changed or repaired. Book Mark, a leading book seller in New Delhi, arranges for book discussions by Hindi Authors once in a month. At other top flight book stores across the country salesmen themselves have a reasonably good knowledge about books and assist the customer in finding the type of book he wants according to the customer's tastes.

Provision of Consumer Finance: Today a whole range of products ranging from white goods to automobiles can be bought on credit. So the newest addition to the group of intermediate channel members have been the finance companies. Credit today is part of the product offering in some of the high value purchases.

Changes in the structure of retailerships

Emergence of shopping malls and super markets: There has been a perceptible emergence of supermarkets as an alternate shopping mode particularly in the big cities. These have pushed customers away from the traditional general merchants who catered to most of the daily need-based purchases that had to be made. These supermarkets are one stop shopping centres stocking a variety of products. For example: Shoppers Stop, a popular supermarket with outlets across the country sells around 50 products under one roof.

Speciality Stores: In the past few years a number of big retail outlets in specialist product categories have established themselves. For example Food World is a comprehensive food shop with outlets all over India. Similarly Music World and Health & Glow are Speciality stores in Music and toiletries cum pharma segments.

Franchising: Franchising has become a very effective and less cumbersome way of extending the market reach. In both the above mentioned modes of distribution franchising has become the favourite mode of expansion.

Business to Consumer (B-C) commerce: The explosive growth of the internet has resulted in opening up new vistas in retailing with B-C commerce expected to generate large volumes. On the lines of Amazon.com, India has its own Fabmart which has been able to make its mark felt in the B-C segment. But this mode of distribution is still in its infancy and its ultimate impact may still be a matter of speculation. Depending upon growth in telecom infrastructure and penetration of computers there could be a rise in the share of this segment as a proportion of the total purchases made. Even otherwise this channel can act as a supplement to the other retail channels already in place. If the B-C segment does indeed take off and becomes an attractive proposition for customers then the role of channel intermediaries as they exist now may see a radical change.

Cross-selling of goods and services: The best example of this kind of retailers are the petrol pumps which are increasingly positioning themselves as outlets where they also sell petrol. In other they are using the existing infrastructure to cross sell various products and services and maximise their return on capital employed. For example: Akbarallys, a leading name in the supermarket segment has tied up with Indian Oil to put up its outlets

in the petrol pumps affiliated with Indian Oil. An interesting feature is that this new innovation has been pioneered in an area where Government controls are still high.

Influence of Information Technology:

More and more channel members are now beginning to increasingly rely on IT to boost sales and margins. Two major areas where IT is seen to help is in cost reduction and service. The adoption of Information Technology has seen a move towards co-ordination and co-operation between the various elements in the value chain. A channel member is now connected to both his upstream supplier as well as the downstream competitor and traditional organizational boundaries that appeared between suppliers, retailers and customers are now getting blurred. Information, the most important source of value creation is available freely and has facilitated speeding up of product and money flows in the market.

IT has allowed the retailer to operate in close proximity with the buyers. Home shopping continues to be on the rise. EDI has made possible automation of critical processes like re-ordering .

Waiting and delivery times are being continually shortened as information technology pervades the distribution channel. Sales and service personnel can amass all the information they need quickly instead of needing to gather and compile information from several sources. Information systems have allowed channels to provide their customers with the exact products and services they need at the right point in time. Use of automated counters like ATM have popularised the concept of the customer serving himself while at the same time maintaining accuracy and reliability.

Enterprise Resource Planning systems have integrated the working of the whole enterprise and have greatly simplified several internal processes in companies. In India retailers like Shoppers Stop have used ERP modules in planning for its systems.

But what probably is or would be the impact of the proliferation of IT on the channel intermediaries ?

Just in time deliveries would reduce the need for inventory and would free up a lot of retail space. Also the retailer would increasingly become a point of order generation than a carrier of physical stock. There is also a possibility of some of the intermediaries being rendered irrelevant in case the manufacturers decide to deal directly with the customers via the internet.

The need for working capital financing in the trade channels can be lowered because of the need to hold lesser physical stocks of goods than was done in the past.

Payment systems can be automated minimizing the paperwork and time that has to be spent.

Market makers over the net increase the efficiency of the transaction process by connecting the highest number of buyers with the highest number of sellers. Product and price variety available is greatly increased.

Technologies like Data Warehousing and Data Mining have made it possible for retailers and manufacturers alike to identify trends and patterns in purchasing behaviours based on demographic and other forms of data. This in turn would help intermediaries and manufacturers design and target promotion programs to specific customer groups. Point of Sales data helps in generating better sales forecasts thereby minimizing the risk of carrying unwanted inventories.

With the implementation of channel information systems, power has now shifted away from manufacturers to retailers who are the people in direct contact with the end customer. Because the retailers are the people who collect data on customer attitudes towards the various parameters that affect the purchase decision, they have an advantage when it comes to using the data. Sometimes retailers launch their own sub-brands using the available data, which directly undermines the sales of the other manufacturers. These broadly are the areas of change that have affected the way retail channels function and its balance of power with respect to the other members of the value chain.

ISSUES CONCERNING THE ROLE OF COMMUNITY DOMINANCE OF TRADE CHANNELS IN INDIA.

In India, a very common feature of economic activity has been that certain communities are dominant in certain trades. Whatever little research has been done on the sociology of business in India does refer to these traditional trading communities holding a dominant position in trades from Medieval times. This pattern also continued through days of colonial domination in India and has sustained itself upto the present day. Communities like the Bohras, Chettiars, Mappilahs of Kerala, Marwaris have established a formidable reputation for themselves as men of commerce and this fact is visible in the trade channels. For example: The Dawoodi Bohras are reputed to be a powerful player in the footwear retailing segment. But this intuitive observation has not been subjected to any empirical verification.

In this section we will look at the existence of dominant community groups in the trade channels and explore the implications of the existence of these groups for the relationships that exist between the trade channels and other components of the value chain with whom they interact. This would mean inquiring into all aspects starting from raising finance to meet working capital requirements to delivery of goods to the end customer. The paper will also focus into issues like the bargaining power of the community clusters, the synergies that are possible as a consequence of the existence of informal networks and the entry strategies MNC's should adopt while trying to deal in a business with dominant clusters operating. The research also tries to find out whether new entrants into trade from these dominant community groups do enjoy any significant advantage in terms of business skills and acumen when compared to other community groups.

First and foremost it is necessary to be clear as to what the word community exactly means.

The concepts of classical sociology would define community as a cluster of people who live together and share a common culture. But this would be too restrictive in our context. A better definition of a community in the Indian scenario for our purposes would be

- A group of people with shared socio-cultural identity. The communal identity manifests itself in the form of observance of common social rituals and communal get together and in many instances through the institution of marriage. Kinship bonds usually exist very strongly among members of a particular communal grouping.
- Among the Hindus of India, religion, caste, region of origin, and language define the communal group to which an individual belongs.
- Among the minority religious communities even though there is the existence of castes, because of their numerical position they identify themselves on the basis of their religion and the region to which they may belong. So Hyderabad Muslims belong to one community, while Keralite Muslims would form another, even though a Sunni Hyderabad would rarely marry a Shia Hyderabad. Some groups like the Ismailis and the Bohras are more conscious of their sectarian identity than their religious identity.

Given this diversity, on the face of it, it would appear not very easy to identify a communal group, but using the basic parameters of region, religion, language and caste and some amount of subjective judgement, community based classification is possible.

Methodology:

For the sake of keeping the boundaries of the research under control, the scope of the study was restricted to Bangalore with one cross-verification done at Hyderabad just to do a preliminary test as to whether the same phenomenon is prevalent in the whole of India. As the research was more in the nature of an exploratory study, a group of 9 industry segments was selected according to two criteria

- 1) Nature of the product
- 2) Accessibility of distributors and their willingness to share information

The nine industry groups studied are Electrical Hardware (Wiring & Other Home Related Goods), Fertilizers and Pesticides, Watches and Clocks, Pharmaceuticals, Ready made garments, Footwear, Tiles, Mattresses and Consumer Durables.

The first phase involved a detailed discussion with an executive of one leading company in the industry who was in regular touch with the distributors. The checklist that was used as a reference questionnaire is available in the appendix. After that, in every segment atleast a couple of dealers were approached with similar questions. Care was taken to ensure that atleast one of these dealers was from the dominant community and atleast one other dealer outside of this community. The initial observations about the dominant community was gauged from the marketing executives of the company

All the facts were documented in the format presented in the appendix., They formed the basis for deriving certain conclusions about the interactions between the existence of a dominant community group and its influence over the market and certain implications were inferred which lead to a better understanding of the dynamics of the community related processes in the trade channels. This is an area where we depended more on our understanding of the channel than any hard empirical data.

Observations:

Our interviews with the concerned persons yielded results along the lines expected. In most of these lines of trade, there is clearly the presence of a dominant community group which accounts for a large portion of the business in that segment. A majority of these communities are those groups which have traditionally been seen to have taken to business as a hereditary occupation. This fact is supported by the assertion of most of the people interviewed that the next generation of these dominant groups is also interested in continuing in the same line of business. Apart from this there are three major ways in which the communities affect channel performance:

- 1) Access to capital from within the community
- 2) Introduction of new channel members. This means that if any new member of the dominant group wants to enter the channel, then the other members recommend him to the manufacturers and wholesalers and this gives them an advantage compared to new members who do not belong to the dominant group.
- 3) Sharing of market information.

The following table highlights the total value of the business accounted by the dominant community in a particular industry group.

Industry Group	Dominant Group (Percentage of business under control of the dominant group)
Watches and Clocks	Marwaris (50%)
Electrical Hardware	Marwaris (60%)
Mattresses and Home Furnishings	Keralite Christians (25%)
Consumer Durables	Marwaris and Telugu Vysyas (60%)
Pharmaceuticals	Marwaris (50-60%)
Readymade Garments	Sindhis (30%)
Footwear	Keralite Muslims (30%), Karnataka Muslims (30%), Bohra Muslims (30%), Muslims as a group constitute around 70%.
Tiles	<i>No real dominant group though Gujaratis are emerging in the extension areas</i>
Fertilizers (Study done at Hyderabad)	<i>No real dominance in Southern India of any group, but in Northern India, Marwaris control almost 90% of the market</i>

The following table matches the various industry segments with the influence of the dominant community along various axes of channel management and performance.

	Influence of the dominant community			
Industry (Community Dominance)	Bargaining Power	Ability to Raise Finance From Within The Community	Information Sharing About the Market	Introduction of New Members to the channel from the the same community
Watches and Clocks (Marwaris)	No collective bargaining mechanisms for negotiating with the companies..	Very High	Business information is shared among Marwari dealers.	They recommend to the manufacturers their fellow community members who want to join the trade channel as long as they are not competing with them.
Electrical Hardware (Marwaris)	They act in unison when they feel their interests are in danger	High	Business information is shared among Marwari dealers.	They recommend to manufacturers the entry of their community members into the channels as long as they are not directly competing with them.
Mattresses and Home Furnishings (Keralite Christians)	They still have some collective leverage with the companies but it is on the decline	No evidence of this phenomenon	Business information is shared among Kerala Christian dealers via informal	If there is a new dealer seeking entry to the channel and he belongs to the Keralite Christian

			networks.	community and the other channel members of the community recommend him then the companies usually do business with them.
Consumer Durables (Marwaris and Telugu Vysyas)	No collective bargaining mechanisms for negotiating with the companies	No evidence of this phenomenon	Business information is shared among Marwari dealers.	No concrete evidence of co-operation on this count.
Pharmaceuticals (Marwaris)	No collective bargaining mechanisms for negotiating with the companies.	Ability to raise cash from within the community is extremely high	They have very strong networks for exchanging market information	They employ their relatives from their native place to work for them and after they are sufficiently trained provide them with help in the form of capital to set up their own stocking enterprises
Readymade Garments (Sindhis)	No collective bargaining mechanisms for negotiating with the companies.	No evidence of this phenomenon	No evidence of this phenomenon	No evidence of this phenomenon
Footwear	No collective bargaining mechanisms for negotiating with the companies.	Easier to raise finance from within the Keralite Muslim community because of their kinsmen wanting to	There are informal social networks where exchange of business information takes place.	Usually when some members from the above mentioned communities want to join the channel as retailers, the existing

		repatriate money from the Gulf states.		channel members help him obtain a foothold in the market by recommending his name to the distributors.
Tiles (NA)	N-A	N-A	N-A	N-A
Fertilizers (Marwaris)	At times they do try to influence the companies by acting together	Ability to raise cash from within the community is extremely high	The Marwaris share information among other channel members of their community through their networks.	They help their community members when they want to enter as new channel members by recommending their candidatures to the companies.

Apart from these there are other interesting observations that are worth mentioning.

Channel members in general, whether they belong to the dominant community or not are usually of the opinion that the dominant community members have better business skills and their business acumen is usually sharper compared to new entrants into the trade channels who are from non-dominant communities. This is attributed to the informal coaching and mentoring they receive from family and their social environment right from a very young age.

In some cases the community has been of great financial support to the channel members. For example : In the Watch segment if a retailer of the community is a victim of theft or fire or any such occurrence then the members of the community pool together their resources and help him get started again. This is a kind of internal insurance mechanism that the community members have.

In some cases like in the Pharma sector, distributors hire their kinsmen from their native places to assist them and after they are sufficiently trained they provides them with enough capital so that they can start up on their own. This is a very unique phenomenon which allows people to learn more about the trade and therefore expand the scope for business in that particular segment.

In some of the cases distributors usually direct customers to other shops owned by members of their own community if the stock is not available with them. There are also some other trends which are visible, like for example, the domination of Muslims in the footwear segment has gone down slightly because the religious aversion that Hindus had about engaging in the leather trade is slowly disappearing.

Advantages of having channel members belonging to dominant business communities

Channel members from dominant business communities which in most cases are the traditional business castes and community groups in India are generally known for their business skills which have been forged by a combination of coaching and mentoring at home and the conditioning that they receive because of the social milieu they interact with. So their appreciation of business values and their ability to understand the vagaries of the markets and be in tune with the needs of the customer are superior to their competitors from other communities.

All this usually translates into higher sales volumes. So for the manufacturers, it is advantageous to deal with distributors of the dominant community.

An extension of this concept would be when manufacturers want to expand their product reach and increase the depth of their distribution they would like newer dealers to come into the picture. Community groups where people have already been trained in business practices and have a sound knowledge of the marketplace are always a safer bet.

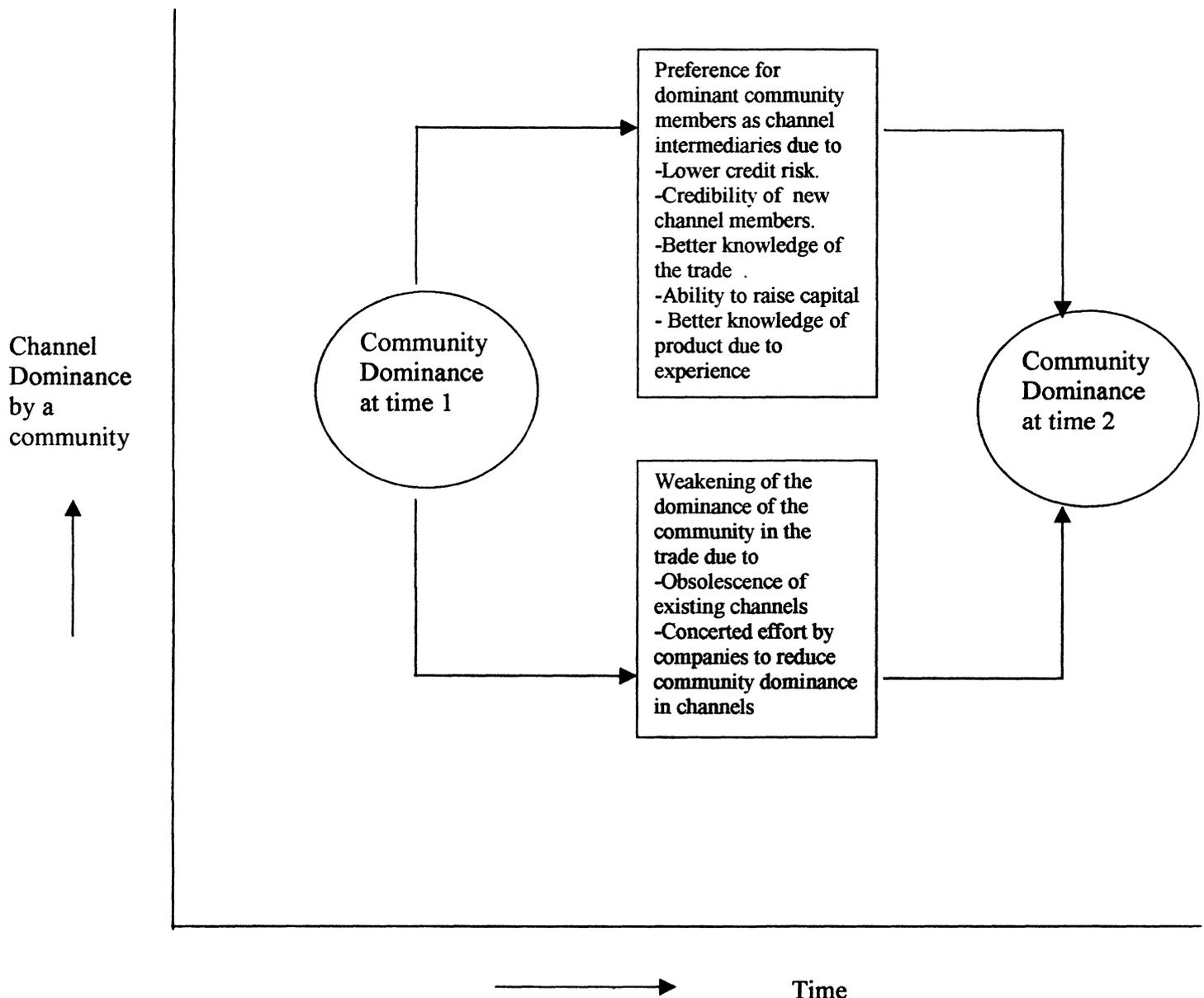
Also when a member of the dominant community wants to enter as a new channel member then his credibility is attested to by other channel members of the same community. In the absence of reliable credit rating information, community networks serve as very good tests of credibility and reduce the risk for manufacturers and wholesalers.

In a lot of trades, the dominant community is composed of immigrants who have intermarried among each other and an implication of this, is an extended social network where people can meet on occasions like community functions which serve as very good opportunities for engaging in the exchange of market information. This keeps the channel members aware of what new trends and developments are observable in the market.

Dominant business communities are also reputed for their ability to raise cash very quickly from within the community at nominal rates of interest. The important thing here is that all this happens without any need for any collateral and only word of mouth is the decisive factor. Therefore the transaction costs involved in raising capital is significantly low which benefits all the players in the market in general. Also, expansion is never shelved for lack of capital because this issue is usually not of much concern. It is to be noted that accessibility to capital ensures that they are in a position to hold larger inventory in the form of increased variety and SKU's. This was a very important factor till the recent past when banks used to lend very conservatively though some changes have taken place recently.

Disadvantages of having channel members belonging to dominant business communities

One major disadvantage of having channel members belonging to dominant business group is ultimately the manufacturers end up leaving a lot of power in their hands. This is a kind of paradoxical spiral. For example, if a company wants to expand its distributor network and appoints a dealer belonging to the dominant community because of his credibility there is the advantage of risk reduction, but at the same time the vulnerability of the company to collective bargaining pressures increases. If the company wants to put up an exclusive showroom, then usually a dealer of the dominant community is preferred because of his ability to raise cheap working capital and also because of his sharper business acumen which the company deems is important for a prestigious outlet. At the same time the company clearly is increasing its dependence on the community indirectly because the dealer may use his improved bargaining clout in conjunction with the community and drive a hard bargain.



Potential Issues for Further Research

Is there any correlation between

- The age of the product in terms of its maturity and community dominance in that trade.
- The sophistication of the product and community dominance in that trade.
- The intensity of competition and existence of MNC manufacturers and community dominance in that trade.
- Rate of new product introduction and community dominance in that trade.

Limitations of the study:

- Small sample size not permitting statistical verification
- Survey in most cases restricted to Bangalore, though the issue is an all India phenomenon.
- A lot of the inferences are made depending on our understanding of the issue rather than any hard empirical evidence.
- Given the sensitive nature of the information asked for from the dealers, some of them may have understated the importance of certain parameters while others might have exaggerated them.

Conclusions

Apart from the inferences thrown up by the study which are very critical factors in the trade channels, one reason for the study is a lack of appreciation of community based loyalties and relationships between channel members. This may particularly be true in the case of companies that are not of Indian origin or in the case of managers whose exposure to Indian markets is minimal.

Even in the cases of Indian managers who have done most of their education in India, their orientation towards the existence of these linkages among dominant business groups is one of indifference though they are aware of these phenomena existing. Academic literature also neglects it as being more in the realm of anthropology and sociology. So even in the business schools these issues are treated as irrelevant. But it is likely that more and more managers in MNC companies will be hired from India as much for their knowledge about community and social dynamics as their knowledge about functional skills.

The trade channels in India are in a state of flux with both the software of the channels in terms of channel practices and ways of doing work and the hardware in terms of product variety and existence of goods supplied by more number of competitors undergoing a rapid change. Managers want to make use of the functionality of IT to improve the overall performance of the value chain and towards this end still newer practices are sought to be put in place. But all this would not have its optimal effect if they are done

without a proper understanding of the social and relational dynamics involved at the important level of distribution of the final products. The implications of some of the new practices on the power of dominant groups in the channel may be considerable and this would probably lead to diminishing their clout. This in turn would mean resistance from these groups. On the other hand for MNC's to make an entry by building up their own channels, members of these dominant groups offer the best bet on account of their intimate knowledge of the market place and also their credibility. The issue is definitely a double-edged sword but the best alternative would be to try and understand these dynamics and design the company's distribution strategies in alignment with them.

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