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## **ANALYSIS & EVALUATION OF DISTRIBUTION CHANNELS IN VARIOUS SECTORS**

The project involved analyzing and evaluating distribution channels of various companies belonging to sectors like:

1. Precious and semi precious stones,
2. White goods,
3. Cement,
4. FMCG

### **Methodology: -**

This research comprised of activities like listing down various agencies like manufacturers, distributors, etc and also chambers and libraries like the Indian merchant chambers and interacting with them in order to gather first hand information.

### **PRECIOUS AND SEMI PRECIOUS STONES**

The Indian Gems and Jewellery industry is an age old industry and comprises mainly of two types of markets, viz the *organized sector and the unorganized sector*. The organized sector with branded jewelers, Public Sector Units (PSUs), etc forms only 10% of the precious and semi-precious stones market, whereas, the unorganized sector forms 90% of the gems and jewellery market in India. The unorganized sector employs around 1.5 million workers serving over 0.1 million gold jewelers and over 8000 diamond jewelers.

Precious and semiprecious stones industry is a significant earner of foreign exchange. This sector contributes around 17% of India's exports. The bulk of the Indian gems and jewellery exports comprise imports of rough diamonds, cutting and polishing in India, and re-exports. Cut and Polished Diamonds (CPD) and gold Jewellery account for nearly 95% of India's gems and jewellery exports. India is the world's leading diamond cutting and polishing center, accounting for 53% share of the global polished diamond market in terms of value. India imports gold from South Africa, Switzerland, Australia, Hong Kong and UAE.

The domestic consumption of diamonds have been 626.9 crores in 2001-02 to 483.4 crores in 02-03 and reached an all time high of 1771.3 crores in 2003-04 and the trend has continued in 2004-05 as well. The market size has also witnessed a rise of around 10% in 2003-04 over 2002-03. The value of domestic sales has been 7200 crores, 7400 crores and 7650 crores in 01-02, 02-03 & 03-04 respectively. Exports of cut and polished diamonds has been 5892, 7385 and 8240 million dollars in 01-02, 02-03 & 03-04 respectively, whereas, exports of Jewellery studded with diamonds has been 553, 719 and 934 million dollars in 01-02, 02-03 & 03-04 respectively.

### **Consumer Demographics & Buying Patterns of Indian Consumers**

There is a very high consumption in the western and the northern markets of India, viz, Mumbai and New Delhi, New Delhi being the leader. In India, the purchase of Jewellery is quite seasonal and occasion driven. There is a higher consumption during festivals like Diwali, Dusseera, Ganesh Chaturthi, etc. and also during the marriage season, which is spread from November to March.

### **Mechanics of Distribution Channels of Sector**

Since precious and semi precious stones industry is divided into organized and unorganized sector, the mechanics of the distribution channels of the players belonging to these sectors has also been different. Domestically, the branded jewelers of the organized sector cater to the consumers via a 1 or a 2 level supply chain which comprise of either only franchise retail outlets and other retails or wholesalers and then retailers. The players of the unorganized sector, on the other hand, either plainly sell their manufactured products to retailers or have branch offices in cities where the products are transferred and sold to end consumers or to retailers in the particular city.

Raw diamonds and other Jewellery is imported from sources, manufactured and polished here and either shipped or transported by air to the final destination. In exported countries the products are either transferred to retailers who are clients or to branch office who in turn sell it to the retailers.

Whether domestic sales or exports, overall, the levels of intermediaries in the gems and Jewellery industry do not really exceed 2 to 3 levels.

This report contains detailed analysis of renowned Gems and Jewellery companies.

## CEMENT

Cement production commenced in India as early as 1914. The first cement unit was set up at Porbandar in 1914 with a capacity of 1,000 tonnes per annum.

The cement industry in India is estimated at Rs. 24-25 billion in value terms and 114 million tonnes by volume. The domestic cement industry is highly fragmented, with over 50 cement players and more than 120 manufacturing plants. This apart, the industry is highly regionalized, as cement units are concentrated in clusters, close to the limestone deposits. Competition is also regionalized since the low-value of the commodity makes transportation over long distances uneconomical. Concentration, in terms of the number of units and the dominance of large players, is moderate. The minimum economic size of a cement plant is 1 million tonnes. However, concentration has improved over the past 6 years with the top six players accounting for 52 per cent of the total cement capacity in 2003 up from 33 per cent in 1997. The share of cement plants with capacities of less than 3 million tonnes has declined over the past 6 years from 48 per cent in 1997, to 28 per cent in 2003.

During 1999-2000 to 2003-04, the installed capacity of the industry increased at a CAGR of around 7.5 per cent to 146.4 mtpa. (The capacity of the industry is taken as the sum of the installed capacity of all the players in the industry.)

The seven states: Madhya Pradesh, Andhra Pradesh, Rajasthan, Gujarat, Karnataka, Tamil Nadu and Maharashtra, account for around 74 per cent of the total domestic capacity.

Cement sector is characterized by the following

1. Units concentrated near raw material sources or markets
2. Power intensive
3. High freight costs
4. Small value chain
5. Regional variation and volatility in prices and margins
6. High debt levels
7. Regional distribution of demand
8. Seasonality of demand and cyclicity of the industry
9. High entry barriers

However the future of Cement Sector is as follows

1. Steady price growth over the next 2-3 years
2. Housing and government infrastructure spending to translate into an 8 per cent CAGR in demand
3. Greenfield/Brownfield capacity additions of around 35 million tonnes will be required to match the robust demand growth
4. Blending to contribute around 10 million tonnes of capacity
5. Operating rates to touch 88 per cent by 2006-07
6. Production costs to increase moderately

## Consumer Demographics & Buying Patterns of Indian Consumers

The per capita consumption of cement in India is very low, as compared with the developed economies and the overall world average per capita cement consumption. The per capita consumption of cement in India is even less than that in Africa, a relatively underdeveloped continent. Over the past decade, the

per capita cement consumption of cement has increased in most states, except Chandigarh, where it has declined by 7 %.

### **Mechanics of Distribution Channels of Sector**

Companies invariably hire c & f agents or transport cements to own or government warehouses either via roadway or railways. In case of exports, cement reaches the nearest port via roadways or railways and is then transferred to the importing country.

Domestically, from c & f agents or warehouses the cement is transported to the dealers/distributors and in turn to sub dealers who finally sell it to the end users. There may or may not be physical ownership of goods. In the second case, dealers and sub dealers take order from buyers and place it to the companies, coordinate and monitor the timely dispatch of said orders, transportation of goods and final delivery.

Distributor network in cement industry is highly dominating and companies are compelled to hire as they do not really have that rapport and touch with the end consumer of their product. Apart, from this, the distributors have storage facilities as well which help control well in the entire supply chain as they are the ones who bring orders and therefore are directly responsible for the business that a manufacturer would do.

Industry dynamics in Cement Industry do not favor entry of MNCs into the Indian market.

This report contains detailed analysis of renowned Cement companies and distributors.

### **WHITE GOODS**

This report concentrated on the ACR Industry in India. The Indian ACR industry has been growing rapidly. Total market for this industry was \$1203 million (mn) in 2003-2004 and is around \$1337 mn in 2004-2005, and is estimated \$1486 mn in 2005-2006.

### **Consumer Demographics & Buying Patterns of Indian Consumers**

The Indian AC market size is around Rs 30,000 million comprising the household and commercial segments. The market is currently at a nascent stage and shows tremendous promise to grow. However, despite the reasonable growth in the last few years, the growth potential has not been entirely captured. The HVAC market is of Rs.46,800 million and the refrigeration market is around Rs.9535 million.

### **Organized Versus Unorganized Sectors**

An important factor influencing the Indian market is the increasing strength of the *organized* versus the *unorganized* manufacturing sectors. The unorganized sector represents the country's small manufacturers whose annual sales volume totals are less than 10,000,000 Rupees (US \$210,000). Small manufacturers are exempt from taxes and government reporting requirements. As a result, the unorganized sector is often perceived as operating outside the boundaries of government regulation. The organized sector, on the other hand, represents large manufacturers with an annual sales volume greater than 10,000,000 Rupees. These organizations generally pay taxes and follow standard accounting and reporting practices. The organized sector is moving to encourage transparency within the unorganized sector. While the unorganized sector held nearly 60% of the market share in the past, it appears to be losing ground and is expected to shrink by 25% over the next two to three years as international global brands increase their presence.

### **Location of the units manufacturing or assembling White Goods**

These factories are mainly located in the regions where Government has given exemptions on the taxes and duties, the main multinationals set up 60% of their factories in these regions only. The number of the manufacturing plants in India is less as the big established multinationals go, but there is a huge that is very unorganized, the white goods sector is not in that category though as it is more or less organized.

Some locations are sought keeping logistics in mind, where they can cater to A and B grade cities. The rural market is not at all taken into consideration. It is very difficult to give the state wise production capacity, because one plant caters to almost all the parts of the country.

### **Penetration**

The penetration of household refrigerators in India, the fifth largest consumer durable market in terms of penetration, is 13% compared to well over 90% in Malaysia, Australia, Singapore, Hong Kong and Korea, around 80% in Thailand, close to 40% in Philippines and China and 20% in Vietnam and Indonesia. The number of household air conditioners is abysmally low in India with market penetration of around 1% compared to 20% in Indonesia, 24% in China, 40% in Thailand, and 45% in Malaysia. The central air-conditioning and ducted splits market segments are growing at a lower rate, approximately 10%, and are driven by commercial demand from the retail, software, healthcare, hospitality, entertainment, telecom and banking industries. In the replacement market, buyers look for new and additional features such as frost free, CFC free refrigerators. This has increased the demand for products offered by multinational corporations. This has led to the demand for frost-free refrigerators to grow at a much higher rate than that of conventional refrigerators, especially in the metros and large towns. The replacement market is likely to increase to 25-30 percent over the next few years. Foreign firms are however now allowed to establish joint ventures, 100% owned operations to manufacture ACR products. The Indian industry also continues to seek out technology collaborations with other countries including the U.S.

### **Imports and Exports**

The Government of India's import policy allows imports of air conditioning equipment, components, spares and supplies. All manufacturers, particularly new ventures, import components, including compressors, and assemble the final product in India. The GOI has simplified import procedures and has been reducing the import duties to encourage imports of capital goods and raw materials. Import liberalization is expected to continue as a part of the new economic policies of the Government of India.

### **Mechanics of Distribution Channels of Sector**

White goods are heavy commodities and need good distribution as these are high end commodities. Since the plants indulged in manufacturing or assembling is really less, the reach of the company is dictated by the distribution network that it follows. Certain companies which do not have their own warehouses and are completely reliant on the CFAs and other dealers.

Products whether they are assembled here or manufactured here are both distributed in the same manner, the first level is the Carrying and Forwarding Agent for every big city, who supplies further to the sub dealers. The physical storage of goods is must as sub dealer mostly sell to the walk in customers and for the institutional sales, orders are taken and supply is made directly from the CFA.

Modes of transport are mainly two: roadways and railways, most of them are transferred through roads or railways bogies or a combination of both. The transport is hired; no company can afford its own transport facilities.

For exports from the country the sea route is mainly followed and there are no intermediaries except for the transport needed to take the goods from the factory to the ports. For imports also, once they enter the country through sea route or airways, they are sent to company's manufacturing and assembling plant by the hired transport.

Thus, distribution plays very significant role in the white goods industry in the absence of many factories at various locations.

This report contains detailed analysis of the renowned white goods companies.

### **FMCG**

Through the nineties, the FMCG markets grew at almost 15% per annum in value. Suddenly, in 2000 FMCG market growth stalled and then declined for the next four years. The rapid opening up of the



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economy resulted in many new avenues of expenditure for the consumer's growing income. A sharp drop in interest rates from 18% to 8% led to explosive demand for consumer durables like white goods, two wheelers and automobiles. Mobile phone ownership and usage exploded due to its amazing lifestyle and convenience benefits as well as lower prices. Entertainment, leisure and travel sectors also boomed.

The lure of new avenues of expenditure in products and services led to consumers restricting their spending on FMCG. Consumers' downgraded to lower priced substitutes from higher quality brands. As a result of this shift in spending patterns, the FMCG market declined in value in the last four years creating a major challenge for growth.

The FMCG sector has had a much better time in recent months, with market showing signs of broad revival. It accounts for about 6.4% of total market capitalisation, and is up, compared to 6.1% in December'04. The situation continues to be tough in the home and personal care segments. Rising raw material costs in the petro-based intermediaries used in shampoos and detergents have resulted in cost pressures and a competitive market means companies have not been able to pass on these costs fully to consumers through price hikes.

The FMCG sector is witnessing demand growth again, driven by improving reach, organized retail and innovative channels, higher usage – driven by affordability and rising incomes driving aspiration levels. As a result, we see an improvement in sales growth for the FMCG industry.

### **Consumer Demographics & Buying Patterns of Indian Consumers**

FMCG is one sector which caters to the daily and more basic needs of consumers and therefore don't have a chance to run out of focus. From oral care products to packed food to detergents, soaps, mosquito coils, etc, are the various categories of products that FMCG market makes available to lakhs of consumers across the country.

Initially, Indian buyers were a bit conservative partly due to lesser disposable income and partly due to fewer competitive and more variety of products. But since almost a decade, brands like Pepsodent, Pepsi, Coke, Mortein, various ITC brands, Dabur products, P & G products, etc, have made a stern attempts in providing higher quality products with relatively competitive prices, making Indian consumer enjoy brands which deliver high quality and adhere to global standards.

The plethora of such brands was thrown open to Indian consumers during 1990s which witnessed a rise and growth in the FMCG industry. But from 2000 onwards there has been a negative growth of this industry. The reasons are manifold; firstly, yesteryears' amenities started becoming necessities like, mobile phones, cars, branded clothes, accessories, etc. Secondly, the disposable income of average Indian consumer rose sharply within the past 5 year and finally, availability of various financial aides made every reasonable and expensive purchase, easy thereby giving the Indian consumers an unlimited exposure to experience the same.

But since December'04, the sales of various brands belonging to key players and the overall FMCG industry performance have picked up and the intense sales promotional efforts, cut throat competitive strategies, stronger distributional efforts have helped various brands penetrate deeper into the markets and increased sales. Today, rural Indian consumers market has by far become the highest revenue generator for many of the FMCG product companies and availability of a wide variety of range has allowed today's Indian consumer to analyze and judge each product accurately and make an ideal purchase decision.

### **Mechanics of Distribution Channels of Sector**

The supply chain of products in the FMCG market in India is one of the longest supply chains an industry could really have. There are as many as 5 levels of intermediaries involved in the entire supply chain through which a product passes before reaching the end consumer.

What has been observed is that even though these FMCG companies are big multinationals and Indian but face a major challenge of making their products available in the market in the right quantities and in the right time. This is simply because these companies don't really have a wide network of sales agents and other force which is required and is ideal for catering their products to the markets. This aspect is taken over by distributors, wholesalers and retailer whose margins on these products actually double



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the price of these products when a final consumer buys it. The margins kept by these intermediaries range from 2% to 5%.

The products in this industry are transported from manufacturing units via c & f agencies or warehouse to distributors who further sell the same to wholesalers or stockiest who finally sell it to the retailers in the market. These products are transported either via roadways or railways within the domestic markets and normally don't take more than a week to reach the retailers. FMCG products are normally a high volume ball game and products have to essentially be available in the market at all given points of time and at all given points of purchase and therefore the distribution activities are highly volatile and dynamic. The supply of products takes place virtually on a daily basis in fixed quotas or otherwise, to retailers as per their requisitions and the anticipation of demand and the performance of products in the recent past. All such criteria are taken into consideration before the quantum of products being dispatched to the next level of intermediary. Since it's a volume game, manufacturers make all possible efforts to boost sales and promote their distributors to earn more and more orders from the retailers and wholesalers. A close check is maintained on the flow of the products on a daily, weekly, fortnightly and monthly basis to determine the trend in the business and flow of products and consumption. This activity also helps to find out drawbacks of the distribution system, if any, and rectify them within time.

This report contains detailed analysis of certain renowned FMCG companies .

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