

The 'DelhiEffect'

Puneet Kulraj

Distribution companies have always been wary of wholesalers in their distribution chain. Ideally, companies want selling agents in their distribution chain who also act as true distributors; who are willing to continually service a defined territory for selling and collections in small lots. However, the stark reality for many distribution companies is the dominant presence of wholesalers who buy in large bulks and sell them to the lowest bidder without any territory allegiance. When wholesalers dominate the distribution chain, it leads to territorial conflict and pricing competition for the same brand making it more of a commodity, rather than a brand.

The problem of wholesalers is largely confined to one major market—the Delhi wholesale market. The Delhi market tends to sell about 15 percent to 20 percent of the entire country's sales for most auto spare part companies, while it accounts for maybe about eight-10 percent of the country's consumption. No doubt, the sales manager in-charge of most companies based

in Delhi do not tend to have many friends. While he is always on targets, his colleagues continually rant about Delhi material sold in their area. The effect is not just limited to nearby territories, but the distributors across from Salem to Silguri, Kutch to Kovalam and Ranchi to Raipur—all complaining of 'heavy infiltration' of Delhi material into their area.

'Delhi Material'

Let us try to understand this phenomenon of 'Delhi material'—how come the goods from Delhi travel to the length and breadth of the country and are sold in another distributor's area?

A retailer's business model is quite simple to understand: Sell at MRP and try to maximise on the profit. The only way to maximise on the profit is to buy cheap and ensure that the total costs (purchase and transport) should be the lowest rate possible.

Logically, a retailer should buy from a distributor located closest to him (the transportation charged would be the least). But when a Salem-based retailer bypasses his closest distributor and opts for a



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distributor based in Delhi, there can be only one conclusion—he is getting a cheaper deal from Delhi. You would know of course that the cost of transportation from Delhi would be substantially high compared to getting it from the local distributor. It can mean only one thing: the cost at which he buys from Delhi is substantially lower.

How is it possible that when both the distributors (Salem and Delhi) get the same margin from the company and yet their selling prices are so different that a Delhi seller can undercut the Salem seller, even after compensating the substantially large transportation costs? You probably know the answer, but if you do not, let me introduce you

to the protagonist of this piece: the Delhi wholesaler.

The Delhi Wholesaler

Found in locations like Kashmiri Gate, Chawri Bazaar and Punjabi Bagh, operating out of pigeonholed cubicles that serve as ‘offices’, the wholesaler is extremely well connected (multiple telephones off the hook simultaneously) and is a speculator to the core. He can put the deal traders on Wall Street to shame with his knack for ‘rolling’ stocks and money for the thinnest of margins.

Spend a few hours in any of the trading hubs, look past the incredulous sights of entire engine blocks or gearboxes being carried around

overhead in wicker baskets, and you will see deals being struck on phones and slips of paper—the essence being two things: quantity and percentage points. Yes, this is the environment where hardcore trading at its fundamental raw level will never cease to amaze you. The Delhi trader, knows only one thing, and that is to ‘roll’ his money as fast as possible and the best weapon in his hands—price!

The business model is simple and in two parts: buy large quantities at cheap prices and sell them cheaper still. The first part is executed very well with the sales or territory manager who sees this as an easy way to meet his numbers and actively get the best discounts from his company.

'Sell Cheap'

Once this is done, the second part is easy—sell cheap. How cheap is cheap? Well, legend has it that sometimes some of the traders sell at a price below what they buy for, and they make their money by selling the cardboard outer packing cartons that the goods come in! They have little or no overheads, sometimes holding no stocks at all and delivering goods straight from the company's depot to the customer—the famous "bill to-ship to" phenomenon.

Now this is inventory turns at its cut-throat best. Good for the wholesaler, good for the Delhi sales manager and good for the retailers in Salem, Siliguri and Gandhidham. They can buy the stuff at such a low rate that it not only takes care of transportation all the way from Delhi, but also beats their local distributor. Those who can buy the quantities for this to work, do it all the time. It forces the local distributor to drop his prices too in a desperate attempt to maintain his volumes.

However, what does this do for the company? It creates a market that is strife torn, with one distributor undercutting the other, prices being ruled by speculators, spikey sales leading to uneven distribution resulting in surplus stocks in one part of the country and creating shortages in other parts that are left open for competition.

Imagine, for all the brand building, advertising, the 4Ps of Kotler, the fate of the product is decided by the wholesaler who, based on the quantity he has been able to corner, and the price that he has got, puts out the ruling price of the day "aaj ka bhav" for the product. Thus, so vitiated can the environment become

that some companies experience a severe backlash from their other distributors and even face desertion.

But due to dominant sales of Delhi market, companies find it very difficult to bite the bullet. If one has to stop the sales to the Delhi wholesale market, it means an immediate drop in volumes—what happens to the targets? No doubt companies, particularly the auto spare parts, have learnt to live with this conflict forever.

Is there a way to get out of this mess without affecting the sales target even for the immediate term? To answer the question, one needs to understand why real distributors

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never dominate the supply chain. The answers lie with the companies itself. Most companies operate on the push mode. They tend to sell in one big lot towards the month end, spiced up with attractive discounts, while overall availability at a SKU level suffers throughout the month. The pressure of high unwanted inventory, forces many selling agents to always look for fastest way to get rid of the inventory. Over the years many selling agents, particularly in the Delhi region, have used it

to their advantage rather than complaining against the system. Any person who acts as real distributor suffers very badly—on one hand he does not get good availability to continually service his market with small lots, and on the other hand, he has fight off the wholesalers in his territory.

If companies want to take advantage—they have to help make distribution a lucrative business, which means they should have ability to continually service small requirements of the distributor throughout the month. But how can they do that when they have their sales target and their forecasts actually go haywire: they have to push the inventory. The only way out is to get out of the push mode to a pull mode. They have to move to a model of supplying as per consumption, which in turn will help distributors earn high ROI and invest more in the market. Once the distributors start earning high ROI and company sale per real distributor starts going up, they can convince many of the wholesalers to get converted to distributors. If many are not willing, at least, they will gather courage to replace them with real distributors.

Implementing a pull-based paradigm shift requires significant changes right from production planning to sales planning and relationship with distributors. It requires significant collaborative efforts to create a whole new world with real win-win principles. Sounds much better than staying in conflict! ■

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