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Insight – Guest Column

Pulling out all the stops

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Consider this: You wish to buy a colour TV and walk into a consumer durable shop. Browsing through various brands displayed, you recall a recent commercial featuring your favourite movie star endorsing a popular brand. You have almost shortlisted the brand and model when the dealer steps in. He de-sells that brand and convinces you to buy another with supposedly better features and after sales service. The dealer's proposal sounds practical and using all your bargaining skills you bring home a 29-inch flat TV for Rs 18,000.

Next week, however, an acquaintance brings home the same model for Rs 16,000—as much as Rs 2,000 less than what you got it for. The fact is your neighbour got a better deal and the dealer made a decent margin in the bargain.

Welcome to the reality of consumer durables and appliances marketing which is driven more by complex push strategies of companies than by brand pull. Advertising, event sponsorships, celebrity endorsements do bring a customer to a shop with certain preferences in mind. But what she ends up buying depends a lot on what the dealer 'wants to sell', whose motivation to sell a particular brand is driven by his retention per model. 'Push' is also needed to clear stocks to make shelf-space for newer models that companies have to rapidly churn out to keep customer interests high. Let's face it: Companies are forced to offer lucrative 'deals' to their channel associates in the face of intense competition.

The white goods industry is dominated by the Korean brands. They have been able to dominate both consumers as well as channel associates due to their aggressive pricing strategies, backed by strong brand pull. These companies offer schemes that are based on volume 'tie-ups'—thus ensuring commitments from the channel associates. Indian brands do not enjoy a similar brand pull. To increase market penetration and achieve similar toplines, Indian companies have to emphasise more on push marketing strategies by offering higher incentives and margins to channel associates.

On the one hand, most companies are flexible in offering credit to dealers and cash discount component of the rebate is structured based on slabs of credit period offered. On the other, stronger brands are able to operate on cash and carry basis—implying no credit offered to channel associates. This practice has increased stress among channel associates but strong brand pull ensures that channel associates have multiple stock rotations in a month.

Companies are biased towards popular large direct dealers and provide them higher margins and tie-ups leading to disparity in terms of earnings among various channel associates. These dealers are able to offer competitive pricing to the customer as they purchase in bulk and avail of higher margins and tie-ups compared to other channel associates; these savings are passed on to customers. This is notwithstanding the fact that these stores have higher overhead costs to sustain.

This trend is practically eliminating small direct dealer's network in the cities as they cannot match the MBCs on any front. The small direct dealer route is now restricted to the sub-urban areas of metros and larger cities catering to C-class and D-class customers who have lower purchasing power and do not frequent malls.

This trend also has some downsides. First, small direct dealers run their own financing schemes for the C-class and D-class customers frequently fleecing them by charging them high interest rates. Second, chain stores avail of exclusive deals from companies—for example, buying all the stock of certain models. Then they resort to wholesaling them to sub-dealers in the distributor-sub-dealer network as no one else has supply of those models. This disturbs the channel equilibrium and leads to price wars.

Companies have also come to realise that these price wars are not sustainable and have started taking measures to regulate the market prices and reduce unfair trade practices. Market Operating Price (MOP) is one such policy. MOP is the lowest possible price at which any direct dealer or sub-dealer can sell a product to the customer. This ensures that no particular dealer gets unfair advantage.

Another concept is Even-Billing, which discourages bulk lifting of products by any channel associate and hence curtails any unauthorised wholesaling. To increase their brand presence and avoid over-dependence on large multi brand chain stores or chain stores, companies are also encouraging their exclusive brand-shops in the metro cities.

If manufacturers want to boost their toplines, they need to start focusing on the sub-urban and rural markets. Some steps to do this would be to establish strong direct dealer networks, offer economical models and work out attractive customer finance sche- mes. The gravel roads into the interiors of India is the way to go!

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