PGDM- IB 14-16

Sales and Distribution Management

IB- 309

Trimester – III, End-Term Examination: April 2015

Time allowed: 2 hrs 30 min

Max Marks: 50

Roll No: ___________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

Section A

Q1. What actions can be taken by you as Area Manager to move slow moving stock in your territory?

Q2. Is sales territorial designing an issue that is related to sales force motivation? Give reasons for your affirmative arguments.

Q3. What is system selling? What kind of organizations helps in designing a system selling model?

Q4. Sales force automation is the cradle of CRM. Explain with two examples.

Q5. What factors will you consider in forecasting sales of following categories?

a) Engine oil

b) Domestic Tourism

Section B

Q1. Prepare a presentation to sell a holiday package to Mars. Any assumption about relevant data has to be listed before describing the presentation.

Q2. Mr. Vignesh has the following data available for sales analysis of his territory. Find out the sales effectiveness of this territory.

	Territory			
	1	2	3	4
Sales	64	78	70	56
Sales Quota	66	75	67	45
Previous Year Sales	60	60	68	38

Q3. Define the channel offerings of a retail chain to an individual manufacturer from among all manufacturers who supply goods to that retail chain?

Section C

Q1. How has the new system impacted the efficiency of the channel at Castrol?

Q2. How has the new system impacted the effectiveness of the channel at Castrol?

Q3. How has the new system helped the channel in serving problem ridden (geographical) markets and market segments?

The Company: Castrol India Ltd.

Castrol processes and markets high-grade automotive and industrial lubricants and speciality products. There are four different channels catering to the different types of consumers:

1. The automotive channel catering to different automobiles.
2. The industrial segment catering to the different industries and their lubricant requirements.
3. The commercial segment catering to large transporters, who require lubes in bulk.
4. The marine segment catering to the lube requirement in the dockyards for ships and for other uses.

Here, we deal with the distribution structure for the automotive segment.

Channel Design till 1997

When Castrol entered India in 1979, all lube sales were made through petrol pumps, which were under the monopoly of the oil majors; Indian Oil Corporation (IOC), Bharat Petroleum Corporation Limited (BPCL), and Hindustan Petroleum Corporation Limited (HPCL). The oil majors did not allow Castrol to use petrol pumps, using directives from the government. Hence, Castrol decided to take the challenge of selling through a completely new channel, what they called the 'bazaar' route. The choice was made to cater to the buyer's needs of light, medium, and heavy commercial vehicles. In this case they were (i) convenience; and (ii) assortment (bundling).

Consumers generally buy the lubricants along with petrol/diesel or when the vehicles are given for servicing. For cars and two-wheelers that are generally serviced in a petrol pump, the presence of a lube there makes it convenient for the consumer to buy the lube at the site of service (that is, the petrol pump). The assortment of 'service, lubricants and spare parts' is also satisfied. This is where the channel of the oil majors is superior to the channel used by Castrol. The assortment again works for two-wheelers as they buy the lube when they buy petrol and use the two in combination.

On the contrary, for light, medium and heavy commercial vehicles, the servicing is done in the garages. Hence, the vehicle owner has to visit the spare parts shop nearby to buy the spares. By providing lubes in the auto spares shop it becomes convenient and it also offers the assortment of 'spares+lube'.

Using this understanding, the company decided to sell the lubes from auto part shops, authorized service centres, etc. The channel design to cater to this segment is given in Fig. 1.2.

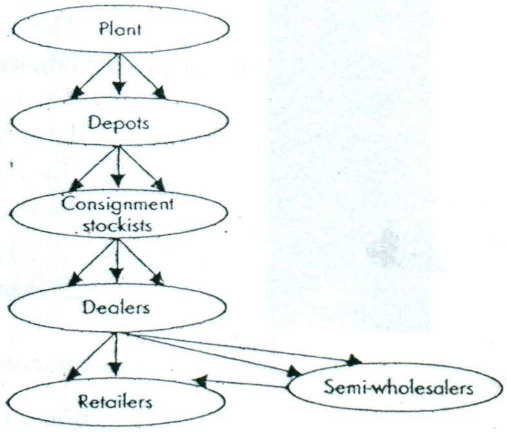

Fig. .2 Channel design of Castrol till 1997

The important features of the distribution process are as follows:

- The stocks are company owned till the consignment stockist level.
- The dealers are primarily wholesalers but also retail partially.
- The company (through the stockist) services the dealers about once every month. They generally carry huge inventory, about 2 to 3 months sales.
- The semi-wholesalers do both retail and wholesale.
- The last link for the company is the retailer.

Armed with a strong lubricant brand in India, the company had initial success and was able to build a nationwide network of stockists and retail outlets (Castrol lubes were available in almost 4000 outlets across India). The distribution channel has proved to be successful and Castrol was growing at over 20 per cent every year since 1991. In fact, the market share of Castrol's lubes has risen steadily from 6 per cent to 20 per cent from 1991 to 1998. The company has managed a 24 per cent compound annual growth rate in sales volumes since 1991. Castrol has doubled its market share to around 18 per cent. Though the other companies also stated adopting the 'bazar route', Castrol stood to gain from this distribution channel because of its early entry. The 'bazaar' route witnessed a rapid expansion from a mere 10 per cent market share to around 35 per cent of the total automotive lube oil market.

(2)

However, during the later part of 1990s the channel was not in a position to keep pace with the growth of the market. Several problems were noticed. The functioning of the channel is analysed by:

1. Identifying the problems under the 3Es (effectiveness, efficiency, and equity)
2. Identifying the cause/source of the problem
3. Identifying remedial measures.

Identifying the Problems under the 3Es

Efficiency

(a) Credit outstanding with the dealers was high. The company gave credit to the dealers, which had an upper limit of 45 days. But, in practice, the credit period could last up till as much as 90 days.

(b) High undercutting in the market: Due to dealer schemes like the yearly volume discount, there was large scale undercutting in the market, which was seeping to the retail level. This was lowering the brand equity of Castrol since the same product was available in different outlets at different prices.

Effectiveness

(a) The percentage of retailers serviced directly by the company through this channel of distribution was less than 10 per cent of the total number of lube retailers. The control of the channel was in the hands of the dealer.

(b) Further, though the demand for Castrol was growing at over 20 per cent every year the channel was getting clogged and unable to meet the growing need of Castrol products.

(c) Spurious products: The fear of spurious products in the market along with price undercutting complicated matters tremendously, with a retailer selling the products at a more expensive price claiming that his product was original and the retail outlets selling the cheaper product were selling the spurious one. This harmed Castrol's image to a great extent. A lot of loyal Castrol consumers switched to other brands just because they did not want to take the chance of buying a spurious product.

(d) The company was not able to appoint small dealers because transportation from the stock point to small dealers situated at a distance was not possible. Second, maintaining and satisfying the requirements of a number of small dealers was not possible.

(e) The dealers were not having a direct customer base, as most of the dealers were wholesaling to semi-wholesalers.

(f) The consumers were not willing to travel specifically to buy the product.

Equity

(a) Dealers used to piggyback other products along with Castrol's fast moving products.

(b) No territories were divided between dealers. So, dealers were selling in areas with high demand, while other areas were being neglected.

Identifying the Source of the Problem and Identifying the Remedial Measures

The above problems are classified by the source in Table .1, which also gives the corrective measures that the company can take.

Table .1 Classification of problems and identification of corrective measures: Castrol India Ltd.

	Functioning of channel members	*Marketing environment*	*Logistics*
Effectiveness	Customer base Spurious product Undercutting	Customer not willing to travel long distance	
Efficiency	Power Higher margin Credit outstanding		Clogging
Equity	Only 10 per cent of the dealers serviced Slow moving products		
Corrective action to be taken	• Better selection • Increase reach of distribution • Territory allocation • More control over channel	• Increase reach of distribution	• Better selection

Under the present structure, the company had little role in the selection of outlets, territory allocation, and the reach of the product. It was also difficult for the company to increase its control over the channel. So, the company decided to modify the structure to address these problems.

Channel Design from 1999 Onwards

Retaining the final link the company modified the structure by bringing in carrying and forwarding (C&F) agents (in place of company owned depots) and distributors. The role of the semi-wholesaler has been eliminated (see Fig. [illegible].3).

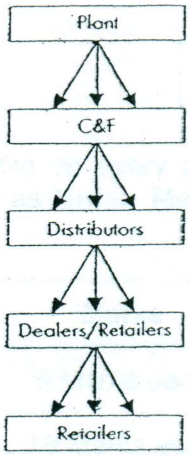

Fig. [illegible].3 Channel design of Castrol, 1999 onwards

The important features of this new design are as follows:

- The stock is company-owned till the C&F level only. There is generally one C&F in every state (except for two in Madhya Pradesh and one for the entire North-east).
- The distributor is not allowed to store any competitor material.
- No credit is given to the dealers unlike the previous structure. A credit of 21–30 days is extended to the distributor only (as compared to the 45 days credit for the dealer earlier).
- Each distributor had been assigned specific territory to market his stock.

(5)