India is on track to become one of the world’s largest markets for consumer goods. Thanks to rapidly rising household incomes, its middle class is beginning to rival that of China. Even better, one-quarter of India’s population is between the ages of 20 and 35—a high-spending segment in many markets.

The size of the prize in India is attracting the attention of consumer companies around the world. The country’s market for consumer durables, which stood at $4.8 billion in 2005, is expected to grow to more than $9.7 billion by 2010. Apparel, at $20 billion in 2005, is expected to grow approximately 18 percent per year, to around $46 billion. The overall retail market, worth more than $230 billion in 2005 and growing at 6 percent per year, is projected to reach almost $308 billion by 2010.

Of course, the diversity of India’s culture (which encompasses 16 languages, 350 tribes, and all major religions) and the complexities of its infrastructure present significant challenges, but none may be as daunting as its complicated distribution networks. Some outstanding companies are beginning to develop innovative strategies for clearing that hurdle. A closer look at their practices suggests that success in India may not be as difficult as it seems.

Drivers of Distribution Complexity

India has been host to consumer multinational companies (MNCs) for several decades. Indeed, quite a few Indians think of Unilever, Nestlé, and Philips Electronics as Indian companies. Still, for many other MNCs, India is a relatively new territory with a number of interrelated factors that make distribution particularly challenging.

Dispersed Population. India’s billion-plus people are spread out across the seventh-largest land mass in the world. Thirty cities have populations of more than 1 million—but account for less than 15 percent of the total population. Despite increasing urbanization, nearly 70 percent of India’s citizens...
still live in rural areas. These people constitute 30 to 50 percent of the market for basic consumer goods.

**Retailing Density.** With more than 12 million retail outlets, India has one of the highest retailing densities in the world. Mom-and-pop stores account for more than 95 percent of the total market across most product categories. An organized retail sector has begun to emerge, but it represents only 3 to 4 percent of the overall market.

**Channel Intermediaries.** Most distribution models in India involve many intermediaries between companies and their retailer customers and have varying costs and benefits. The *wholesaler model*, for instance—in which large, powerful wholesalers buy products from manufacturers and sell them to the retailers that they finance—gives producers little control over the distribution channel but provides considerable reach. By contrast, under the *distributor model*, the distributor acts as an extension of the manufacturer and operates exclusively within a specified territory. Other distribution channels involve dealers, who operate as both wholesalers and retailers and are served directly by the manufacturer. Still others involve various stockists and substockists. All these intermediaries can add complexity when they wear two hats at once, as they often do. A distributor selling to retailers in one territory, for example, might have a retail presence of its own in the same or a different territory.

**Infrastructure Complexity.** Only a few full-service distribution companies operate in India, and intermediaries must transact business along a relatively poor transportation system. Consider the journey a shipment of soap might make from the manufacturer in Baddi (an excise-tax-free zone in northern India) to a retailer in rural Tamil Nadu (a state in southern India). First, the shipment is stored by the carrying and forwarding agent at a warehouse near Baddi for a few days. Then it spends 15 days being trucked by a contracted transporter to the Tamil Nadu distributor. Along the way, it crosses eight state borders and multiple checkpoints. It is then transported to the district headquarters by a smaller truck or even a three-wheeler. The village retailer buys a few packs from the local wholesaler, and the remainder of the shipment makes its final journey to the village on a state transport bus—or, quite possibly, a bullock cart. Manufacturers are forced to devise ingenious logistical strategies to manage these bottlenecks.

**Unorganized Markets.** In several sectors of the consumer industry, business is largely unorganized and consists of small local companies. These producers thrive where product complexity and manufacturing investment are low and taxes are high. They often deal in cash and use recycled or substandard components. They offer retailers very high margins but have little control over pricing discipline or channel practices. The presence of these small producers creates a competitive environment characterized by low prices and strong channel partners—a significant challenge for organized players.

The strategies that companies are developing to deal with these factors have become sources of competitive advantage. Choosing the right distribution model—or combination of models—and managing the channels carefully are therefore key to succeeding in India’s complex retail environment.

### Finding the Right Mix

Distribution models in India vary by the number of layers in the channel, the intermediaries used, and the number of channel partners. Every model requires manufacturers to make a tradeoff between their degree of control and their reach. The goal is to find a balanced mix of approaches that confers a unique advantage depending on the sophistication of the market. (See the exhibit “The Right Distribution Model Depends on the Sophistication of the Market.”) The following are some guidelines for finding the right distribution model for your business.

**Plan to have more than one distribution model for different segments or regions.** Obviously, the distri-
bution model a company chooses must be aligned with its business model and with consumers’ needs. But one model is rarely sufficient for all segments of a market. Most companies choose a mix to reach their dispersed customer base. Consider the following examples:

• The Indian subsidiary of a major consumer-goods company works with more than 1,000 distributors, which deliver its products to more than 1 million outlets across India. It uses the distributor model to sell to outlets in urban areas, a small corporate team to sell to organized retail chains, and partnerships with local groups in rural areas to reach the mostly ignored market of less affluent consumers.

• A home-improvement-products company developed a hybrid structure that mixes the wholesaler and distributor models, along with the organized-retailer model—in which there is no intermediary between manufacturer and large retailer. It also sells some products directly to consumers, to whom it offers services as well.

• A global consumer-electronics company mixes the distributor and organized-retailer models in a slightly different way. It uses a distributor to serve small outlets but manages large ones directly through a small group at the center. It has also begun to open its own franchised retail shops to carry its brand exclusively.

Carefully determine which consumers you want to serve. Not every company operating in India needs a nationwide distribution network across all cities and towns. Although India’s population is dispersed, there are sharp differences in income between regions. A leading consumer-durables company, for example, has two different distribution networks for two different categories of products. For the category in which demand is dispersed throughout the country, the company uses a nationwide distribution network. For the other category—in which the top 15 cities account for nearly 70 percent of sales—it uses a distribution plan that targets the major dealers.

Be prepared for multiple channel partners. Given the fragmented nature of India’s distribution channels, companies often have to work with several hundred channel partners. Some companies use thousands of distributors and stockists to reach more than a million retail outlets. One advantage of using many distributors is that a company retains some power over and independence from them. But it must ensure that each distributor is large enough to provide benefits for all the others in the channel. The right number and layering of channel partners will depend on the business, its target segments, and the types of partners available.

Invest in developing the channel and sales team. Overseeing large numbers of people can be difficult, but investment in channel partners is crucial for competitive advantage. Successful companies pay as much attention to retaining a distributor with the right resources, capabilities, and attitude as they do to hiring a senior employee. Companies that provide channel partners with training, selling support, and coaching programs differentiate their offering from that of their competitors and earn high returns.

Sales-force effectiveness is especially important. Managing a network of distributors is different from managing relationships with organized retailers. A home electronics company, for example, uses a geographically dispersed sales team to manage the wholesale channel (which comprises midsize players) and a centralized sales force to manage some key accounts. The level of experience and capabilities of each team is aligned to match its customers’ requirements.

Always measure performance. The complexity of India’s distribution channels and the inexperience of some channel partners can complicate performance measurements. Nevertheless, such measures are important to maintain. One leading packaged-goods company records its products’ availability at the retail counters of nearly 1 million outlets every week, and it links each distributor’s payments to the results. Measures of channel partners’ performance should include their economic health, payment terms, and inventory costs. And it is important for companies to regularly track their reach across cities and their share of sales across retailers to measure the strength of the channel.

These guidelines are crucial to establishing a strong distribution structure. When choosing the right distribution models for their business, companies should also consider the following questions:

• Which consumer segments should we target in order to meet our business objectives?

• What regions and town classes do we need to cover in order to reach these consumers?

• What mix of distribution models would give us an advantage over our competitors?
• What investments in skill development are required for the channel and sales force?

• What metrics do we need to put in place for measuring and reviewing performance?

India will remain a multifaceted economic, social, and trade puzzle for at least the next 20 years, and traditional and modern trade will necessarily continue to live side by side. Manufacturers must learn to manage all formats and channels as seamlessly as possible when serving the country’s vast and varied markets.

Vikram Bhalla
Arindam Bhattacharya
Abheek Singhi
Sharad Verma

Vikram Bhalla is a partner and managing director in the Mumbai office of The Boston Consulting Group. Arindam Bhattacharya is a partner and managing director in the firm’s New Delhi office. Abheek Singhi is a principal in BCG’s Mumbai office. Sharad Verma is a principal in the firm’s New Delhi office.

You may contact the authors by e-mail at:
bhallavikram@bcg.com
bhattacharya.arindam@bcg.com
singhi.abheek@bcg.com
verma.sharad@bcg.com

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