

Marketing Channel Strategies in Rural Automotive Lubricant Market: A Comparative Study

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Abstract: Rural market certainly offers a big attraction to lubricant marketers, it would be naïve to think that any lubricant company can enter the market without facing any problems and walk away with a sizable share. As the rural market consumers lacks in awareness of unbranded product, this is due to low literacy and problem regard to transportation and distribution channels. Traditional urban distribution strategies will have to be localized as per the demands of the rural market. The major area of concern for lubricant companies is to make their products available in the remotest corners of the 6 lakh villages in the country. It is a challenge for any company to design a distribution model that is cost effective and that meets the growing demand from the rural lubricant market. This arises a need for the study about the distribution challenges that are prevailing in the rural markets for the marketers in order to build their brand image and overcome those challenges, the research is targeted at lubricant manufacturers and distributors who are keen to build an understanding of the automotive lubricants industry in India and the opportunities it presents. Thus, the prime objective of the study is to understand and analyze the existing structure of marketing channels of various lubricant brands and local brands by carrying out comparative analysis with a view to ascertain the adequacy of the present distribution system and to suggest strategies to be adopted in efficient manner.

Keywords: Automotive lubricant, Indian lubricant market, Marketing distribution channel, Rural markets, Distribution strategies.

1. INTRODUCTION

Economic, political, and regulatory forces are reshaping the dynamics of lubricants supply and demand throughout the world, and opportunities to grow the business continue to emerge. India, in particular, has emerged as a key market for lubricants. Increase motor cycle and car stock, growth in agricultural driven lubes consumption and a booming construction sector have been the primary factors to this. Until a decade ago the national and multinational companies just focused on cities, built in the last few years this has started changing. In the recent trends Indian rural markets have acquired the attention of all the national and international marketing giants and cooperate. At present all automobiles companies are considering largely to concentrate rural population to promote their products, this leads in increasing demand for automotive lubricants¹ Rural markets suffer from the problem of low penetration and poor availability of branded products. The structure of competition in rural markets can be classified as follows competition from other urban national brands, from regional brands, from unbranded urban products from unbranded products of a particular village and finally indirect competition from substitutes. It is evident that in the village low-priced brands are accepted and so there is a substantial volume of sales for unbranded products in rural markets² According to Ravi Kirpalani, COO of Castrol India Ltd says to focus on rural markets , the company is now planning to increase the share of distribution infrastructure to reach out to six lakh villages, currently the distribution reached between 5000 and 7000 towns and villages across the

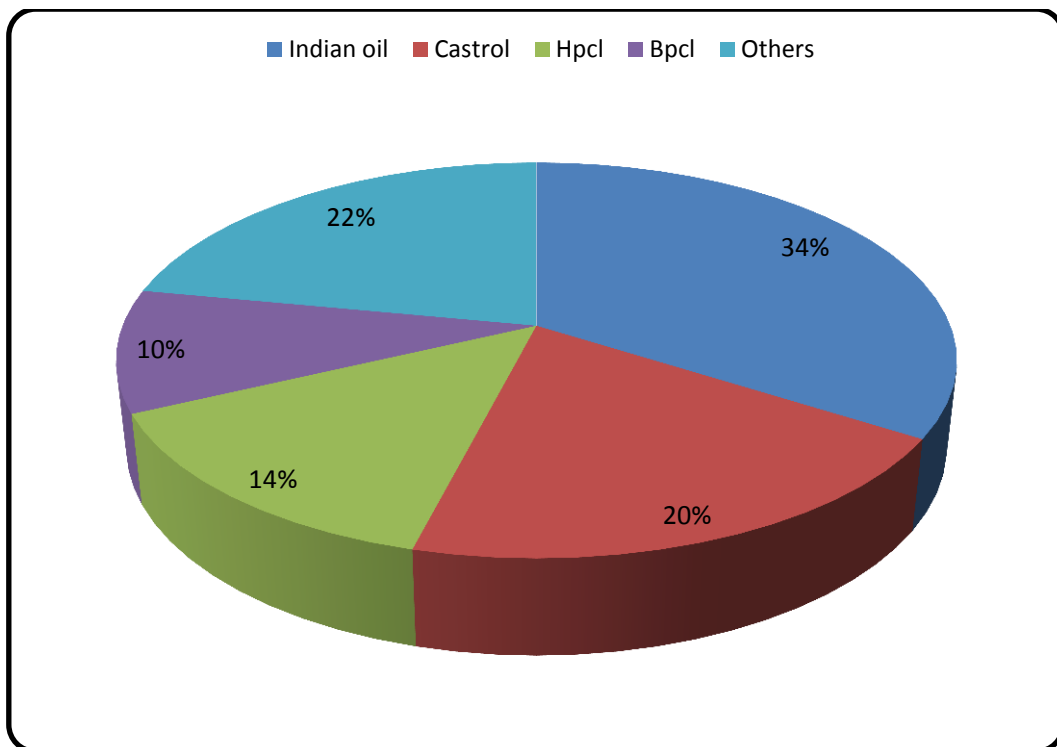
country, eventually the companies are aiming at taking its products to six lakh villages with a population of less than 5000. Harjinder Singh Heer, Managing Director of India Analysis comments “Lubricant manufacturers invest in marketing and distribution can expect to benefit from the growing opportunities in the Indian Automotive Lubricant Market”. Lubricants play a very vital role in the smooth & trouble free operation of any vehicle³.

Indian Lubricant Market:

The Indian Market is the sixth largest automotive lubricant market in the world. There is huge potential in the Indian market which today is worth Rs 25000 core. Total production of automotive lubricants in India is approximately 8 to 10 percent of global lube production⁴ Ken research report estimates the Indian lubricant market would grow at a considerable CAGR rate thus exceeding USD 7713 million by 2017 due to the push from the automobile market in India

After liberalization, deregulation encouraged worldwide established brand to venture their operations in India, private players such as Castrol, Shell, Tide water, Gulf oil started their operations in India. Each one of the vast contingent of 22Multinationals and a total of 80 big & small players are vying for a pie of market of automotive lubricants⁵.

Indian Lubricant Market Share



Source: Lube report (2014)

Among suppliers for India’s consumer market, Indian oil leads with 34 percent, followed closely by Castrol 20 percent, HPCL at 14 percent, and BPCL at10 percent. Others include private players like Volvoline, Veedol, Reliance, Gulf, Total etc.

2. CURRENT DISTRIBUTION SCENARIO OF LURICANT COMPANIES

Industry transition from ‘Shops’ to ‘Workshops’ distribution:

During the last decade, the distribution of automotives lubes witnessed a major transition from traditional ‘public sector pumps’ to ‘bazaar trade’, which was positive for private players. Another transition is underway- from ‘shops’ to ‘workshops’. With the technology advancing and maintenance becoming more sophisticated, the workshop channel (both organized and unorganized) is gaining traction at the cost of other distribution formats. Technology innovation, quality, value-addition and pre/post sales service became critical

Distribution channel-the lube market is evolving

Distribution Channels	Market (%)	Remarks
Spare part shops	50	<ul style="list-style-type: none"> Main business auto parts, offer lubricants as side business Do not stock many varieties
Lubricants shops	21	<ul style="list-style-type: none"> Dedicated lube shops typically carry all leading brands Do-it-yourself model but offer mechanic service for additional cost. Do-it-yourself model slowly declining
Repair Shops	9	<ul style="list-style-type: none"> Important channel for older vehicles
Authorized workshops	9	<ul style="list-style-type: none"> High focus on technology and maintaining efficiencies Association with top brands brings credibility ROI on premium products higher. Prefer companies that offer pre and post sales services, along with innovative offerings.
Others	11	<ul style="list-style-type: none"> Varied usage

Source: Industry/MOSL (2014)

Original equipment manufacturer (OEM) Tie Ups:

OEM provides the lubricant marketer an avenue to differentiate their product by designing it to meet an OEM specification. Often, the OEM carries out extensive testing and maintains an active list of approved products. This is a powerful marketing tool in the lubricant marketplace. Manufacturers may have vastly different specifications for the range of engines they make; one may not be completely suitable for some other.

Brands	OEM TIE Ups
Castrol	Tata Motors, Jaguar, Hindustan Motors
Gulf	Ashok Leyland, Skoda, Volvo, Eicher
Servo	Maruti, Tata, Toyota, Indian Railway And Defense
Hpcl	Yamaha, Tafe, Bajaj Auto Ltd
Volvoline	Cummins, Kirloskar Group, M& M, Hero Honda, Volvo
Veedol	Toyota, Honda
Bpcl	Tvs, General Motors, L & T Kostamu, And Defense
Shell	Hunydai Motors, Tata Motors, Maruti Udyog

Distribution across vehicle segment

Vehicle	Distribution channel	Characteristics
Trucks/Tractors	Petrol Pumps Spare Parts Shops Authorized Workshops Company salesman	<ul style="list-style-type: none"> High emotional connect to the vehicle (bread earner) Meticulous understanding of lubes and vehicles Brand pull significant but economy biggest driver.
Car Owners	Mechanics/ workshops/Spare parts shops & Distributors	<ul style="list-style-type: none"> Very low involvement with purchase decision Lubes regarded as mechanics domain and left for them to decide.
2 wheelers	Mechanics/ Spare part shops	<ul style="list-style-type: none"> Level of involvement high with regard to choosing lube oil Price key determine factor Lube experience real Emotional connect high given first vehicle purchase, status symbol
Others	Small shops and Unconventional outlets	<ul style="list-style-type: none"> Price key determining factor Unorganized segment key player

Retail Channel of various lubricant companies:

Majority of government controlled enterprise (PSU) IOC, BPCL and HPCL distribute lubricants from 35000 fuel stations in India .BPCL distributes through their retail outlet network across the country, this comprises of 80 depot locations about 7530 retail outlets, Castrol products are made available at 70,000 retail outlet across country through 270 distributors. Castrol Bike point (Tie up with local mechanics), Castrol exclusive outlets selling Castrol products, and dealers. Castrol has made foray into the rural market by setting up Castrol Sub-distributors (CSDs) to ensure easier availability and closer connect with rural consumers. Gulf has also taken specialized distribution initiatives like 25,000 'Non-Stop Express' retail outlets were launched across the country to increase distribution width & depth. Company has 32 depots, 4 regional offices and one corporate office.. Volvoline lubricants are distributed through 54 stock points, delivering products and services to 500 distributors for bazaar trade and 2945 institutional customers. Apart from petrol stations Indian oil, Servo range of lubricants is available through a network of Servo express stations, bazaar outlets and thousands of autos spare parts shops across the country..

Channel of Distribution of unbranded products in rural automotive lubricant market:

The distribution of unbranded automotive lubricant is routed through three different types of channels described below⁶

Channel 1: Manufacturer to wholesaler/retailer in big city or small town, or directly to customer

Automotive lubricant manufacturers take orders for unbranded products through personal visits over telephone from big wholesalers/retailers who deal in fakes. Thus the wholesaler/retailers may not need to go to wholesale markets as fakes are available right at their doorstep at the manufacturers' expenses.

Channel 2: Wholesaler in big city to wholesaler in small towns/kasbas

Wholesalers in kasbas source their supply of fakes daily as they book orders from wholesalers and collect supplies from the automotive lubricant manufacturers of fake goods. These are hand delivered next day. Wholesalers in small towns and kasbas visit wholesalers of fake lubricant in big cities to buy their stock of spurious automotive lubricant.

Channel 3: Wholesaler in small town to village retailer/trader.

Salesman of unbranded automotive lubricant products visit retailer in village from the nearest town to deliver the products. Thus, fake reach customers through the following above channels.

3. LITERATURE REVIEW

Pratim Rannjan Bose (2010)⁷ Oil marketing companies are shifting focus to the untapped rural market. The three oil companies-Indian oil, Bharat Petroleum and Hindustan Petroleum – have prepared over 2,500 branded rural outlets. The low cost in setting up rural outlets is a major catalyst for the oil PSU costs 30 lakh to set up outlets in semi-urban areas, rural outlets cost Rs 5-12 lakh. Frost & Sullivan (2011)⁸ are of the opinion that, companies follow different distribution strategies to distribute lubricants through marketing channels such as service stations, garages, rural and agricultural dealers and whole sale distributors. Ruchika Kumar, (2012)⁹ suggested that for successful marketing strategy in rural markets, the product or brand needs to be backed by strong distribution network and sustainable technology. Rajesh Aithal (2012)¹⁰ concluded that understanding the distribution channel in rural areas is important. He further pointed to marketers interested in gaining access to rural markets, and also brings out the influence of rural retailers on channel length which again can be considered as a contribution because of presence of small retailers in large number is a part of reality in rural areas and needs to be taken into consideration before planning for rural distribution. Samuel Craig, Susan Douglas (2012)¹¹. Authors concluded that finally, distribution is the key element in the marketing mix and firms must spend considerably more time focusing on infrastructure development and expanding distribution to ensure product availability. Shishir Sinha, (2012)¹² revealed that distribution channel network is ideal for penetrating into India's growing rural market. The model is obsolete due to the vastness of the country and the 638,000 villages scattered across it. Saxena. R (2012)¹³ reported that in rural market automobile components distributor by passed the wholesalers and sold to retailers; wholesalers revolted and started pushing competitor's products.

Based on this literature review, the problem of designing meaningful marketing strategies gains importance, as every author talks of devising innovative marketing strategy but there is less research as to what techniques fit in to spectrum at micro level. Therefore this study gains relevance for analyzing the existing distribution channel of automotive lubricant rural market, the existing marketing distribution strategies and suggest suitable methods for a wider coverage of market.

4. RESEARCH PURPOSE

In rural areas new entrants will have to deal with uncertainty of demand, different and involving customer needs, a relatively poor supplier base, a market crowded with competition and niche market especially in rural areas. As rural markets are scattered so it is almost impossible to distribute automotive lubricant effectively in the interior outlets in rural areas as a result stocks of automotive lubricants are being maintained in towns only, therefore to reach the rural and remote areas a systematic distribution channel is to be designed in rural markets to carry distribution activity in effective and efficient manner. To find solution for the abovementioned problem a survey was to be conducted to understand the effectiveness of distribution channel adopted by various lubricant brands and local brands in rural parts of India in form of comparative study of distribution channel and to suggest strategies to be adopted by lubricant manufacturers make the product available to the rural customers. The research is also to be targeted at lubricant manufacturers, distributors and retailers who are keen to build an understanding of the automotive lubricants industry in Indian rural markets and the opportunities it presents

Research Objective:

1. To carry out comparative analysis of distribution channel of major national brands vis-à-vis local brands in Automotive Lubricant market in India.
2. To develop suitable channel for distribution of automotive lubricants in rural markets of India.

5. RESEARCH METHODOLOGY

As the research tradition in marketing usually treats distribution system as a static mechanism, the dominant approaches to marketing analysis are not adequate for analyzing the dynamics of distribution channels in a developing economy. A well adequate research design model has been developed for the purpose of this study.

Research Design: The researcher has adopted descriptive research design for this study. The cross section design in descriptive research was chosen, to address the research question outlined above, a survey instrument was developed for this study.. Further Questions asked were open and closed ended using likert scale

Research Area: As the study focuses on rural market of India, data was collected from rural districts of Maharashtra. Maharashtra is the second largest state in India both in terms of population and geographical area (3.08 lakh sq.km). With a registered Motor vehicles population of 174 lakh, Maharashtra state is the largest shareholder with 12.3% of the total registered motor vehicle in the country.

Data collection instrument: The survey method was selected through a well-structured questionnaire for collection of primary data. The question regarding the distribution policy adopted by various lubricant manufacturers i.e. branded and local were asked Secondary data was collected from various research journal, newspapers, and company annual reports for understanding the business environment.

Sampling Method: - Non Probability convenience sampling method, as this method attempts to obtain a sample of convenient sellers of lubricant who are ready to give information.

Sample size: Sellers of automotive lubricant were selected. Sellers include (Wholesalers, dealers, auto agencies, retailers) involved in selling of national and local brands of automotive lubricant. 410 sellers of automotive lubricant across Maharashtra spread over 17 district, 53 talukas and 104 villages were surveyed.. Out of 410 surveys questionnaire, 60 were returned incomplete for various personal reasons, and 350 usable surveys were received and found appropriately filled.

Data analysis instrument: Four structural variables of marketing channels, i.e. Number of channels, number of levels in the channels, type of intermediaries, and number of channel members at each level, have been analyzed. In the present study, Ratios are calculated. The simple statistical tools like frequencies, percentages; the data represented in the form of frequency tables was used as per requirement. All the responses to relevant questions are converted into respective frequency tables.

6. FINDINGS, CONCLUSIONS AND SUGGESTIONS

Comparative analysis of Distribution Channel of national and local brands:

1. Branded companies generally adopt Company-Distributor-Sellers (One level channel) for supply of lubricants whereas unbranded adopt Company-customer (Zero level channel) to distribute their product. The other channels of distribution are not effective in distribution of lubricants.
2. Researcher found that amongst branded lubricant companies Castrol leads the way in rural Maharashtra having maximum effectiveness of (25.5 %) in distribution channel followed by HP (14.4%) and Volvoline (9.1%). Further it is observed unbranded lubricant have very low effectiveness of 0.4% in this type of channel
3. It is revealed that (27 %) Sellers responded that the unbranded lubricant distribution channel i.e. Company to customer is effective while Branded lubricants are not distributed through this channel.
4. Researcher found that sellers place more order to distributors one a week (67.3%) while they also place order directly to the company (20.5%) once a week. Sellers do not buy from Agent and broker (51.3%) and directly from the company also (47.1%). None of the sellers place an order to the distributor once in a month.

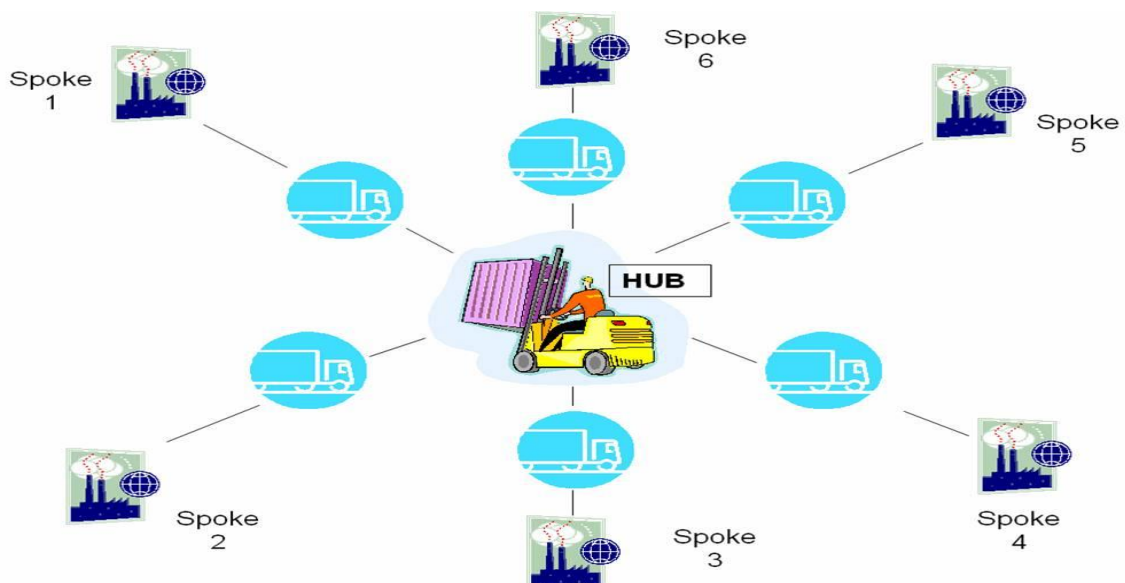
Conclusion:

Distributors play the major role in distribution of lubricant in the rural market. Channel strategy of Castrol is more effective and strong as compared to other branded players in the market. Unbranded rely directly on their way of distribution i.e. Zero level channel of distribution. Unbranded lubricants are like the unseen sharks in the market and distribute through their own shops or outlets directly to the customer in order to save distribution amount and pass the benefit directly to the customers. A specific distribution strategy should be adopted by the branded lubricant in order to counter the unbranded and other local players. Therefore to reach the rural and remote areas a systematic distribution channel is to be designed in rural markets to carry distribution activity in effective and efficient manner as suggested below in the suggestions.

7. SUGGESTED DISTRIBUTION MODELS

Hub-and Spoke Model:

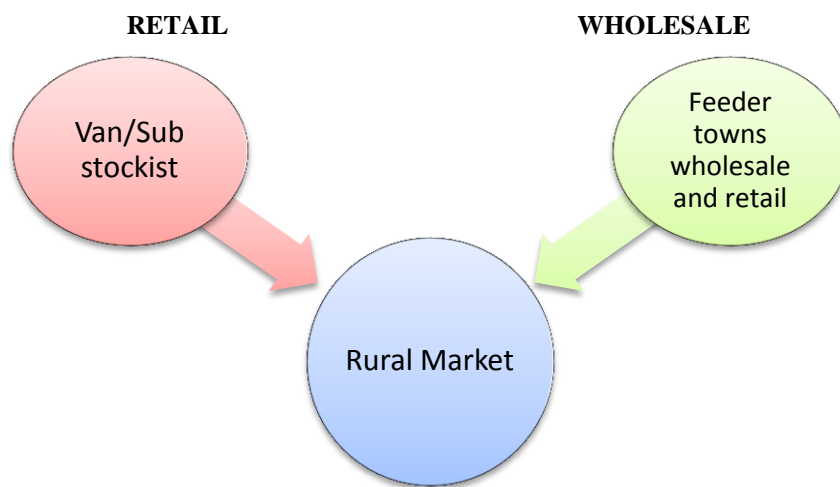
The major challenge in the rural automotive lubricant market is overcoming the problem of availability so a concept of hub-spoke distribution system is strongly recommended for adoption in penetrating the rural automotive lubricant market. The spoke is typically closest to the retail outlets and is serviced by hub distributor, who is supplied directly from the manufacturing plant or the company warehouse. The Model is explained below



The main advantage of this system is that market penetration takes place in the interiors of rural markets without the manufacturer having to expand this direct stock point's network. This approach reduces costs because fewer long haul journeys in large, uneconomical vehicles are needed, and increases efficiency through timely tailored fulfillment. With the growing rural demand there is a need to move the hub from district headquarters and cities to smaller towns closer to the village to service markets effectively as demonstrated by players like coke and Pepsi who are pioneers of this hub-spoke model.

Prevalent Rural Distribution Model for Lubricant business:

Rural automotive lubricant distribution can broadly be categorized into two models. Smaller lubricant companies adopt the wholesale activation route owing to a lack of viability whereas lubricant companies with sizeable product basket adopt the retail route to reach rural markets.



Prevalent Rural Distribution

Van Operation: Stockiest from nearby urban markets cover four to five rural automotive lubricant markets per day. A distance of 70km is covered per day. They operate mostly on cash basis as per the desired frequency and provide better control over distribution.

Sub-Stockiest operation: They get stock from stockiest appointed in the district. Super stockiest typically cover 10-15 sub-stockiest in the district. The sub-stockiest covers all the outlets in his rural market like the regular stockiest by extending credit services

In this model, the presence of a local person in the market results in providing better market information and services to outlets. Also, the sub-stockiest gets the opportunity to cover four to five satellite markets nearby.

Syndicated Distribution Model:

Syndicated distribution is an approach to gain entry into rural automotive lubricant markets. Under this approach, two or more lubricant companies come together to form a syndicated trading organization, to jointly distribute a collective group of products in rural markets by sharing distribution costs. The solution for small companies is to tie with leading companies that already has a presence in the rural market, in order to distribute products through its distribution network. The golden rule is that the small companies should not deal in the same products that the leading companies sell. This type of collaboration can help both companies to reduce distribution costs and can convert operation that seems viable into financially viable ones.

Distribution through Cooperative Societies:

India has the largest network of cooperatives in the world. Cooperative accounts for 34 per cent of the total quantity of fertilizers distributed in country. They function like mini supermarkets for rural consumers, where rural need ranging from FMCGs, durables, auto components and agricultural products are sold at economical and reasonable prices

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Reward on increasing outlets:

It is suggested to marketers of lubricant to pilot a new distribution structure in which distributors are selected to cater to the needs of modern trade outlets. These distributors will no longer be rewarded just on the basis of how much they sell. Instead, their compensation will depend on the width of the merchandise stocked and their prominence.

Researcher's Specific contribution of the Research:

The researcher has designed the various distribution model for carrying out business in rural markets, which will help automotive lubricant companies to improve upon their market performance effectively and improve companies overall profitability.

Future Scope of Research:

1. The present study was limited to rural markets of Maharashtra state only. The study can be expended further by identifying other states in India. Comparative study can be done between two rural markets of different states of country.
2. Customer satisfaction levels can be found out considering the marketing strategies adopted by the automotive lubricant companies.
3. This study can be conducted at the national level including the urban and semi-rural markets of automotive lubricant.
4. Repeat this study periodically after five years to analysis the automotive lubricant market at national level

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