Analysis of Sales and Distribution and Business Viability of Stockists of Branded Salt

Indra Swetabh Mani
PGDM Number 11022

R. Jagadeesh
Professor – Operations Management and Quantitative Techniques

Comments by the faculty

Salt is an indispensable part of food consumed every day and is also a vital ingredient for several chemical industries. Obviously the production and distribution of salt plays a major role in the society. Typically salt produced in the country is classified as edible salt and non-edible salt for industrial applications. In addition around 10% of salt produced goes for miscellaneous applications. This project work pertains to the retail sales and distribution of edible salt produced by a popular and well established company that belongs to a reputed house of companies, historically well known, with a footprint in almost all spheres of industry.

The company produces three brands of salt under different segments with specific objectives. While the company is recognized as a market leader it is not free from some of the common issues related to the supply and distribution channels.

The project was carried out in two districts of Uttar Pradesh, namely Kanpur and Lucknow, using direct survey methodology. Five stockists were consulted by making direct visits to their premises and their opinion was recorded. A carefully prepared survey questionnaire was used to elicit responses and the data was analyzed.

Further, the business viability of the stockists was analyzed using ROI (Return on investment) as a tool. This analysis was helpful in making out the sales pattern and consumption in a given geographical area. Apart from the data analysis, the project also explored many interesting aspects pertaining to stockists attitude and consumers' behavior. This information greatly helps the company to fine tune their policies and also to carefully build their strategies as the rival brands were quick to capitalize on the weaknesses of the company.

Towards the end the project also has come out with scope for further studies that should help the company to reinforce the findings of the earlier studies and to improve their share in the market. To protect confidentiality the brands and the stockists are refferred by generic names only.

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Abstract

Retail sales play a crucial role in establishing the brand of a commodity and building up the loyalty of customers. This in turn helps to improve the business prospects of stockists. Thus it is essential to study the sales and distribution of a commodity along with exploring the business viability at the stockists' level. With this broad objective this project was carried out in the state of Uttar Pradesh to study the marketing and stockist related issues of a branded commodity that forms an important part of food consumed every day, namely salt. The product offered from a famous company, belonging to a historical group of companies in India, is the market leader and has carefully positioned itself against the competitors.

The project comprises two phases: In the first phase a study of retailers was conducted in the geographical areas of the stockists in the districts of Lucknow and Kanpur with a sample size of 40-50 retailers per stockist. The competitor brands were also studied to do a competitor analysis to gain an insight into such aspects like retailer purchase price, estimated margins, and scheme extended to the retailers, quantity purchased by the retailers, frequency of purchase and expectations.

In the second phase of the study, stockists were visited to gather information regarding the Business Share, Target Monthly Sales, Last Quarter Average Sales, Average Inventory, Capital Employed, Market Credit, Fixed and variable expenses.

Later using the above figures, return on Investment (RoI) was established for individual stockists. It was concluded from the results that the company though enjoying a market share of about 70% in the market , has some concerns like dissatisfaction over the issue of margins extended to the retailers, and also on the replacement of defective products. It is suggested to have a look into the replacement and logistics issues. For the stockists, the RoI seemed to be pretty good and was calculated to be

around 74.35%, which is quite high as compared to industry standards. Suggestions offered are also discussed in detail in the paper.

Introduction:

Salt constitutes one of the most commonly consumed food ingredients in India which happens to be the third largest salt manufacturing country in the world after the USA and China. (Salt Industry In India, n.d.). The growth and achievement of salt Industry over the last 60 years have been phenomenal considering the more than ten times growth in the production quantity since independence.

As stated by Economy Watch (2010) the per-capita consumption of salt in the country is estimated at about 12 kg, which includes edible as well as industrial salt. The current annual requirement of salt in the country is estimated to be 60 lakh tones for industrial use. Caustic soda, soda ash, chlorine etc., are the major salt-based industries. Besides about 15 lakh tones of salt is exported every year.

The importance of salt in our lives cannot be overstated. Without salt, our bodies cannot perform some of the vital functions like regulating blood and body fluids and maintaining nerve signals. Salt deficiency leads to muscular weakness, cramps and exhaustion. Severe salt deprivation can even prove fatal. Salt sets off an osmosis movement in the body and adjusts the amount of fluids within and outside the cells. A healthy body processes the amount of salt it needs, and expels the rest through the kidneys.

Considering the extent of salt usage in the country it is considered to be a major industry and also makes it the candidate for studying the supply and distribution pattern in the country. This project has essentially taken up the task of studying the retail sales of edible salt released under a popular brand to study the sales and distribution related issues apart from studying the stockists' business viability in terms of the return on investment.

Salt Production & Distribution: Historical Overview & Present Status

During the pre-independent times, the then British government dictated that the sale or production of salt by Indians was a crime and a punishable offence and this had an impact on the people all over the country as salt was a basic need. As a protest it was decided by the freedom fighters to produce salt in their own manner and oppose the draconian law. This resulted in the now historically famous "The Dandi march" led by the father of the nation

Mahatma Gandhi, which eventually gave a big boost to Indian independence movement.

Before independence, India used to import salt from the United Kingdom & Aden to meet its domestic requirement. But today it has not only achieved self-sufficiency in production of salt to meet its domestic requirement but also in a position of exporting surplus salt to foreign countries.

Within six years of gaining Independence India started exporting salt to countries like Japan, Philippines, Indonesia, Malaysia, Nepal, South Korea, North Korea, UAE, Vietnam and Bhutan. Sea salt constitutes about 70% of the total salt production in the country. Salt manufacturing activities are carried out in the coastal states of Gujarat, Tamil Nadu, Andhra Pradesh, Maharashtra, Karnataka, Orissa, West Bengal Goa and hinter land State of Rajasthan. Among these States only Gujarat, Tamil Nadu and Rajasthan produces salt surplus to their requirement. These three states produce about 70%, 15% and 12% respectively of the total salt produced in the country and cater to the requirement of all the salt deficit and non-salt producing states. (Economy Watch, 2010). Private sector plays a dominant role contributing over 95% of the salt production, while the public sector contributes about 2-3%. The co-operative sector contributes about 8% whereas the small-scale sector (less than 10 acres) accounts for nearly 40% of the total salt production in the country.

Gujarat, Tamil Nadu and Rajasthan are surplus Salt producing States accounting for about 96 per cent of the Country's production. Gujarat contributes 76% to the total production, followed by Tamil Nadu (12 %) and Rajasthan (8%). The rest 4% production comes from Andhra Pradesh, Maharashtra, Orissa, Karnataka, West Bengal, Goa, Himachal Pradesh, Diu & Daman. On an average 62% of the total production is from

Railways play an important role in transporting salt from three surplus states to the entire length and breadth of the country. On an average, 55% of edible salt is transported by rail from the production units. The remaining quantity moves by road and waterway.

The average annual supplies of salt for human consumption is about 57 lakh tonnes and that for industrial consumption is about 83 lakh tones; 57% of the salt for human consumption moves by rail and 43 % by road. 89% of the salt for industrial consumption moves by road, 7 % by rail and 4% by coastal shipment to various industries; when the total indigenous supplies is taken, 69 per cent moves by road, 27% moves by rail and 3% by sea.

The total production of salt in India during 2011-12 was 221.79 lakh ton. Of this 62 lakh ton of salt were iodized. The State-wise production of common salt and iodized salt in the country during 2011-12 is given in Table 1 (a) and (b)

Table 1 (a): State-Wise Production of Common Salt in the Country (Figure in lakh ton)

S. No.	State	2011-12
1.	Andhra Pradesh	3.05
2.	Goa	0.02
3.	Gujarat	170.19
4.	Karnataka	0.13
5.	Maharashtra	1.55
6.	Odisha	0.10
7.	Rajasthan	21.89
8.	Tamil Nadu	24.77
9.	West Bengal	0.09
	Total	**221.79**

Table 1(b) : State-Wise Production of Iodized Salt in the Country

S. No.	State	2011-12
1.	Assam	0.07
2.	Gujarat	39.63
3.	Jammu & Kashmir	0.06
4.	Karnataka	0.07
5.	Odisha	0.07
6.	Rajasthan	11.41
7.	Tamil Nadu	10.46
8.	Tripura	0.08
9.	West Bengal	0.15
	Total	**62.00**

Some of the Top Brands of Salt in India are as follows:

- Tata salt
- Captain cook
- i-shakthi
- Aashirvadh
- Annapurna
- Surya salt
- Sambhar salt
- Nirma shudh

About the Company and the Products

The company where the project was undertaken is the largest producer and exporter of salt in India. It was the first company to launch iodized salt in India in 1983, the market which was previously occupied by loose and unbranded segment only. Apart from the flagship brand there are two other brands of salt available in the market from the company's side.

First brand was launched in 2006 with an aim to provide a platform for up gradation of users of loose salt and local branded salts, which may not provide a consistently dependable quality of iodized salt. It provided an opportunity for the masses to have access to a good quality iodized salt at an affordable price. Further, it has been playing a significant role in mitigating the iodine deficiency of Indians. In addition, it is endorsed by the International Council for the Control of Iodine Deficiency Disorders (ICCIDD) for being the salt brand that offers adequate quantity of iodine. It is also the second-largest salt brand in the country after Tata Salt; garnering 14.3-per cent market share in the branded salt category. It is made available in 500 g and 1 Kg Packs.

The second major brand was a low sodium salt from the company. It has been specially formulated to provide 15 per cent lower sodium than ordinary salt. It was launched in 2008 to provide consumers who sought preventive measures to keep the blood pressure of family members under check, a convenient means of help in these stressful times. Further, this salt is meant for those who are highly health conscious and want to maintain a balanced life. Within the first year of its launch, the brand became a market-leader in the low-sodium salt category.

Since the late 1980s brand war began in the salt industry and intensified towards mid-90s. Salts were being positioned on the platform of purity, and their role in mental growth. The present analysis of the salt market is discussed later in the work.

Objectives, Scope and Methodology of the Project Work

The present project had the major task of studying the sales and distribution channel of the three variants of salts offered by the company where the project was carried out. This was done on the basis of survey of market locations in two places in Uttar Pradesh, namely Lucknow and Kanpur.

The information collected included sales of salts, retailers' purchase price, margin available to retailers, their feedback over margin, and other issues related to proper distribution of the commodity. In addition, quantity of salt sold in the market, frequency of the orders, and fulfillment of the orders were also studied for all the popular salt brands in the market with the objective to identify top 5 salt brands in the market. This was to assess the position of the brands under study with respect to other popular salt brands.

Side by side it was also attempted to make out what retailers expected from the suppliers and the company. For this purpose sampling technique based on simple random sampling was used and around 50 retailers were surveyed per stockist.

Then the task was to study about the distribution of salts, for this an average consumption of 15grams /day per person was taken into consideration and with the help of this data monthly consumption in tons was calculated. Using this value the market share of salts in the area surveyed was arrived at.

Finally the business viability of the stockiest was studied which means whether doing the business of said brand of salts was profitable for them. Five stockists were taken into consideration in Lucknow and Kanpur and their details were studied.

The business viability of the stockists is evaluated using Return on Investment (RoI) as a tool. The company keeps a check on the RoI such that it does not cross a certain limit. If it happens to be the case steps are taken to reduce the RoI. The company also had the policy of assuring a minimum RoI to the stockists, which is competitive as compared to the industry standards. In case the stockist is unable to maintain a certain RoI the company takes steps to increase the RoI or provides them incentives to make them stay in business. This also ensured a kind of loyalty by the stockists to the company.

Terminology

The different types of salt are as follows:

- **Sea salt:** Available in both fine and coarse grains, this is made from evaporated sea water. It is rich in minerals such as iodine, magnesium, and potassium, and has a fresher and lighter flavor.
- **Table salt:** It is basically sea salt that goes through a refining process to remove traces of naturally occurring mineral impurities. Chemical additives are added to prevent clumping.
- **Iodized salt :** This is a variation of table salt. It's fortified with iodine, as lots of iodine is lost from natural salt during processing. This helps meet the body's iodine requirement.

Problem Definition and Methodology

India Salt (brand name changed to protect confidentiality) is the flagship brand of the business unit, and has been commanding a healthy 27% market share in the premium segment, the nationally branded salt market (estimated to be about 700,000 -800,000 tons annually). While it is the market leader in this segment, there are two significant challenges for the management at India Salt. Firstly, the nationally branded salt market is just about 13% of the total product category. This is a concern especially when a formidable presence in a minor market segment may not amount to a significant business opportunity in the long run, more so in a product category, which seemingly has very few opportunities to enhance value and /or differentiate from competition being a basic commodity.

The scope of study in the project was divided into two parts. In the first phase the sales and distribution of the company's salt brands in Lucknow and Kanpur was taken up to study about various brands of salt available in the market and their competitive aspects. For this market visits were conducted in the exclusive geographic areas with the support of the concerned Sales Officers/Junior Sales Officers of the company. The sample size for the market study was around 180 retail outlets. For this the top 3 brands of salt available in the company were considered as well as depending upon the local market conditions other strong players were also considered for the purpose of the study. Following aspects were taken into consideration for individual companies while making a competitive analysis:

- Retailer Purchase Price.
- Estimated Margins.
- Schemes extended by the company to the retailers.
- Quantity of salt purchased by the retailers (No. of Bags).
- Frequency of purchase.
- Expectations of the Retailers.

Based on the figures obtained a comprehensive analysis of the brands was done and market share of various salt brands was calculated using the concept below:

Monthly Consumption = Population of the area * consumption @ 15g per person/day*30 days

Using this data total consumption of the area was calculated in grams and later on using market analysis data market share in tonnage and percentage was arrived at.

In the next four weeks the second phase of the project was undertaken in which a study of business viability of the stockists was undertaken. For this five stockists of different experiences in business spread across rural and urban areas of Lucknow and Kanpur were chosen to study. The business viability was studied using the concept of RoI.

Information in the following areas was collected:

- Jankipuram Lucknow
- Alambagh, Lucknow
- Indiranagar , Lucknow
- Kanpur City (Gwaltoli, Hatia, Meston Road)
- Kalyanpur , Kanpur

After Collecting the required information financial analysis was done to arrive at the figures of Return on Investment of the Stockists. Recommendations for Individual Stockists were given to the company based on the figures obtained

Discussion on Results and Outcome of the Research

It was found in the analysis of the data collected that the margins earned by the retailers on the brands of the company were low at first glance. They earned a margin of Re 0.80 on brand X , which is the leading salt brand of the nation. The expectation of margin from the retailers side was at least Rs.2. But one point should be kept in mind here is that, since the brand is the largest selling brand in the country and the areas studied as well the number of packets sold, made it the major contributor of revenue to the retailers in terms of profit.

Brand Y, which was launched targeting lower income class and with a motive of upgradation of users of loose and unbranded salt users seemed to perform well being the second largest selling salt in the area. Available in two pack sizes of 500g and 1Kg, the product is doing well to meet its objective. Launching the product in 500g packs has proved to be a successful move by the company as the students, bachelors and unorganized sector particularly labour class are now turning towards it because of low price and less storage concerns. Also retailers were quite satisfied with the margins provided on the product to them which was as high as Rs. 3.30 and Rs 4.40 for 500g and 1 Kg packs respectively which is quite comparable to the competitors of even the premium salt segment.

Brand Z, which is the low sodium salt has made a fast penetration into the market. The product is performing well after launch. Retailers are also content with the margin of Rs. 3.15.The only problem with the product was that that even after four years of its launch the product has failed to make its reach to the rural areas where the market still remains untapped.

During the course of the project, the company restructured the prices of its products by increasing the MRP (Maximum Retail Price) by Rs.2 for brand X and Y, and Rs.4 for brand Z. Also the price at which the products were shipped to the retailers was restricted in such a manner that the margin offered to them became even more competitive. New margins became Re.0.98, Rs.6.02, and Rs. 3.75 on the brands X, Y and Z respectively. This is seen as a move to counter the retailers' attitude towards competitor brands wherein they tried to push the competitor brands for want of higher margins and offering them better visibility in their stores.

Another important observation was that the products had lesser market share in the rural areas as compared to urban areas. In the rural areas of Kanpur many local players were available at extremely lower costs and in some cases the margins offered to the retailers was more than the company's products.

Together the company brands enjoyed a king's share of 65% in the market while other competitors survived in a fragmented market share where individual share was hardly above 10% in any case. This itself justifies the reach of the company's products in the market.

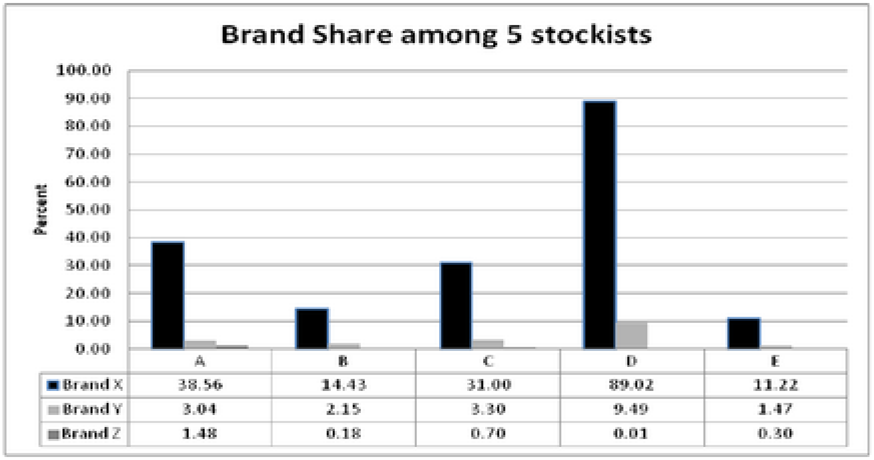
Non-availability of good schemes for the retailers was also found to be hindering the sales of the company. Rival brands are found to be offering attractive schemes to the retailers which include Loyalty Programs, Freebies, Cash Discounts, and Discounts in the form of Scratch Cards. These make the retailers go for the companies which offer them lucrative schemes..

Miscommunication was another minor issue discovered. The lack of efficient communication between retailers and stockist was hampering the business of the company. A handful of retailers (4 out of 190 in areas of Kalyanpur, Kanpur) complained about not being made aware about the schemes prevailing well in time so that they can make good use of them.

Similarly, the replacement policy was also a minor issue faced by the retailers. Some of the retailers (6 out of 190) were not aware about the replacement policy extended by the company. Among those who were aware about the policy some told that damaged packets are not being replaced even after repeated requests.

Non fulfilment of orders of Brand Z at Indiranagar, Lucknow was also noticed. The reason which was given by the stockist was non availability of stock at that point of time which was verified by the company. The brand share among the stockists is shown in Figure 1.

Figure 1 : Brand share among the five stockists



Return on Investment

The purpose of calculating return on investment is to measure per period rates of return on money invested in an economic entity. ROI provides a snapshot of profitability adjusted for the size of the investment assets tied up in the enterprise. Marketing decisions have obvious potential connection to the numerator of ROI (profits), but these same decisions often influence assets usage and capital requirements (for example, receivables and inventories). Marketers should understand the position of their company and the returns expected. ROI is often compared to expected (or required) rates of return on money invested to reach a decision. In simple terms this tells us about the surplus-generating capacity of the investment.

Most FMCG companies expect the ROI of the stockists to be 40%. If this objective is not achieved company should take necessary steps to increase to ROI to 40%. Similarly if ROI comes out to be more than 40% it must be brought down to acceptable levels.

The return on investment figures of the stockists was found to be as under, which is also substantiated by the calculations that follow:

- Stockist A: 53.13%
- Stockist B: 62.84%
- Stockist C: 42.27%
- Stockist D: 18.57%*
- Stockist E: 74.35%

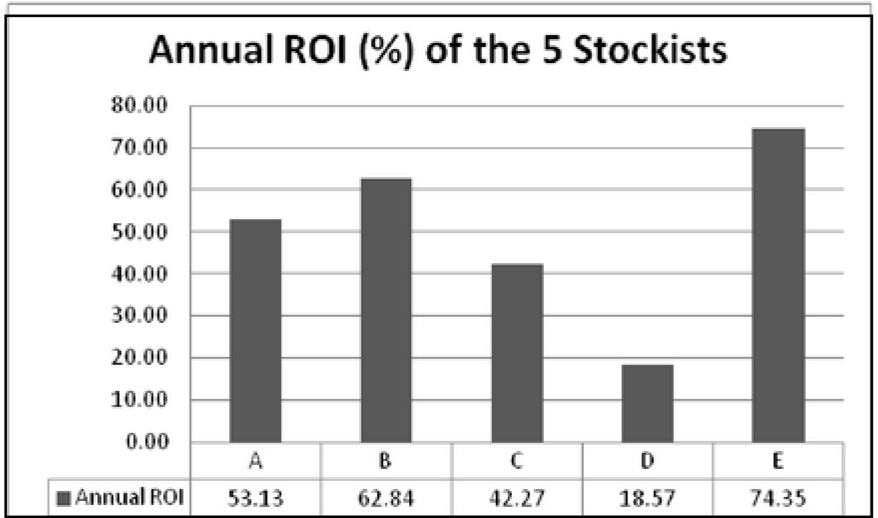
* Projected data. The stockist is associated with the company since last quarter only. RoI over last Quarter 4.64%.

Table 2 shows the ROI values calculated using the net working capital and net profit figures on a monthly basis and annualizing the same. Complete details about calculating the working capital, profit, and ROI are not illustrated here for conserving space. Figure 2 shows the ROI values of the five stockists.

Table 2 : ROI for the stockists

Stockist	Net working capital, Rs.	Net Profit, Rs.	Monthly ROI, %	Annual ROI, %
A	1367530	60542	4.43	53.13
B	1360316	71234	5.24	62.84
C	1197457	42185	3.52	42.27
D	661600	10239	1.55	18.57
E	611493	37887	6.20	74.35

Figure 2 : Annual ROI of the five stockists



Comments and Suggestions to the Company for the Stockists:

Stockist A: 53.13%. Since the ROI is more than acceptable standards of the industry, it must be brought down to acceptable levels. This can be done by:

- Increase in interior and rural coverage
- Increase in frequency of calls
- Recruiting additional sales force

- Increased focus on merchandising: Third party merchandising can be effective solution. The cost of operation can be shared between the stockist and the company so that the burden of a progressive system does not fall on any single party alone. Financial contribution from the stockist shall ensure he will stay involved by supporting the team on permissions and problem resolutions at the retailer level. They will also act as reporting points for gap in execution.

- Stockist B: 62.82%: Same as above

- Stockist C: 42.27%.Here it should be seen that this level of RoI is maintained.

- Stockist D: 18.6%* It may be too early to comment on the performance of the firm based on the data obtained and analyzed because the firm has been associated with the company business since last three months only. But the ROI factor as analyzed for the last quarter was 4.64%.The projected RoI for the entire financial of the firm is found to be18.6%.Which indicated a good health of the firm that the firm has achieved in the first quarter of its inception. We can be optimistic of its good performance in future. The company should help the stockist to increase its secondary sales. Adding more markets can be considered as a measure which will surely help the company to meet the objective of increasing the RoI.

- Stockist E: 72.84%. The performance of this stockist is also a subject of attention as the ROI of this stockist exceeded the acceptable standards by a huge difference. The ROI is calculated to be close to 75%. Here attempts should be made to bring down the ROI to acceptable standards. This can again be done by following the same strategy as for Stockist A and B.

Conclusion and Scope for Further Research

In this project an effort is made to understand the market scenario of branded salts, the situations in which the stockists are doing their business and financially how profitable the business has been for the stockists.. The work carried out indicates that the competitor brands selling the market though priced low and offering high margins to the retailers as compared to the company's products are way behind in market share. It was also found out that in spite of offering low margins the said company's salt was preferred by most of the retailers because of the demand in the market which leads to high sales and therefore even by securing low margin leads to high revenue generation.

What needs to be done by the company to handle the competitors is that in the rural areas the reach of the product should be made even deep rooted. It was observed that the major competitors of the company in these rural areas were mainly local players and unbranded loose salts. They had a considerable market share owing to their low price. So promoting brand Y extensively in these areas would prove to be a good strategy to capture market in these areas.

Quality wise brand Y was found to be much better than low cost local players. This was checked using Solubility test. Consumers should be made aware about that. Among the national players it was found that a competitor was trying to capture market by offering attractive schemes to the retailers. The company should take a note of this and act accordingly and launch competitive schemes for the retailers. Return on investment figures for the stockists are not much cause of concern for the company barring two of them. They can be easily controlled and adjusted with a little efforts put in.

Scope for Further Research:

- Still 70% of total market is in the hands of unorganized sector and to be explored

- Brand switching is extremely easy and brand loyalty is very difficult to attain. Incentive schemes to be devised

- Intense struggle exists in terms of positioning and promotion and requires regular monitoring.

Keeping the above aspects in mind a strategy needs to be designed which is a perfect blend of sales, marketing, distribution and supply chain management in order to handle the product portfolio right from the moment it leaves the plant and reaches the market.

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