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INSIDE

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Opening up a new market

Distributing foreign brands has become big business. And it is attracting all kinds of people

It is a big change from installing and running diesel generators. A few days ago Rai & Sons put up a counter at Delhi's Ansal Plaza and started giving out bite-sized samples of Swiss-made Hero Jam. At around the same time Rai & Sons also launched a quiz competition in thousands of schools in Mumbai and Delhi to promote the popular French cheese Le Vache Qui Rit (The Laughing Cow).

Why's an engineering company selling cheese, jam and a lot more? Rai & Sons has a buffet of products including the upmarket Ferrero Rocher chocolates and Ricola Herbal lozenges. Says, Saswat Sengupta, CEO, "There was a slump in the engineering sector and we needed to diversify. We had the resources such as manpower, warehouses, and the necessary contacts abroad. So distribution seemed a viable proposition."

Rai & Sons isn't the only business house that has decided that distributing famous — and not so famous — foreign brands in India is the coming game. Take a look at the Rs 1,000 crore Jindal Exports Group which is now taking a bite of the chocolate business. Last year S K Jindal, the group's director first tasted Sorini chocolates when he was on a trip to China. He liked the product so much that he is now its distributor for Asia. Says Jindal: "We only brought back samples of the product as Diwali presents for friends, but they were such a hit that we decided to take up the distributorship for the chocolates." Jindal has sold Rs 5 crore worth of chocolates in the first year.

With the lifting of quantitative restrictions in April, many entrepreneurs jumped on to the distribution bandwagon to become the sole suppliers of a whole range of foreign brands. They began dealing in everything from fragrances to pet food, furniture, toys, cutlery and writing instruments. Many of these products are being brought in by exclusive distributors who've tied-up to market the product in India and make sure that they reach would-be customers.

An extraordinary cross-section of businessmen has moved into the distribution business. Take Baksons Drugs and Pharmaceuticals Ltd, a homeopathic drug manufacturer who has become the sole distributor for American giant Propac pet food. Why did it jump from homeopathy to pet food? Says P S Gulati, general manager, marketing, "The pet food market is the seventh largest industry in the world and there is great potential for growth in India. We wanted to tap the market."

For some it was just an extension of an existing business. Brindco Sales has been a north Indian distributor for Kingfisher beer and McDowells whisky for the last 30 years. Today, the company is uncorking a new range of wines that have been imported from Burgundy in France to the wine-growing belt in Australia. Says Brindco's Aman Dhall: "There was a distinct change in the tastes of our customers especially in the big cities. We had no choice but to increase our portfolio."

Some people got into the distribution game early. Jay Balan, managing director, Kalinga Cosmetics and Perfumes wound up his distribution set-up in Indonesia and returned home three years ago because he thought there were better opportunities here. Today, he distributes perfume brands like Kenzo, Paul Smith, Lolita Lempicka, Aquanautilus and Pierre Cardin Cosmetics.

Similarly, Mumbai-based MKP Distributors has been in the business for over six years. Today, it has a luxury-counter range of perfumes like Carolina Herrera, Paco Rabanne, Gucci, Rochas, Alfred Dunhill, Anna Sui, Naomi Campbell, Cartier and Giorgio Armani which are all sold in upmarket stores in the major metros. The company promoted by Mike Kumar Udasi and his wife, also exports ready-made garments.

But the real boom has come in recent times as the restrictions on products like whisky and wine were lifted. Says Neeraj Garg, associate at A T Kearney, "The companies were always aware of the existence of a market for their products in India, thanks to the grey market. By appointing distributors they are simply providing the products legally."

But how does all of this reach consumers? Rai & Sons has 35 distributors nationally which supply to 3,000 outlets in the top metros. It says that 70 per cent of the sales come from metros. The company caters mostly to institutions like five-star hotels besides supplying to the Oberoi Flight Service.

At times innovative approaches are needed to sell products like pet foods that never existed in India. Propac has held four veterinary conferences in the last one year and it is hoping that endorsements by vets will be the main driver of sales. In the big cities its products are sold in pet shops but it has also made contact with 2,500 vets throughout the country. The company has a veterinary surgeon on its rolls who makes all the company's presentations.

Of course, the approach is different for products like perfumes. These are mainly being sold in the large departmental stores that are sprouting through urban India. Balan's perfumes retail at some 20 outlets including places like Shoppers Stop, KBN, Vama and Crossroads in Mumbai and Heritage in Delhi.

The parent companies often help out. Villeroy & Boch the upmarket manufacturer of chinaware and cutlery provides fixtures and the shop displays for their extremely expensive products. Says Rajiv Singhal of Ritu Overseas, the exclusive importer and distributor for Villeroy & Boch: "The company provides us with the fixtures and visual material that goes on to make the complete Villeroy & Boch experience. Similar fixtures are used the world over.

Besides that Ritu Overseas sends out about 750 direct mailers each month. It also holds cocktail parties when a new range is launched. And they are extremely careful about where they sell. In Mumbai, for instance, they sell in Fusion Access, a designer furniture store. Says Singhal: "We sell through stores where Villeroy and Boch gets maximum mileage. We don't want to put our products in stores where other competing brands are already crowding the shelves."

Similarly, Finex Distribution get plenty of help from the upmarket companies which it represents in India. The company is the sole distributor for watches from companies like Cartier, Corum, Bell & Ross and Christian Dior. Says Raouff Ansari, managing director, Finex Distribution: "The parent companies provide marketing tools that are vital in creating and reinforcing consumer awareness. Given that India is a relatively young and developing market in luxury products, this is crucial for us to succeed."

Getting into the distribution business can be expensive. One toy importer spent Rs 50 lakh to get started in the business. In his first year his company has had sales of Rs 4 crore. The business is growing swiftly and he expects to sell Rs 5 crore worth of toys this year.

Nevertheless, the distributors are in a risky business. Since most of them import the products at their own cost and they have to pay for freight charges, duties, taxes and insurance. For example, a bottle of wine that costs $ 5 in the US costs $18 in India, thanks to the nearly 300 per cent import duty and a 23 per cent sales tax that is levied on it.

For food products, the distributors need to pay for the various tests that certify it is fit for consumption. Moreover, the parent companies do not always reimburse the advertising and other additional costs.

The fact is that the foreign companies don't always take much interest in the Indian market. Therefore, they don't set steep sales targets for their distributors. Dhall says that the wine companies (he is importing wines made by seven family-run concerns) are not interested in the number of bottles sold. They are, however, interested in the number of outlets being catered to and the types of places.

There are other difficulties. Duties are high and the distributors have to cope with challenges from the grey market where products are often cheaper. Says Garg, "The distributors assumed that sales would rise manifold once the product was available legally." Says Jindal, "We can't compete with the grey market as our price is fixed."

The distributors complain that the margins in the business are low as they are passed on to the sub distributors and retailers. Says Singhal, "We sell a niche product and in order to increase market share, we need to work on wafer thin margins." The margins are specially thin in cases where the maximum retail price (MRP) is fixed by the distributor.

However, the margins do vary from one business to another. The Jindals claim that they are getting good returns of upto 20 per cent on their chocolates. Similarly, Beautique India distributes 36 different brands of personal care products. It gives margins of 8 per cent to 18 per cent to retailers depending on the product.

There are others who argue that with the high price of the products, while sales are low, the margins are reasonably high. According to Garg, the general trend abroad is that products are sold to the distributors at 15 per cent margin if they buy it on credit and at a 20 per cent margin for cash purchase.

All distributors follow a multi-distribution network. The main distributor appoints sub distributors in different cities and they in turn sell the product through retailers. One toy manufacturer has 15 distributors throughout the country. They in turn put the products in 2,500 outlets.

Some distributors like the Jindals say that they've sold Rs 5 crore worth of chocolate and they are hoping for 25 per cent growth this year. Other like Rai & Sons says that Le Vache Qui Rit is proving to be a big hit with the Indian middle classes. Rai & Sons had a turnover of Rs 2.5 crore for the year ending March 2001 and the company also expects a 25 per cent growth this year.

For others the business isn't growing that swiftly. Baksons which imports pet food says their homeopathy business is sustaining the new venture. Still it's not complaining. It knows that this will be a long-term game. Says, Gulati, "Once the market for pet food increases, we will recover our expenses. We are in it for the long run."

For all their hardsell, what happens when a company whose products they are selling decides to set up base in India? Distributors claim they are not worried. Says Ansari, "Our distribution activities are carried out within the scope of a distribution contract we sign with all brands, which explicitly cites a duration during which we retain all distribution and agency rights." For instance, Hair Care Impex Pvt Ltd, the distributors for Caring hair grooming products in India have an exclusive 20 year license for the product.

Then there are those who feel they will be in a win-win situation even if the company comes to India. Says, Sengupta of Rai & Sons, "Their coming to India is a remote possibility but once they are here we will either become their partners or continue as distributors." Adds Rajan Chhibba, deputy managing director, KSA Technopak, a retail management consultancy, "It is the smaller players who will be affected as they will have to push their products more aggressively."

Obviously being a distributor could be a risky game. The distributors will have to spend heavily to promote their products and they could have a tough time if they don't click. But everyone's hoping that they will be big time winners.

● **SMITA TRIPATHI** *and* **PRIYANKA VERMA** *with additional inputs by* **ARTI SHARMA**

RAJIV SINGHAL
Chairman, Ritu Overseas

AMAN DHALL
Executive Director, Brindco Sales Ltd

S K JINDAL
Director, Jindal Exports Ltd

SASWAT SENGUPTA
CEO, consumer division, Rai & Sons Pvt Ltd

The distributors are bringing everything from chocolates, cheese and jams to wine, perfumes and expensive crockery and they are hoping to be big winners in the long-run