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# UNDERSTANDING THE ROLE OF INTERMEDIARIES IN SECONDARY PACKAGING INDUSTRY AND DESIGNING EFFECTIVE DISTRIBUTION SYSTEM

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A marketing organization's distribution capability is an important determinant of its success. A product cannot reach its target market if distribution is not planned and executed carefully. Producers often involve the services of middlemen in bringing their products to markets. The producer, the intermediary (or intermediaries) and the consumer or industrial user constitutes the marketing channel for the product. A marketing channel (channel of distribution) is the series of marketing institutions that facilitates transfer of title to a product as it moves from producer to ultimate consumer or industrial user. Producers, middlemen and final buyers are participants in a channel (channel members). A middlemen (marketing intermediary or reseller) is a person or firm, such as a wholesaler, that operates between the producer and the final buyer of a product. Middlemen specialize in buying and selling, but also perform other marketing functions such as risk taking, assembling, financing, storage, transportation, marketing research, and promotion. All channels have a producer and an ultimate consumer/user. But when a producer sells directly to the final buyer, there are no middlemen in the channel. The producer and/or buyer must perform these functions. Marketing channels create utility, improve exchange efficiency and help in the process of matching demand and supply. For designing and establishing effective distribution system one has to study and understand the industry, competition, customer preferences and its own vision, mission, goals, objectives and values first. This research paper presents the study that was conducted on distribution system in the secondary packaging industry. The methodology included a detailed study of secondary packaging industry, players in the industry, industry practices in relation to distribution management and the design of effective distribution system for the company where the study was undertaken.

**Keywords:** Secondary packaging, Intermediaries, Effective distribution

## INTRODUCTION

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distribution is not planned and executed carefully. Producers often involve the services of middlemen in bringing their products to markets. The producer, the intermediary (or intermediaries) and the consumer or industrial user constitutes the marketing channel for the product.

Dealers/Vendors are marketing channel intermediaries who Buy, Take Title to, Stock and Resell the Products to end users. Due to their contacts, experience, specialization and scale of operation, they can make the products available and accessible to the target markets most effectively

Dealers/Vendors carry out several functions for the Company:

- They collect and disseminate information about current and potential customers, competitors and other players in the marketplace.
- They promote the products to customers/prospects and improve reach.
- They buy products from the company and stock these for resell. Thus, they indirectly share part of our Working Capital burden.
- They service the customers and follow up for repeat orders.

Because of the important functions that they carry out, for any company, it is necessary to select and retain the right dealers and manage them effectively so as to build a mutually beneficial long-term relationship.

Proper understanding of the distribution process will help us know, are we really able to reach each and every customer, even the ones located in a remote place, at the right time with the right price, and to design the right distribution

process to gain a competitive edge in the market.

## **OBJECTIVE OF THE STUDY**

The objective of this study was to understand the role of intermediaries in secondary packaging industry and designing an effective distribution system.

## **SCOPE OF STUDY**

Based on the objective, the project provides scope to study, understand, design and implement the right distribution system, which in return will benefit the company in the following ways:

- Enhance Reach/Market Coverage
- Sharing Working Capital
- Dealer Selection
- Dealer Appointment
- Dealer Training
- Design various Formats
- Prepare Dealer Database
- Setting targets
- Evaluating Channel Performance
- Monitoring and Control of Dealers
- Understand Competition and how to deal with it.
- Design and Implement Financial Controls
- Develop Dealer Location wise/ Product wise Goals
- MPCS for Distribution Business

## **LIMITATIONS**

For any study there is lot of limitations. But this should not affect the out come or the end result.

The various limitations in undertaking the study were:

- Information Sharing
- Lack of Data from other companies in the industry
- Existing Dealer information is very less
- Supply chain process
- Financial Information is not available
- Market knowledge is limited

Also, the scope of study is limited to only top 5 major players in the industry in India.

## METHODOLOGY

The following methodology was followed in conducting the study:

- Detailed study of secondary packaging industry
- Detailed study of players in this industry
- Detailed study of XYZ<sup>1</sup> Company (where the study was conducted).
- Detailed study of Industry Practices in relation with distribution management
- Looking for loopholes in the distribution system prevailing in the secondary packaging industry
- Designing effective distribution system for the company

## SECONDARY PACKAGING INDUSTRY

Secondary Packaging is a box or other protective wrapping in which the product in its primary package is kept until ready for use. This includes packaging material, such as blister packaging, foil, cartons, and grocery bags, which is placed

on or over something which is already packaged. It is intended to promote convenience and safety, to protect primary packaging, as a tamper-evident device, and for promotional purposes.

Though secondary packaging has insignificant amount of budget allocated in the general budget of the product, it has a very important role to play, since it ensures that the product remains intact till it reaches its final destination. Most companies need multiple secondary packaging products to pack their end products. For example, a pharmaceutical tablet manufacturer will need blister packs, secondary cartons and ink jet printers, BOPP tapes, plastic strapping, corrugated boxes, hot melt glue to pack its products.

### Current Industry Trends in Secondary Packaging Industry in India Include

- Many user industries in pharmaceuticals, food and graphics segments are switching from inner/ intermediate CFC carton to shrink / sleeve wrapping, owing to lower cost and better visibility.
- Switching from Manual to Semiautomatic/ Automatic Packaging
- Switching from PVC to Polyolefins in shrink film
- Multipack concept becoming more popular
- In certain niche segments of low and medium load requirements, steel strapping is getting replaced by Polyester (PET) strapping

The current market segments include -

The above segments have been targeted based on the needs of the customers, the features of our products and the benefits that these provide.

**Table 1: Types of Packaging and Target Market Segments for the Same**

S.No.	Product	Target Segments
1	Shrink Film	Pharmaceuticals, Food and Confectionery, Tea, Graphics and Printing, Toys, Audio / Video, Auto Ancillaries
2	Polyester (PET) Strap	PoY / PSF, Aluminum / Copper, Cold Rolled Products, Glass
3	Steel Strap	Ferrous & Non-Ferrous Metals, Glass / Ceramics / Refractories / Graphite, Natural and Man-made Fibers, Television
4	Packaging Contracts	Ferrous & Non-Fe metals, paper, FMCG, Auto, Durables, Glass, Ceramic, Computer, Pharma
5	Other Packaging Products	All of above
	Other Products	Large manufacturing units

*Source: Report of Market survey done by author.*

## PLAYERS IN THE MARKET

The major players in the secondary packaging market and their brief profiles are given below.

Garware Industries Ltd. is the pioneer and largest manufacturer of Heat Shrinkable Sleeves in India. It is also the first organization in India, which has got ISO 9001:2000 certification. Keeping in touch with changing trends, environmental requirement and diverse customers requirements, Garware has revolutionized the packaging concepts in India.

HITKARI Industries are the pioneers and leading suppliers of technical packaging films, laminates and total system solutions for demanding food and industrial packaging applications. They have pioneered the concept of packaging Edible Cooking Oils and Dairy fats in flexible pouches worldwide and is today the leading supplier of such packaging systems in India and overseas markets. Hitkari also pioneered the concept of packaging Paints and Industrial Varnishes in flexible pouches.

Penguin Engineers is a dynamic multi faceted group engaged in providing engineering solutions in the fields of Textile, Packaging and Rubber Industries.

With well over a decade of Industrial experience behind them, Penguin Engineers are well established in the production of full range of Stretch Wrapping Machines. They are Manufacturer cum Exporters of Stretch Wrapping Machines.

Founded in the 1980s Flex is one of the flexible packaging companies in the Asia Pacific Region. It is situated on 70 acres of industrial land in Noida next to Delhi and 125 acres in Malanpur, near Gwalior in Madhya Pradesh. The company's various divisions manufacture everything from polyester chips, to chemicals; flexible laminates to packaging and converting equipment.

The Flex Group has over 20 years of experience in polymer technology, are a publicly traded company in the Delhi Stock Exchange since 1989 with more than 28,000 shareholders.

From a single product company in 1984, ITW Signode India is today a multi product, multi-location, market oriented and profit making company gaining reputation for delivering world class products in the areas of Packaging Systems, Equipment and Consumables, Engineered Polymers, Quality Assurance Products, Mechanical and Electronic

Components and Systems. The company's products improve customers competitive position by increasing productivity, quality and conserving materials while reducing manufacturing and assembling costs.

The commitment to offer high quality products and services is backed by its collaboration with ITW Inc., USA-a Fortune 500 company, rated as America's 'Most Admired Company' in the Metal Products category by the FORTUNE Magazine. The company manufactures and sells - straps and seals, Carton Sealing Machine, BOPP Tape, PP Strapping Machine, etc.

### PROFILE OF XYZ COMPANY

The company was has started its operations in early 2000 with the acquisition of M/s Secondary

Packaging, an existing end-of-line packaging Company.

XYZ has been formed by a team of experienced packaging professionals who can help reduce the end-of-line secondary packaging cost of customers by:

- Offering products of latest technology
- Redesigning the packaging
- Offering Contract Packaging
- Becoming a single source supplier for all products and services

This focus is important as competition across all segments becomes more severe, pricing pressures push margins lower. Ultimately only those companies manufacturing and delivering at peak efficiency will survive.

**Table 2: Type of Packaging and Materials used in Packaging Along with Information of the Type of Machine/s Used**

Type	Material	Machine/ Consumable
Strapping	Plastics	Tools/Machines
		Consumables (Pet, PP)
	Steel	Tools/Machines
		Consumables (Strap, Seal)
Wrapping	Shrink	Machines
		Consumables (Polyolefin Film)
	Stretch	Machines
		Consumables (LLDPE film)
Sealing	Carton Sealing	Machines
		Consumables (BOPP Tape)
Banding	Plastics / Paper	Machines
		Consumables (Paper, PP)
Others	Edge board	Consumables
	Polyester Yarn Strap	Consumables
	Carton erector	Machines
	Inkjet Marker	Machines
	Dunnage Bags	Consumables

Source: Compilation of Companies websites and Dealers manuals

Given below are the important products in the XYZ Company's Range:

### INDUSTRY PRACTICES IN RELATION WITH DISTRIBUTION MANAGEMENT

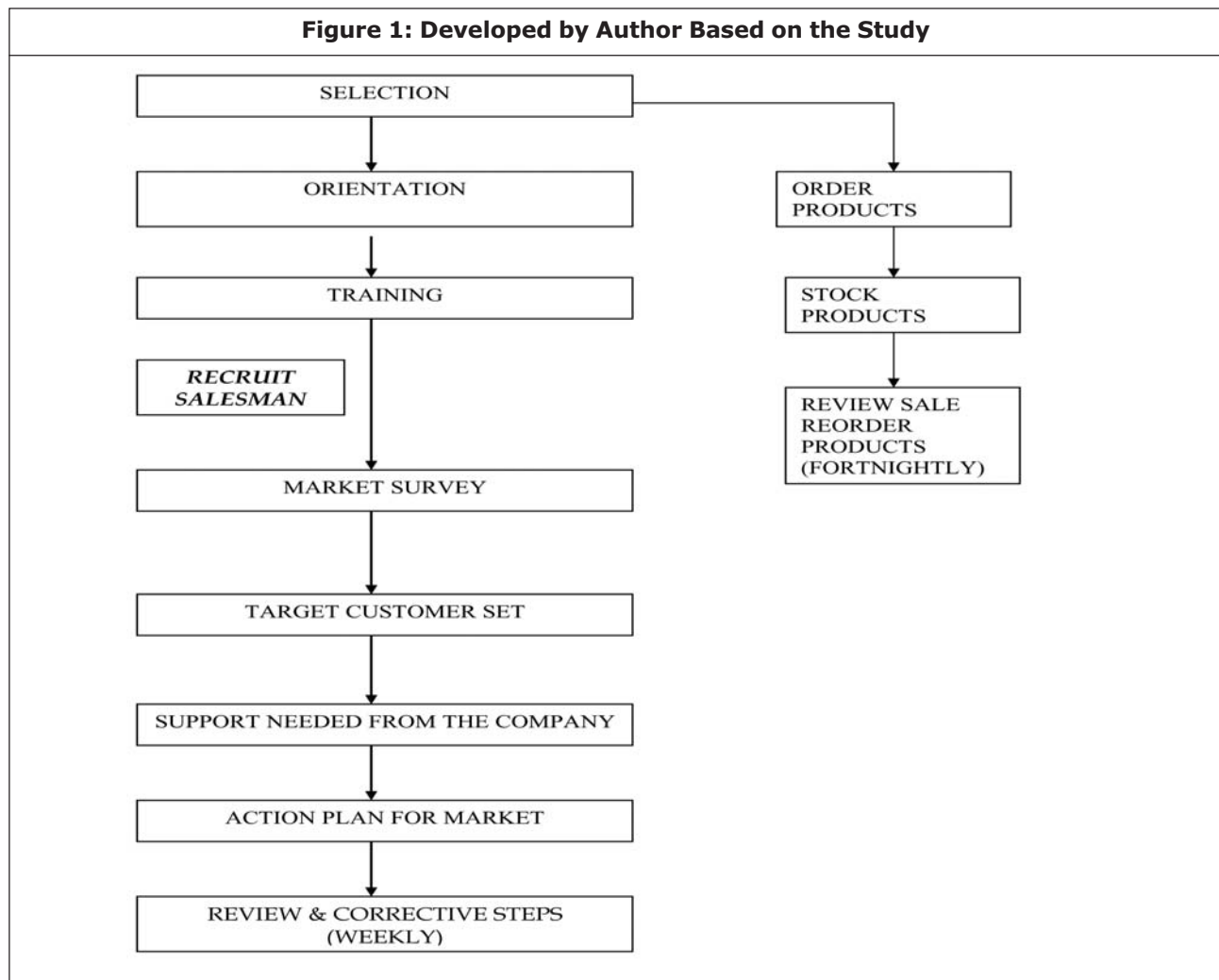
Being the market leaders in the respective products, the strategies of the major players (whose profiles have been discussed earlier) with respect to the distribution system are:

- Price cut down
- Reducing Margin
- Increasing sales force
- Increasing reach

- Focusing on particular Business Unit
- Collecting Loyalty from the distributors

#### The Findings of the study are as following

- The distributors are not selected properly
- The distributors are not monitored well
- The distributors are not given proper product training
- The distributors performance is not evaluated properly
- The distributors complaints/suggestions are not taken care off
- The distributors Management Process and Control System (MPCS) is not done regularly



**Design of an Effective Distribution System**

**Few points to be kept in mind while selecting and monitoring the dealers are**

1) Specification of a Dealer

- Financial Strength
- Track Record in existing business
- Business Ethics and Sense
- Local Market Influence
- Market Reputation
- Education
- Customer and Bank reference
- Competitive products handled?
- Existing Employee background / track record
- Turnover in existing business
- Growth Rate
- Aggressiveness
- Dealer’s state in dealership
- Who will manage fulltime

**2) Dealer Key Performance Parameter**

- Growth Rate
- Monthly Sales Achievement
- New Customer Identification
- Reporting
- Territory Coverage

**3) Dealer MPCS**

Management Process and Control System is the backbone of Channel (Distribution) Management at any secondary packaging company.

**4) Few other parameters which should be taken care are**

- Dealer Agreement form
- Suggestions from dealers
- Dealer product wise goals
- Dealer location wise product wise goals
- Dealer financial controls
- Dealer customer list
- Dealer compliance checklist

Table 3: Compilation of MPCS Used by Dealers										
Location	DLR	POT	APPT	1STPMT	CUMBILL	TRG	RETRG	SLSMN	CUST	SL/M
RJK	RJK	2	0							
	KNDLA	2	0							
AHM	AHD	5	0							
VAD	VAD	5	1							

**5) Dealer Prospect Evaluation Form**

Name of Prospect				Type of Co – Prop / Partnership / Ltd / Pvt Ltd			
Address				Names of Partners			
City		Pin			Contact		
Current Business							
Interviewed by							
On							
Note: Scoring Scale: 5-Highest; 4-High; 3-Average, 2-Low, 1-Lowest.							



S. No.	Parameter	Team - 1		Team - 2		Team -3	
		Score	Comment	Score	Comment	Score	Comment
1	Dealer's stake in dealership						
2	Who will manage full time?						
3	Business sense						
4	Track record in existing business						
5	Local influence						
6	Business ethics						
7	Ability to sell against stiff competition						
8	Availability of adequate finance						
9	Location of existing/proposed office & godown						
10	Ability / Willingness to learn / understand Secondary Packaging business						
11	Does his existing business segment match with our company's target segment ?						
12	Competitive products handled?						
13	Existing Network						
14	Market reputation						
15	Customer & Bank reference						
16	Overall Assessment						
17	Recruit ? (Yes/No)						

Note: Scoring Scale: 5-Highest; 4-High; 3-Average, 2-Low, 1-Lowest.

## CONCLUSION

A marketing organization's distribution capability is an important determinant of its success. A product cannot reach its target market if distribution is not planned and executed carefully. Producers often involve the services of middlemen in bringing their products to markets. The producer, the intermediary (or intermediaries) and the consumer or industrial user constitutes the marketing channel for the product.

Marketing channels create utility, improve exchange efficiency and help in the process of matching demand and supply. For designing and establishing effective distribution system one has to study and understand the industry, competition, customer preferences and its own vision, mission, goals, objectives and values first.

Few parameters like dealer prospect evaluation, key performance parameters, suggestions, complaints/feedback from dealers,

dealer MPCS, dealer training, support needed from the company should be taken care to establish and run the best distribution system.

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