SHELL MAKE HOLD IN INDIAN AUTOMOTIVE LUBRICANT MARKET BY DISTRIBUTION CHANNEL.

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ABSTRACT

The distribution Channel is the most important part of the lubricant business model. They maintain the availability of lubricant in the market. The availability of the products has importance over brand (marginally) and product innovation. If there is no distribution channel or not enough distribution channel product innovation and brand pull effort become botched. Now lubricant industries focus on expanding business by increasing network in the country therefore decision of distribution channel has getting more importance in long term decision of companies. Shell generally more focuses on distribution channel and product innovation. The effective distribution channel has make grip in the market as over a period of time consumer see them as help box and slowly depend on them.

Keyword: Distribution channel, Shell, Indian Automotive Lubricant Market, Bazaar Trade

INTRODUCTION

Automotive lubricant industry
India is the third largest lubricant market in the world after US, China. According to K Murali CEO, GP Petroleums Ltd. The Indian lubricant industry is one of the fastest growing lubricant industries in the world. The per capita consumption in India is quite low as compared to developed countries but comparison with other developing countries like China Indonesia divulge important prospective in India for growth in lubricant consumption.
According to research of TechSci in volume term India automotive market continuously go upward and is expected to grow up in future also. It reveals that Indian automotive lubricant market is projected to reach $9.6 billion by 20223. The engine oil is the important in deciding the market share of lubricant manufacturer.

**Indian Market Major Player**

After liberalization there was wind of change in the market. Before liberalization PSUs were dominating companies but now with PSUs, MNC’s and local private player are present in the market. Private companies increase its base in the market.
Public sector companies included Indian Oil Corporation (IOC), Bharat Petroleum Corporation Ltd. (BPCL), and Hindustan Petroleum Corporation Ltd. (HPCL).
Private players are Shell India, Castrol India Ltd., Tide Water Oil Co. (VEEDOL), Gulf Oil Corporation Ltd., Cummins Ltd. (Valvoline), Exxon, Mobil, Total group India, Savita oil (SAVSOL),
The Public sector companies sell lubricant through petro pump and rest MNCs use the path of bazaar trade.

**Literature Review**

Distribution channel play very important role in existence of product in market. Distribution channel is external source which also influences purchase decision of customer. Distribution
channel build the environment of trust and satisfaction around the customer which is key of successful business. By relation and trust they win in diverting the customer mind.

Distribution channel is a route through which goods and services are travel from supplier to end user, and payment of goods and services in reverse. A distribution channel is a set of independent organization involved in the process of making a product for use or consumption by the customer or industrial user. By Alderson (1965), in any market, the producer are constantly in search of the customer who could buy their products, and the customers in turn are constantly searching for the products or services which could satisfy their need and wants. Intermediaries are necessary to shorten the searching process by linking the customer to the producers. Companies employ intermediaries as it adds value to their product and to ensure that product will be closer to target market. Channel of distribution increases the effectiveness of marketing as the intermediaries are specialized agencies of distribution.

Channel structures define as the group of channel member to which a set of distribution task has been allocated

A typical depiction of channel structure by Rosenbloom

\[
\begin{align*}
&M \quad --- \quad C \quad (two \ level) \quad A=Agent \\
&M \quad ---- \quad R \quad ---- \quad C \quad (three \ level) \quad C=\text{ Consumer} \\
&M \quad ---- \quad W \quad ---- \quad R \quad ---- \quad C \quad (four \ level) \quad M=\text{Manufacturer} \\
&M \quad ---- \quad A \quad ---- \quad W \quad ---- \quad R \quad ---- \quad C \quad (five \ level) \quad R=\text{Retailer, W=Wholesaler}
\end{align*}
\]

According to Pingali Venugopal in retail trade, lubricant sold through Multi-Brand dealer (MBDs), Exclusive Dealers (EDs), Mechanic workshops, Petrol Station, Retail outlets. The petrol pump is traditional outlet sell only brands of a company. Multi brand dealer keep different lubricant brand whereas Exclusive sell only one particular brand of lubricant. Including this lubricant also sold through mechanic workshop and retail outlet that also sell spare parts.

Distributor is a person or a firm who connect the manufacturer with the retailer as a bridge between manufacturer and customer. In pipeline if there is any blockage it will affect the whole pipeline and its flow which means the availability distributor play important role in keeping the operation smoothly by keeping the line between manufacturer and customer. Distributors on one side watch and help retailer in sale and on other side assist the manufacturer in respond to customer demand.

Retailer deals directly with the end user. They have very important place in distribution channel as they are the last link. Retailers are direct contact with consumer and they help consumer in to get goods at one place. “Being last link in the distribution channel by which the manufacturer reaches the end user, retailer has more knowledge of the customer aspiration and needs and can influence the end user buying decision.”

http://ijbmer.org/
Distribution channel in Automotive Lubricant industry

The Indian automotive lubricant market has unanticipated change due to change in Government policy of India. Before liberalization the major sales was done through petrol pump. There was monopoly in the market PSUs were the dominating company and due to restriction many player left the ground of Indian lubricant market. After liberalization number of private player was start entering in Indian lubricant market. The automotive lubricant sold through OEM, Petrol pump and bazaar trade. The lubricant business increase their grip in the country by having tie up OEM. Before used at the factory level companies’ lubricant have to go through the process of OEM approval. The profit margin is low for private companies in OEM market. Petrol pump PSU’s used petrol pump channel to control the market. The PSUs offering very low dealer discount to their petrol pump dealers. After vital improvement in vehicle design the major demand shift from petrol pump to bazaar trade. Bazaar trade is most profitable amongst the distribution channel because of pricing power that helps them in control and maintain margin. Not only private player but PSUs also started to focus and attempt to capture a large share of bazaar trade. The major reason of increasing greatness of Bazaar trade is reach and trade margin.

Distribution Channel of Automotive Lubricant

- Automotive Lubricant Distribution channel
  - Original Equipment Manufacturers (OEM)
  - Retail Segment
    - Petrol Pump
    - Bazaar Trade
Role of Distribution Channel in Bazaar trade

Due to vast change in technology and rising standard of living of people in India bring a change in purchase of automobile now customer buy latest technology vehicle so the buying also shift from two stroke engine vehicle to four stroke engine vehicle. This indirectly affects the lubricant market and the demand shift from petrol pump to bazaar trade. The lubricant of two stroke petrol engines is quite different from four stroke engine as two stroke engine lubricated by petrol mixture. The oil mixed with petrol in suitable proportion. So there was not separate lubricating oil sump therefore customer refill lubricant from petrol pump. But in four stroke engine separate oil sump is there so customer mostly prefers to refill lubricant of their choice or at the time of repair. This also pushes the bazaar trade sales up.

In bazaar trade lubricant consumer uses spare parts shop, lubricant dealer, mechanic workshops, OEM Authorized service center to distribute their product in bazaar trade. These channels play important role in purchase decision of consumer of automotive lubricant as consumers of lube has low awareness of brand available in market. Consumer has little technical knowledge about vehicle and lubricant that which lubricant used for their vehicle and how they work. So the distribution channel is dominating in bazaar trade. Major sales are done on the recommendation of spare part shop retailer, and mechanics. The distribution channel is highly dominating in price and increasing the market share of companies.

The main business of spare part shops is auto parts selling but their owner to earn some extra offer lubricant as a side business. The buyer mostly buy from this channel as they hold the product of all leading brands and give consumer a large variety of lubricants which assist the consumer in wide choice of lubricants selection in their decision making. The lubricant dealers carry all leading brands. They much of the time offer mechanic service to customer but at additional cost. Their shops were dedicated lube shops as they carry only lubricant products. Mechanic shops were important channel for out of warranty vehicle. Mechanic shops influence is getting reduce as compare to past, because of increase in brand awareness, changing in lifestyle and quality consciousness. The mechanics buy lubricant on margin and trade promotion basis. OEM authorized service centers are consider more reliable and trustworthy.

Shell India Ltd.

Shell’s presence in India goes back over 86 years (till 2014), when it operated in the country as the pioneering oil distribution company through Burmah Shell. In India’s energy sector, Shell is most diversified international investor among all global integrated oil companies. In India it has invest US $ 1 billion and planning to invest more. Shell have 10- 15 per cent market share include both automotive and industrial segment 8 (accessible market). In bazaar trade it has 5% market share in 2014-15 which was 4% in 2009-10.
Shell Strengthening Channel Partner Relationship

Shell lubricant has been struggling to provide world class satisfaction and services to all its partner. The distribution margin for the distribution chain (dealer+retailer+distributor) is the deciding factor for distribution channel to push a particular product. The Edelweiss Securities limited report and Dolat Cap report shows that Castrol and other competitors trade margin is lower than Shell9. The trade promotions are mostly used by Shell in the market not only to push product but also to maintain relationship with trade partner. The trade promotion of Shell generally used are trade allowance including slotting allowance , contest and incentive include cash , silver and gold coin in pouches inserted inside the pack this promotion mostly run for premium product. Mechanic scratch coupons on label of packs mentioning points which convertible to cash, or to be redeemed for high value gifts on reaching requisite redemption slabs.

The spare part shop or retailers are main influencer and as they have direct contact with the consumer, and they are the face of the company. The buyers trust on them and buy Shell lubricant on their suggestion. Shell also focus mainly on availability as product availability is big driver in purchase decision. Therefore Shell has more than 1500 distributor and dealer across India. Shell has also tied up with around 55000 mechanics across the country for its loyalty program in addition to working on its distribution point. In 2013 Shell bring Shell Mechanic Samridhi program. It executed in 23 cities of India Chandigarh, Ambala, Jalandhar, Delhi,
Gurgaon, Faridabad, Ghaziabad, Jaipur, Lucknow, Udaipur, Pune, Mumbai, Vadodra, Indore, Rajkot, Amravati, Nagpur, Chennai, Madurai, Bangalore, Surat, Jamnagar, Hyderabad, Mysore, Davangere, Shimoga, Chitradurga and Jamshedpur.

Shell has strong relationship with main local and global OEMs. The profit margin in OEM market is low for Shell, but strength in this market gives Shell easier access to after sales market. Shell work with most OEMs in all segment of vehicle. Shell caters to automobile segment leader like Hyundai, Maruti Suzuki, Mahindra & Mahindra, Skoda, Ford, Wartsila, SAME and Thermax. Hyudai in India has two suppliers, Shell is one of them. Shell also supplies to Tata Motors, which has 3-4 suppliers. Shell also supplies to Nissan Motors India and GM India. Shell continuously strengthening the relation with its Channel partner. As it understands that the relationship with Distribution Channel plays an important role in the market base, product procurement and wide reach. The Distribution Channel better understand the local market and consumer. Thus influence them to buy the particular product.

Shell focus on developing product and service that provide both superior protection and efficiency. There is big challenge for Shell in this segment where pricing play an important part. The scope for increase vehicle ownership is high but Indian consumer love and affair with the automobile translates into lube demand is still an open question. The automotive lubricant market in India is highly price sensitive & the volume growth is getting stagnated due to longer lasting lubricants, but in parallel to it soaring population of automobile users push the demand of branded lubricant. This provides great opportunity for Shell in coming year.

CONCLUSION & SUGGESTIONS

The automotive lubricant companies are developing good products with attractive pricing, and making it accessible. For this companies need to maintain cost. To reduce the marketing cost and increasing reach effective, efficient distribution channel required for companies. Each channel serving particular purpose. Distribution channel play important role in buying decision process. The mechanic and dealer build enormous information disparity that prevents the customer from purchasing particular product. Thus Shell for long term stability and holding in Indian market mainly focus on Distribution Channel.

Suggestions- In the mature market of India Shell need to maintain market share through maintaining balance between long term share and short term share. The long term share is gained by advertisement and short term share gained by sales promotion. Shell will not only do advertisement at national level but local advertisement also needed. This help in building brand image as market shift from mineral to synthetic lubricant which is high price so consumer involvement in decision making will be increased in future. The shell has technology leadership among the hulk player so there is need of consumer awareness to provide the information about Shell technology and highlight its strength to capture big pie of Indian automotive lubricant market.
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