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Emami bets on direct retail

Reducing dependence on wholesale will give it better control over inventory besides offering greater visibility to new brands

Wholesale contributes about 50 per cent to Emami's annual sales revenue; it is looking to cut it down to around 40 per cent

SUPPLY REVAMP

- Restructuring of the distribution network becomes more relevant for Emami as it is aggressively planning new product and category launches
- The company's decision to modify the distribution architecture comes in the wake of Emami's focus to penetrate deeper into the rural market
- There will be a 2X multiplier effect on our sales as we shift from the wholesale channel to direct sales

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Kolkata-based Emami Group's flagship venture, Emami Ltd, has embarked on a massive restructuring of its distribution network that looks to cut dependence on the wholesale network and put its products directly on retail shelves. Analysts say smaller-to-mid-sized fast-moving consumer goods (FMCG) companies mostly use indirect sales via wholesalers to get their brands to far-flung markets; the reason being, higher cost of servicing a direct sales network. "However, when these companies grow and achieve a certain economies of scale, then they start opting for a direct retail reach which offers several benefits," Abneesh Roy, senior vice-president of institutional equities at Edelweiss Securities said. According to Roy, the step Emami Ltd has taken implies the company is getting ready to move to the next stage of growth in the FMCG market.

A direct presence whether in cities or the rural belts, say experts, helps a company to control its inventory better besides giving new and slow brands better visibility. "Developing one's own dedicated sales channel gives exclusivity to the company which it can utilise to push its entire product portfolio," says Roy.

Agrees Madan Pandey, sales president, customer care division, Emami Ltd's. He adds that it will also help it cut cost as the wholesale channel is driven by sales target schemes. Besides, the company will be in a better position to push its slow moving brands through a direct reach. The wholesale channel is largely target-driven and stocks and pushes the faster moving brands. As a result the slow moving and the new brands are left behind. Thus, the retailer, who eventually buys the products from the wholesale channel, has access to a limited range of products. This, however, will not be the case if the company undertakes direct sales.

While wholesale contributes to 50-55 per cent of Emami's annual sales revenue, the company is looking to cut it down to around 40 per cent.

Roy says restructuring of the distribution network becomes more relevant for the company as it is aggressively planning new product and category launches. "There will be a 2X multiplier effect on our sales as we shift from the wholesale channel to direct sales," Pandey says.

In the new scheme of things, Emami Ltd's own salespeople will coordinate with its 1,200 distributors and help in converting sales leads. Thereafter the product will be shipped directly to the distributors, who in turn will send it to the retail outlets. Currently, out of a reach across 40,00,000 outlets, Emami is able to directly reach to 640,000 outlets which will go up to around 700,000 or 17.5 per cent of the total outlet base by the end of the current fiscal year. Next year, the company aims to increase its direct reach to 800,000 outlets.

Last year, Emami increased its direct outlet reach by nearly 90,000 and will add around 100,000 another in the coming fiscal year.

According to Pandey, the company's decision to modify the distribution architecture comes in the wake of Emami's focus to penetrate deeper into the rural market. While the company will add around 30-40 thousand outlets in the urban market, it has targeted to have at least another 50,000 outlets in rural India within its fold — all of which will be serviced via direct sales.

However, analysts opined that demonetisation and the forthcoming goods & services tax (GST) has acted as the primary catalyst to hasten the process. "The roll-out of GST and the margin pressures are the two key factors why any FMCG company will now consider increasing its direct retail reach," says Naveen Trivedi, a research analyst with HDFC Securities.

According to Trivedi, the margins and revenue of the wholesalers were affected in the demonetisation period which in turn dampened the revenue of the companies who depend heavily on the wholesale channel. "This made companies like Emami realise that they need to have better direct control on their distribution network," he adds.

In the third quarter of the last fiscal year, which coincided with the demonetisation period, Emami posted a flat growth in its topline as well as bottomline at ₹726 crore and ₹134.34 crore respectively. Volumes, too, fell by 2.6 per cent.

Nevertheless, the overhaul will result in Emami Ltd's incremental costs of servicing the outlets surging by four-five per cent in rural areas and two-three per cent in urban areas. But Pandey believes that it has long-term benefits for the company and the multiplier effect will more than cover up the initial surge in costs.