

Dissertation Report on
**“Analysis of Wholesaler Power in Distribution
System with Focus on Loyalty Programs”**

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Certificate

This is to certify that the dissertation project report entitled “**Analysis of Wholesaler Power In Distribution System with Focus on Loyalty Programs**” submitted by the candidate Ayoushman in partial fulfillment of the requirement for the award of **Master of Business Administration by Delhi School of Management, Delhi Technological University, New Delhi** is a record of the candidates work carried out by him under our supervision. The matter embodied in this report is original and has not been submitted for the award of any degree.

Date:

Prof. P.K Suri
(Head of Department, DSM)

Declaration

I hereby declare that the study entitled “**Analysis of Wholesaler Power In Distribution System with Focus on Loyalty Programs**” is being submitted by me in the partial fulfillment of the requirement for the award of Master of Business Administration by Delhi School Management, Delhi Technological University.

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Acknowledgement

Behind every study there stand myriads of people whose help and contribution make it successful. Since such a list will be a prohibitively long, I may be excused for important omissions.

I feel great pleasure in submitting this report as a part of practical studies in the professional course of management. This dissertation has helped me a lot in acquiring valuable knowledge regarding the prevalent retail practices, wholesaler loyalty programs and also in depth study of the distribution mechanics. This report is a joint venture of a number of experts. Their sincere and scholastic guidance has provided me a source of constant inspiration during my dissertation.

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EXECUTIVE SUMMARY

India's billion-plus people are spread out across the seventh-largest land mass in the world. Thirty cities have populations of more than 1 million—but account for less than 15 percent of the total population. Despite increasing urbanization, nearly 70 percent of India's citizens still live in rural areas. These people constitute 30 to 50 percent of the market for basic consumer goods.

The Indian FMCG industry is estimated at USD28 billion & the estimates for 2018 peg the industry to grow to USD74 billion. The rural market is growing at 18% and catching up to the urban segments in terms of contribution to the industry. A total of 7.8 million retail outlets sell FMCG in India with Grocers constituting 59%. An organized retail sector has begun to emerge, but it represents only 5% of the overall market. Most distribution models in India involve many intermediaries between companies and their retail customers and have varying costs and benefits.

Overseeing large numbers of people can be difficult, but investment in channel partners is crucial for competitive advantage. Companies that provide channel partners with the right selling support programs differentiate their offering from that of their competitors and earn high returns. More than the demand side, the battle is now fought on the supply side, wherein the companies try to occupy as much channel space as possible to eliminate the very presence of the competitor.

The wholesaler is one of the most important players in distribution model and with the emergence of the rural segment; the focus of the major players in the industry has now shifted to the wholesalers. There has been a tremendous increase in the power of the Wholesaler especially since in the FMCG distributor model, the distributor acts as an extension of the manufacturer and operates exclusively within a specified territory. The Wholesaler wields a strong influential power over the Retailers for some category of products like Confectionery products.

With hub-and-spoke model being followed in the rural areas, the power of wholesaler has increased manifolds. In any distribution model balancing the power between the various channel partners is extremely critical to the company. To tap into this, several FMCG giants have introduced Loyalty programs, which aim to capture the power of the wholesaler for competitive edge.

This dissertation would focus on such loyalty programs to ascertain the various incentives being employed by FMCG giants for wholesalers and also analyze the subsequent power of the wholesaler.

The **rationale** behind this dissertation project is to analyze a practice of the FMCG industry, which in the future would only be further strengthened in form of even more comprehensive engagement of the channel partners by FMCG giants.

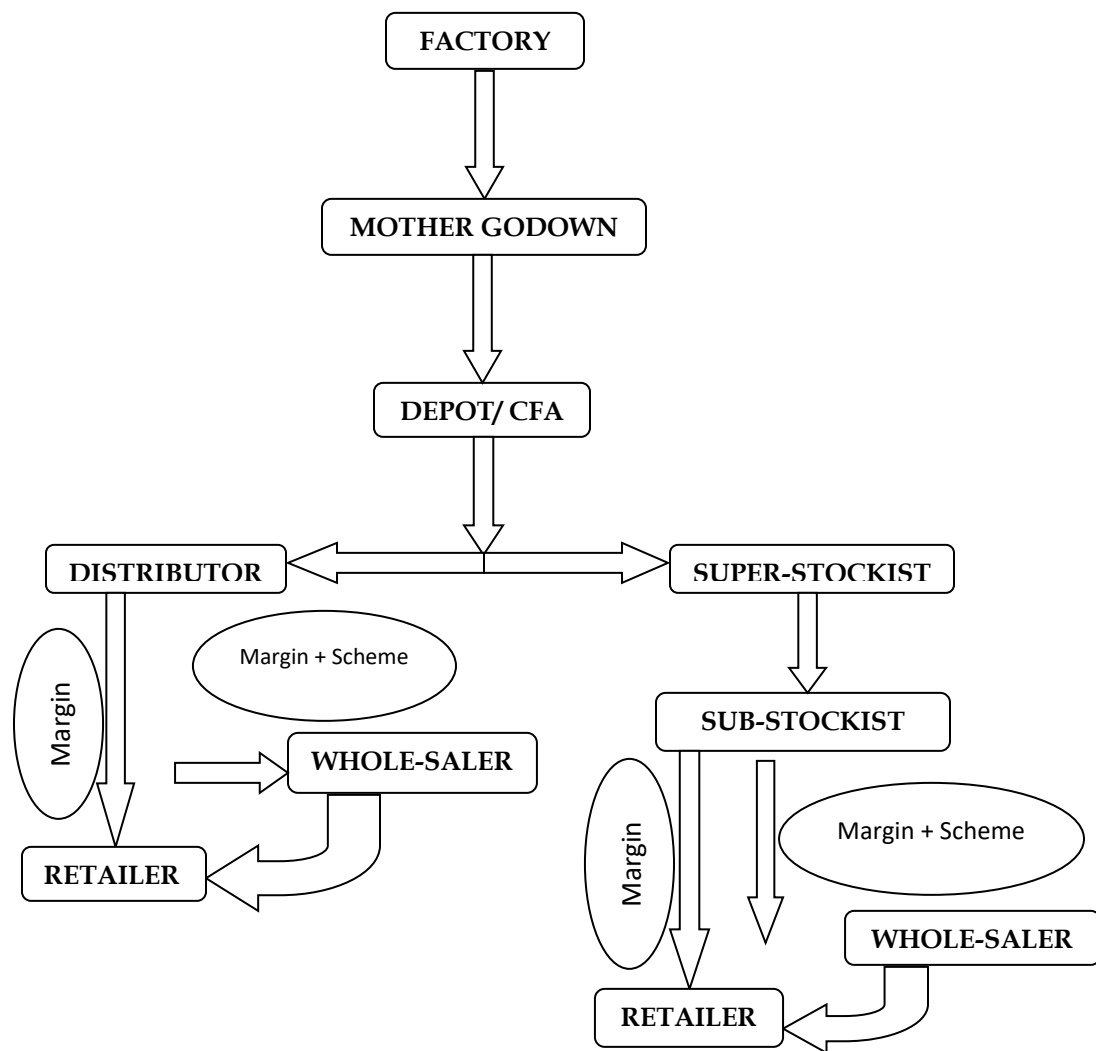
OBJECTIVES & SCOPE

- To study the role of wholesalers in the FMCG distribution system
- Find out various loyalty programs of different FMCG players (HUL, Dabur, Cadbury, etc.)
- Cross-functional analysis of these loyalty programs
- Find out wholesaler preferences from a loyalty program
- Analysis of the wholesaler power in rural markets(Uttar Pradesh)

METHODOLOGY

- Visits to wholesalers & distributors to collect information regarding the Loyalty programs
- Visits to rural markets in order to assess the power of the wholesaler in distribution model through discussions with distributors, wholesalers & retailers
- Primary research to analyze the wholesaler perspective of the loyalty programs using questionnaires
- Secondary research in form of reports on loyalty programs
- Interview with ASE, DSE, Salesmen from Perfetti, ITC etc.

A TYPICAL DISTRIBUTION MODEL (FMCG)



The left half of the distribution model is for **urban markets** and the right half is for the **rural markets**. Since it is tougher to reach out to rural retail points, a **distributor is replaced by a Super-Stockist and a Sub-Stockist** so as to have more penetration into the rural pockets. This also why the **cumulative margin for the rural markets is more than that of urban markets**.

MECHANICS OF DISTRIBUTION CHANNELS OF THE SECTOR

The supply chain of products in the FMCG market in India is one of the longest supply chains an industry could really have. There are as many as 5 levels of intermediaries involved in the entire supply chain through which a product passes before reaching the end consumer. What has been observed is that even though the FMCG companies are big multinationals and Indian but face a major challenge of making their products available in the market in the right quantities and in the right time. This is simply because these companies don't really have a wide network of sales agents and other force which is required and is ideal for catering their products to the markets.

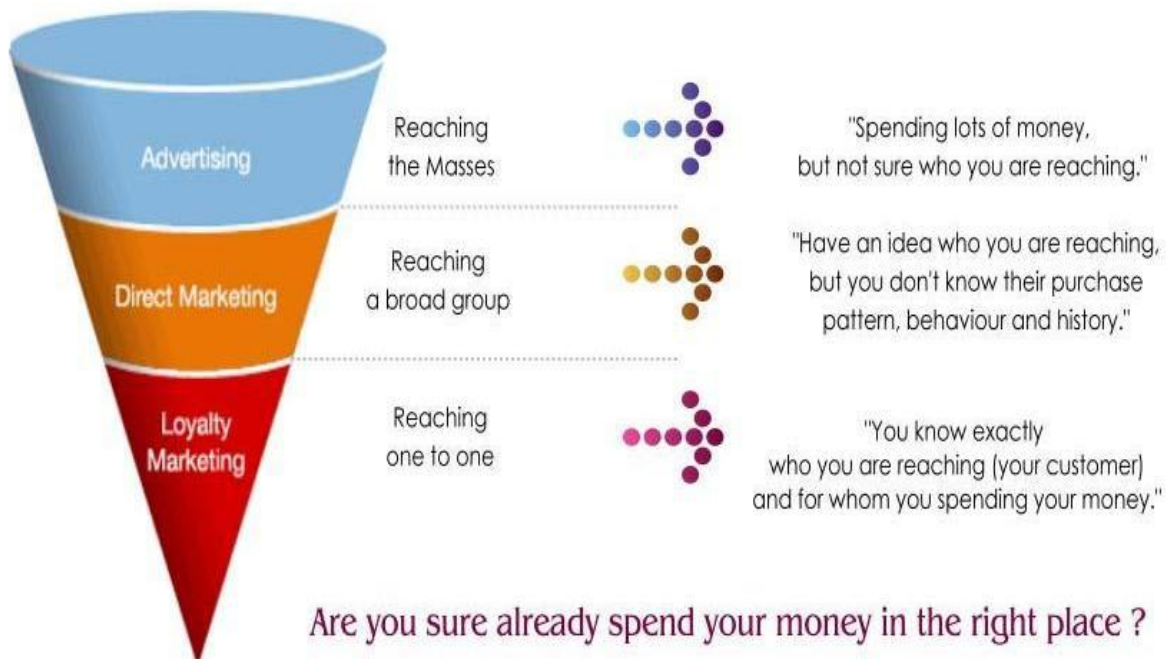
This aspect is taken over by distributors, wholesalers and retailer whose margins on these products actually double the price of these products when a final consumer buys it. The margins kept by these intermediaries range from 2% to 5%. The products in this industry are transported from manufacturing units via C&F agencies or warehouse to distributors who further sell the same to wholesalers or stockiest who finally sell it to the retailers in the market. These products are transported either via roadways or railways within the domestic markets and normally don't take more than a week to reach the retailers.

FMCG products are normally a high volume ball game and products have to essentially be available in the market at all given points of time and at all given points of purchase and therefore the distribution activities are highly volatile and dynamic. The supply of products takes place virtually on a daily basis in fixed quotas or otherwise, to retailers as per their requisitions and the anticipation of demand and the performance of products in the recent past.

All such criteria are taken into consideration before the quantum of products being dispatched to the next level of intermediary. Since it's a volume game, manufacturers make all possible efforts to boost sales and promote their distributors to earn more and more orders from the retailers and wholesalers. A close check is maintained on the flow of the products on a daily, weekly, fortnightly and monthly basis to determine the trend in the business and flow of products and consumption. This activity also helps to find out drawbacks of the distribution system, if any, and rectify them within time.

LOYALTY MARKETING

Loyalty marketing is an approach to marketing, based on strategic management, in which a company focuses on growing and retaining existing customers through incentives. Branding, product marketing and loyalty marketing all form part of the customer proposition – the subjective assessment by the customer of whether to purchase a brand or not based on the integrated combination of the value they receive from each of these marketing disciplines.



Loyalty programs have changed the way consumers interact with the companies from which they purchase products or services from and how much consumers spend. A successful loyalty program requires clearly defined rules, suitable rewards, efficient communication strategies, and measurable success metrics.

Loyalty programs are based upon the concept that effort increases as people perceive themselves progressing towards their goal or target. Programs need to carefully develop their reward methods to keep participants eager to approach a new goal once they have achieved a reward.

The targets set for the members should be challenging, yet achievable. If targets are viewed as unattainable, the program will be destined for failure.

TYPES OF LOYALTY PROGRAMS

Basic Types

- **Appreciation program:** Rewarding loyal customers with more of your own product/service.
- **Rewards program:** Rewarding loyal customers with awards unrelated to your product/service.
- **Partnership program:** Marketing to another company's database and allowing loyal customers to choose their rewards from either company.
- **Rebate program:** Rewarding loyal customers incrementally according to their purchase activity.
- **Affinity program:** Building a lifetime value relationship with a customer based on mutual interests and not on the use of rewards.
- **Coalition program:** Teaming up with different companies to share customer data to jointly target a customer demographic.

WHOLESALEERS

Description

These are extremely important players in the model since they have tremendous influential power especially in the rural market. They buy in huge quantities at the same time, which is what makes them eligible for QPS (Quantity Purchase Scheme) for some FMCG players under which they get bulk discounts.

They sell to retailers as well as other wholesalers. However, unlike the Distributors they seldom make a sale on credit. The Wholesalers always sell their products on cash and often offer Cash Discounts (CDs).

In rural areas wholesalers act as mini-distributors since the small retailers from nearby villages buy from these wholesalers located in a town. Thus they wield a great influential power in pushing a product into the rural pockets of our country.

Role of a wholesaler

- **Redistribution** – Wholesalers redistribute products to entire markets or to certain specific outlets within a market which are not within direct coverage area of a distributor
- **Providing credit to retailers** – either in the form of open account credit for all products from a wholesaler or specific product account credit for a specific product from a particular wholesaler
- **Influencing retailers**- Wholesalers in rural areas wield a very strong influential power over the small retailers
- **Bulk Breaking**

WHOLESALE LOYALTY PROGRAM

Description

A wholesaler loyalty program is a program between company and wholesaler which induces them to do increased business and as a result get exclusive gifts, awards or benefits for sustained performance over a period of time. The objective of any channel program is to reward and recognize consistently high performers in the channel with a view to retaining and growing them.

Objectives of a Loyalty Program

- To achieve increased product sales and hence profitability as a result of program.
- As a relationship building tool between company and wholesaler.
- To differentiate from channel activities which are mainly margin driven.
- As an excellent means of using reward power.
- To maintain channel preference even during competitive challenges.

Types of loyalty programs for Wholesalers

- **Exclusivity based** – If reseller carries competing brands they don't earn the incentive. It is used by high share suppliers trying to discourage new entrants.
- **Full line** – The reseller must support a supplier's complete product portfolio to earn the incentive.
- **Share of account** – The higher the supplier's share of the reseller's business, the higher the loyalty payment.
- **Situation-specific** – A supplier sees its reseller offering a competing brand on a bid or to a major account when the supplier's brand would have been acceptable. After one or more occurrences of this type, the reseller loses the incentive.
- **Frequent-buyer programs** – These programs measure loyalty based on usage or volume. The more the sales, the higher the benefit for the reseller. These programs have the advantage of being the easiest to monitor, enable transparent and easy measurement and encourage maximum loyalty among resellers. The Vijeta program is one such wholesaler loyalty program

Non-monetary incentives are given as rewards in a loyalty program, the reasons for which are as follows:

- **Visualization** – The ability to visualize a non cash reward generating anticipation, creating a value more than the cash equivalent
- **Separation** – Rewards are viewed as over and above salesperson’s compensation
- **Justification** – Wholesalers maybe reluctant to spend a cash reward on something viewed as frivolous
- **Social reinforcement** – The sense of accomplishment that wholesalers feel for tangible rewards which strengthens the link between reward and company

Rewards Program

Points Program: Points-based incentive programs are a type of program where participants collect and redeem points for rewards. Depending on the program and the organizational objectives, points can be awarded on a number of criteria including repeat customer purchases, the sale of new products, or even increased overall sales. Points programs are a way for organizations to motivate behavior over time while improving the organizations’ overall performance.

Dealer/Channel: Dealer incentive programs are used to improve performance for dealer and channel resellers using sales incentive programs. These programs help companies capture market share, launch new products, reduce cost of sales, increase product adoption, and ultimately drive sales.

Rewards: Selecting the appropriate rewards is vital to any programs success. The goal in choosing rewards is to select items that will spark the participant’s interest or feelings, and support the program’s objectives. Effective rewards will both motivate short-term behavior and provide motivation over time. The various rewards currently being offered are: **Gold Coins, Jewellery, Electronic items, Tour Packages & Gift cards/coupons.**

POWER DYNAMICS

Sources of Wholesaler power

- **Knowledge**

The Wholesalers in rural areas have vast control over the knowledge on both sides of the channel. They are very well aware of the margins, schemes and incentives being employed by all the FMCG companies. This puts them in a unique position to cross analyze the offering being made to the wholesalers. Since the wholesalers are not bound by contracts, they can go for any product which offers them more margins or incentives. In rural areas retailers from the small villages go by what the wholesaler tells them vis-à-vis which product is fast and which is slow.

- **Reach**

The wholesalers have a reach well beyond the arms of FMCG companies. In the rough terrain of the north-east, it is impractical for a Distributor to reach out to the small villages encircling a town. The layout of populous is in a Hub and Spoke shape, i.e. a town has multiple villages surrounding it. The retailers in these surrounding villages or *dehaats* buy their stock from the wholesalers in the nearby towns. Thus a wholesaler has immense power in terms of penetration.

- **Influence**

The wholesalers have tremendous influence over the buying pattern of the retailers. The retailers trust the wholesalers to have the knowledge regarding which products are most popular, so when a company offers lucrative incentives for its products, the wholesalers push these products by telling the Retailers that the product is extremely popular and sells extremely fast.

- **Buying Power of Retailers**

Since in rural areas the retailers have small sizes, their investments are small and their cash cycles are short. They want to have a high inventory turnover so as to keep the products moving. Also since the size of the shop is small, they hesitate to keep multiple brands of a single product because of the limited shelf space as well as limited cash on hand. Hence if a wholesaler is able to get the retailer to stock a particular brand, it also takes away the space from the competitor brands. This way even if the consumers prefer having the competition brand, they can't get it and since there are low no. of outlets they settle for a different brand.

- **Dominance**

The share of secondary sales is hugely dominated by the wholesale channel as compared to retail channels. This was evident in the sales data that I found for Perfetti Van Melle in Modi Nagar, where wholesale contributed to 80% of the total secondary sales. Even in Uttar Pradesh, where the towns and villages are far-flung, it is the wholesale channel which dominates the secondary sales. So much so that

the wholesale market in Meerut acts as feeder market for villages up to a distance of 70 Kms (Behsuma, Jansath etc.).

Company Response

The FMCG companies recognize this power that is wielded by the wholesalers which is precisely why they came up with a solution in the form of Wholesaler Loyalty Program (WLP). Through the WLP these companies try to wield the power that authority would give them if the wholesalers agree to be a part of their WLP.

Once a part of the WLP the wholesaler is obligated to purchase only from the allocated Distributor even if the products are available at cheaper rates via other parties. If he does not comply with this then he won't be eligible for the loyalty points for his purchase or performance.

Also, the wholesaler is then under constant pressure and obligation to achieve targets that are set by the companies which are often very stiff. Since there are multiple wholesalers under the WLP, there is intense competition among them in order to win rewards. In case they fail to achieve their targets for a continuous stretch of time then they risk being relegated from the program and hence thereby lose their investment

Another way that companies control the wholesaler power is through the concept of Focus brands. Since there are some brands of a company which are slow moving brands, they make those particular brands as the Focus brands of the WLP. The focus brands as we will read later on in the report have more points offered for their sales. Thus a wholesaler stocks larger quantities of the slow-moving Focus brands in order to win brownie points and rewards.

Earlier major FMCG companies such as HUL, who contribute large share of a household purchase, used to have channel power such that they could dictate conditions to the wholesalers. But now with increasing no. of unorganized products, which offer much larger margins, there is a decline in the power of the company. Also, the emergence of multiple competitors in the FMCG field has also led to a decline in the power of the FMCG companies. A clear example of this is ITC's emergence in the Eastern parts of the country. In the North-Eastern states, ITC has been able to replace HUL's Lux with Vivel to a large extent via its strong hold on the distribution network.

Even in organized retail, the multi-brand retail players such as Shopper's Stop, Pantaloons, Big Bazaar etc., have introduced their home labels which compete directly with the established brands. Thus we can say that in the recent times the power of the Manufacturers has diminished marginally in favor of the various Channel partners.

Now, I would present the details of various Wholesaler Loyalty Programs being currently operated by the various FMCG companies, followed by their cross-functional analysis and wholesaler survey on the various facets of the Wholesaler Loyalty Program.

RESEARCH

A descriptive research was carried out to get wholesaler response on the various aspects of a Wholesale loyalty program.

Research Methodology

The methodology for the research included the following steps

1. Exploratory Research
2. Secondary Data Collection
3. Questionnaire Design
4. Data Collection & Analysis

Exploratory Research

An exploratory research was conducted to get an exhaustive list of Wholesaler Loyalty programs being operated by the FMCG companies. This was done by administering an exploratory questionnaire with open ended questions. Responses were collected from a sample of 40 wholesalers selected at random. The questionnaire used is given in the appendix.

Following are the parameter findings of the exploratory research:

1. Part-A

a. Demographic Profile

- i. Age
- ii. Education
- iii. Location

b. Other Program Membership

- i. Find companies running similar programs

2. Part-B

a. Actual Benefit

- i. Promised benefits delivered (Points, Rewards, Margins)
- ii. Communication

b. Factors that make a good Loyalty program

- i. Cash Reward
- ii. Redemption Frequency

Questionnaire Design

Based on the above preliminary information a questionnaire was created using standard questionnaire design technique.

The questionnaire used is given in the appendix.

Data Collection & Analysis

The questionnaire was administered on a sample of 40 wholesalers across the towns of Uttar Pradesh.

Collected data was analyzed and the summary of the same is given below:

P&G - WHOLESALE KA BADSHAH (WKB)

By definition the P&G takes the wholesaler as one from whom smaller retailer buy and they do not service end users. The basic purpose of the program is to take the **Fast Moving SKUs** to smaller **retailers** which the company is not able to service directly. Hence, generally the WKB SKUs are the LUPs (Low Unit Packs) like sachet or other smaller packs.

It is a quarterly program. The brands included in the program are the non premium ones. The program doesn't include brands such as Whisper, Pampers, Gillette, etc.

Focus brands keep coming into the program on a monthly basis. These brands give double points on purchase to the wholesaler. Sometimes non-WKB SKUs may be brought into the program as Guest SKUs. These usually are bigger packs of WKB brand. For eg: 500g Ariel base bag

Terms & Conditions

- There is no minimum turnover requirement and all wholesalers can be a part of the program.
- Display requirement criterion for membership
 - 40 sachet streamers display on the display rod
 - 20 other than sachet WKB SKUs display in display window
- Rs.250 purchase of a WKB “**SKU**” gives 1 point. Here it is important to note that the purchases of different SKUs of a brand are not combined in billing to compute points earned. Each WKB SKUs purchase amount has to be higher than Rs. 250 to give one point individually.

Points

1. The points calculation is done on monthly basis
2. The points don't have any monetary value
3. Accumulation Periods
 - a. Monthly**
 - i. For any benefit minimum 20 points are required in a month
 - ii. For every 20 points are earned in a month a Jack Card is earned by the wholesaler.
 - b. Quarterly**

- i. If 100 points are accumulated in a quarter the wholesaler gets a Queen Card in addition to his monthly Jack Cards.
- ii. If the wholesaler earns 500 – 999 points in a quarter then he get's a Maharani Card in addition to his Jack Cards and Queen Card.
- iii. For every 1000 points earned the wholesaler gets a Badshah Card along with his Jack, Queen and Maharani cards.
- iv. For Eg: one could have 4 Jacks + 1 Queen & 1 Maharani card

4. Each card has a fixed monetary value:

- a. 1 Jack Card = Rs. 25 – 27
- b. 1 Queen Card = Rs. 160 – 180
- c. 1 Maharani card = 20% higher value than that of Queen Card
- d. 1 Badshah Card = Rs. 1600

The total value earned by the wholesaler is redeemed by the P&G distributor in the bill of purchase of the wholesaler.

5. If >2000 points are accumulated in a quarter then the wholesaler gets into a national lucky draw. The prizes in the lucky draw are of the order of:
- a. 1Kg Gold
 - b. Ford Ikon car
 - c. Foreign Tour to Bangkok, etc.

MARICO – BANDHAN

Bandhan is a wholesale loyalty program run on an annual basis. The program is for select brands in a region. The members / parties are clustered under Urban and Rural groups.

Brands which are a part of the program are:

1. PCNO R (Parachute Oil)
2. Hair & Care
3. Jasmine R
4. After-shower Cream
5. After-shower Gel

Eligibility Criteria

1. For urban areas minimum turnover of 100 liters per month
2. For rural areas minimum turnover of 50 liters per month

Points

- 2 points per Litre or Kg on purchase of
 - Aftershower cream, Gel & Mediker
- 1 point per Litre or Kg, for all other brands
- No monetary value of points only gifts in exchange of points

Program Elements

1. On achievement of full year target, each party is entitled to a 5% Bonus on full year points earned (only on Base volume points)
2. One scratch card gift scheme is given to shop boys on Diwali
3. No midterm redemption is allowed
4. The party is required to put up a visibility rod in the outlet. This gives 10% additional points for each month in case the visibility is as per plan.

5. Range Selling Bonus

- a. All parties which purchase (in specified quantities) more than 4 brands every month (other than Parachute Oil) get a 10% range selling bonus.
- b. The bonus is given every quarter
- c. It is given only if 4 or more brands are consistently purchased every month in a quarter
- d. Minimum quantity to be purchased are:
 - i. Hair oil brands/Soap/Blister: At least 3Ltr/Kg of each brand every month
 - ii. After-shower Cream/Gel/malo/malt: At least 1 Ltr/Kg of each brand every month

6. Joker Card

- a. Joker card is available 4 times in a year on brands other than PCNO (R)
- b. During this period i.e. a month, all the parties earn double i.e. 2 points per litre/kg on the chosen brand
- c. The brand and month is communicated to the parties by their respective salesman

Rewards

1. Point slabs have been created for redemption of rewards. For each slab there are two gift options available
2. The gifts can be claimed only at the end of year

DABUR – KINGS II

Kings II is an annual program starting 1st April and ending on 31st March of the next year.

Membership

Based on the Jan-Feb-Mar monthly average a member is allotted to a particular club:

Club	Average sales per month
Sahanshah	> 2.5 lakhs
Samrat	> 1 to 2.5 lakhs
Sultan	> 50,000 to 1 lakhs
Sartaj	> 15,000 to 50,000
Yuvraj*	7,500 to 15,000

*Yuvraj only for chemists wholesalers.

Points

Members earn points which are called coins from the following mechanisms:

1. Invitation Bonus

Being a part of the program members are given invitation bonus coins as per their club.

Club	Average Sales Per month	Invitation Bonus
Sahanshah	> 2.5 lakhs	25 coins
Samrat	> 1 to 2.5 lakhs	20 coins
Sultan	> 50,000 to 1 lakhs	15 coins
Sartaj	> 15,000 to 50,000	10 coins
Yuvraj	7,500 to 15,000	5 coins

2. Total Purchase Value

Members earn 5 coins on every Rs. 1100 purchase of any Dabur consumer care or Balsara products.

3. Focus Brands Purchase Value

Every month there are Focus Brands which have additional points on every Rs. 1100 purchase. These are communicated via a monthly Kings newsletter.

4. Quarterly Treasure Bonus

Based on the monthly average in the quarter the club of a member is changed. Based on his level a member earns the quarterly treasure bonus coins.

5. Quarterly Visibility Bonus

A member can earn 300 visibility bonus coins every quarter if he maintains the display as per norms. Any one of the following norms has to be implemented:

- a. Vatika shampoo streamers in shampoo sachet hanger
- b. Vatika shampoo or Vatika hair oil bottles in Vatika spine
- c. For chemists: Dabur counter top display with DCP, Glucose, Honey, etc.

Kings Utsav

Based on the seasonality the company decides on four Utsav levels. Members are allocated to these levels based on their Quarter-On-Quarter growth percentage. Member gets Kings Club cards based on his Utsav level:

Utsav Level	Number of Kings Club cards
Utsav Level 1	1
Utsav Level 2	2
Utsav Level 3	3
Utsav Level 4	4

Each Kings club card is different for different clubs. These scratch cards carry gifts. Hence, more cards mean more number of gifts for the wholesaler. The gift value may range from Rs. 20 to Rs. 1000 which are as per the club levels. For every 10 cards there will be a surprise card which will have a gift of value much above the level of members club. Its value may be as high as Rs. 15000.

The value of these cards is given below.

Kings Club	Estimated Gift Value (1 Card) (Rs.)	Maximum surprise gift value (Rs.)
Sahanshah	1000	15000
Samrat	350	5250
Sultan	150	2250
Sartaj	50	750
Yuvraj	20	300

Redemption

The coins earned can be redeemed for gifts at the end of every quarter during a specified redemption period. The reward categories in the program are as follows:

1. Tanishq Gold coupons (Jewellery Vouchers)
2. Electronics
3. 2-Wheelers
4. Lifestyle products
5. Kisan Vikas Patra (Fixed Deposits)

Penalty Clause

If a member is not able to achieve his quarterly target coins are deducted as per following table:

Last Quarter's Club	Penalty Coins
Sahanshah	150
Samrat	100
Sultan	75
Sartaj	50
Yuvraj	50

COLGATE PALMOLIVE – PHIR DIL SE

The Wholesale Loyalty Program for ColPal is called **PHIR DIL SE** has the following layout:

Fixed Points

The basic points are awarded as follows:

Product	Points
CDC/Cibaca	5 points
Toothpowder	10 points
Toothbrush	25 points
Others	15 points

Bonus Points

If points are carried forward to next quarter, **10% bonus** on points accumulated till end of previous quarter.

Special Packs

One power SKU per month is announced by the company. The points allotted for this special SKU are twice the basic points.

Qualifying Criteria

There are no qualifying criteria for the program. The wholesaler is awarded 100 points as a joining bonus while 25% bonus is awarded for the points earned in July.

Gradation of Wholesalers

The gradation of wholesalers is done on the basis of points earned. The targets are set for the wholesalers on a quarterly basis.

Club	Points
Silver	0-2500
Gold	2500-7500
Diamond	7500 and above

Rewards

As a reward for achieving or crossing targets, following are given out:

- Lifestyle Products
- Consumer Durables
- Utility Items

HUL- VIJETA, RISHTA JEET KA

Vijeta is aimed at attaining growth through better service from the distributor to the trade. On the other hand, the per capita share of business of Vijeta parties for each distributor is high. This translates to credit and discount sales to each of them. Wholesalers work to achieve a high ROI through quicker rotation of their funds. HUL started a wholesaler loyalty program called Vijeta, which has points associated with purchases which can be redeemed for gifts.

Program Details

The HUL portfolio of brands can broadly be grouped into the following categories for Vijeta:

U1 (HPC – Home & Personal Care)			
Rin	Fair & Lovely	Rexona	Close-Up
Surf	Pepsodent	Liril	Sunsilk
Wheel	Lux	Lifebuoy	Vaseline
Pond's	Clinic	Hamam	Pears
Ayush	Breeze		
Foods			
Kissan	Annapurna	Lipton	
Knorr	Bru	Brooke Bond	
U2 (Premium)			
Lakme	Huggies	Dove	Sunsilk (Premium)
Axe	Pond's (Premium)	Kotex	

Membership

Enrolment

The Eligibility criteria for enrollment into the Vijeta program is as follows: Member must be a wholesaler with the minimum monthly turnover of:

Rs.	Product Category
30,000	HPC
10,000	Foods (North, West & Eastern Regions)
20,000	Foods (South Region)
20,000	U2

A wholesaler can enroll as a Vijeta member for all three divisions or any of the divisions based on the above criteria.

Discontinuation of Membership

The membership to the program may be discontinued if:

1. The best of 3 quarter average < minimum eligibility turnover.
2. The member voluntarily decides to opt-out/resign from the Program.

Tiers in Vijeta

Based on the performance in last year, the member becomes a Platinum, Gold or Silver tier Member in Vijeta next year. Member enjoys membership and special privileges as per his tier. If he improves his performance during the year, he is be upgraded to a higher tier accordingly.

The criteria for being allocated a particular tier are as follows:

Tiers	HPC	Foods	U2
Platinum	Rs.300,000+	Rs.100,000+	Rs.100,000+
Gold	Rs.150,000 to 300000	Rs.50,000 to 100,000	Rs.50,000 to 100,000
Silver	Below Rs.150,000	Below Rs.50,000	Below Rs.50,000

Tier Validity

Members continue to enjoy the benefits of their tier until December 31st

Trade Discount

A Vijeta member gets an additional trade discount of 0.5% over and above other non-vijeta wholesalers of HUL.

POINTS

A Vijeta member earns three types of points; Base points, Power Points and Growth Bonus points.

Base points

As a Vijeta member, he earns 1 point on purchase of every Rs 250/-

Power SKU Points

1. Power SKU Points are Special promotion points on select SKUs. These will be awarded to the members on purchase of every CLD (Dozen for U2 and Foods) from the POWER SKU list.
2. The list of Power SKUs and points will be circulated to the branches before the MOC (Monthly Operating Cycle) starts.
3. Power SKUs are applicable for 2 MOCs.
4. The earnings of the Power SKU points are added to the total earnings of the wholesaler along with base points.
5. The Power SKUs and their respective points have been chosen on a set of criteria wherein they can drive growth through higher circulation. With this incentive they help generate growth through the higher involvement of the wholesaler in HUL business i.e. the substitution of competition.

Growth Bonus Points

Members are rewarded with Growth Bonus points for delivering growth. They can earn upto 30% growth points on achieving their quarterly targets.

1. For Growth Bonus Points, separate targets are given for HPC, Foods and U2.
2. Members are awarded Growth Bonus points on achieving Quarterly Targets.
3. On achieving Quarterly Targets Platinum members earn 30% and other members 20% on their base points as bonus.
4. Growth bonus points are awarded only on the base points. Base points are awarded to members irrespective of achieving their targets.

Members accumulate Vijeta points on your every purchase from your HUL Re-distribution Stockist (RS).

1. Members begin to earn points only from the MOC in which they enroll.
2. Every bill generated at the RS point reflects the total Vijeta Points, which can be redeemed against rewards.
3. MOC reports of earnings are provided by the RS.

Tracking of Points

Every bill generated at the RS point reflects the Points. This informs members of their points earned on that bill and cumulative points.

Points Expiry

All points earned during the year must be redeemed by March 31st, failing which, these points expire.

Targets

1. At the beginning of every quarter, the TSI communicates member's Quarter Value Targets.
2. In case the outlet is a member for U1, U2 & Foods, then it will have separate targets for Detergents, Personal Products, U2 and Foods businesses.
3. The targets are also mentioned in the MOC wise Point statement to facilitate tracking.

Reward Redemption Process

Member's points become redeemable only if he achieves or exceed his purchase figure for the same quarter in the last year.

Members can choose from a range of rewards, which are classified as follows:

1. Consumer durables, computers, vehicles etc.
2. Holiday packages to exotic destinations in India and abroad.

The rewards are listed based on their category and are further sorted by number of redeemable points required. To claim reward(s), the member has to fill in the Reward Redemption Form (RRF). A member can claim rewards only to the extent of his earned points.

Vijeta Website

Members can also redeem their rewards online through the Vijeta website at www.vijeta.net Rewards Mela.

Terms & Conditions

Membership

1. To become a Member of the programme, the Wholesaler needs to fill and sign the Vijeta Enrolment Form. He must have recorded average purchase per MOC of Rs.30,000 in the last year.
2. Enrolment is optional. There is no entrance fee for becoming a Member of the programme
3. Membership is offered only in the name of the firm under which the Wholesaler is registered. Membership is not given in any individual's name.
4. Membership to the programme and tier status is valid from the time of enrolment till 31st December.
5. Enrolments for Vijeta close in April.
6. The membership is discontinued if,
 - a. The member does not achieve his targets for two consecutive quarters or
 - b. The member has zero sales in three consecutive MOCs

Accrual of Points

1. The Base points are earned on the total bill amount.
2. The Base points are tracked and communicated at the end of each Monthly Operating Cycle through a MOC Points Summary.

Holiday Packages/Rewards

1. If the Member claims a holiday package, he must make his own travel arrangements from his home town to the starting point of tour. He can claim reimbursement of the travel cost from his hometown to the starting point of tour and return. He is reimbursed this amount (maximum three tier AC return rail fare) by his HUL Re-distribution Stockist (RS) once he fills in the Travel Reimbursement Form and attaches photocopies of the tickets.
2. On receipt of the completed Reward Redemption Form, the Member is sent the reward by courier or receives a reward authorization letter, which the Member presents at the nearest dealer outlet (mentioned in the letter) to receive the chosen reward.

3. Members redeeming points should allow for 6 to 8 weeks for receiving the reward. For international tours, the period is minimum 8 weeks.
4. The company does not meet the cost of any tax liability, or local levies that may apply to redemption choices offered under the programme.

Vijeta Salesman

1. The distributor salesman servicing the Vijeta channel has to be very competent and knowledgeable about the market being serviced. It has been observed that he is the most experienced of the lot.
2. As the sales to wholesale channel is relations based, the salesman has to have strong interpersonal skills. The number of outlets serviced per sales beat is low and is around 15 to 20 because of the same reason.
3. As the channel is a major value and volume driver the incentives of the salesman are also kept higher than his counter parts.
4. The parameters for evaluation of performance of the salesman are
 - a. Value target
 - b. Width target
 - i. Number of outlets where a product is to be made available
 - c. Depth target
 - i. 5 SKUs are selected and sales target given for them individually in value terms.
 - d. FCS (Field Capability Score)
 - i. Based on number of lines cut i.e. SKUs ordered in each bill
 - ii. Average must be higher than 5 for incentive

Vijeta Activities

Two prominent activities form an important part of the vijeta annual calendar

1. Rewards Mela
2. Mandi

Rewards Mela

In order to facilitate the redemption process and build closer ties with the Vijeta members HUL came out with a novel idea called Rewards Mela.

1. It is an annual event organized in a hotel or resort where all the Vijeta members of a city are invited.
2. The main purpose of the gathering is to help members select their rewards for the accumulated points and do the redemption formalities on the spot. The members can see the rewards on display and are helped by the company staff in filling the RRF.
3. The event is leveraged for educating wholesaler about Vijeta changes and other HUL focused activities. Hence a relationship building platform.
4. This activity is valued by the wholesalers a lot because Vijeta is the only loyalty program having such an activity which treats its members.

Mandi

This is an activity organized with the objective to generate additional sales from the vijeta outlets. In this activity a company promoter redeems Rs. 3 to the buyer for every Rs. 300 purchase from the vijeta outlet. This comes to additional 1% discount for retailers buying for the vijeta outlet. One promoter redeems the purchases from all the vijeta outlets in the locality. Other details of the activity are as follows:

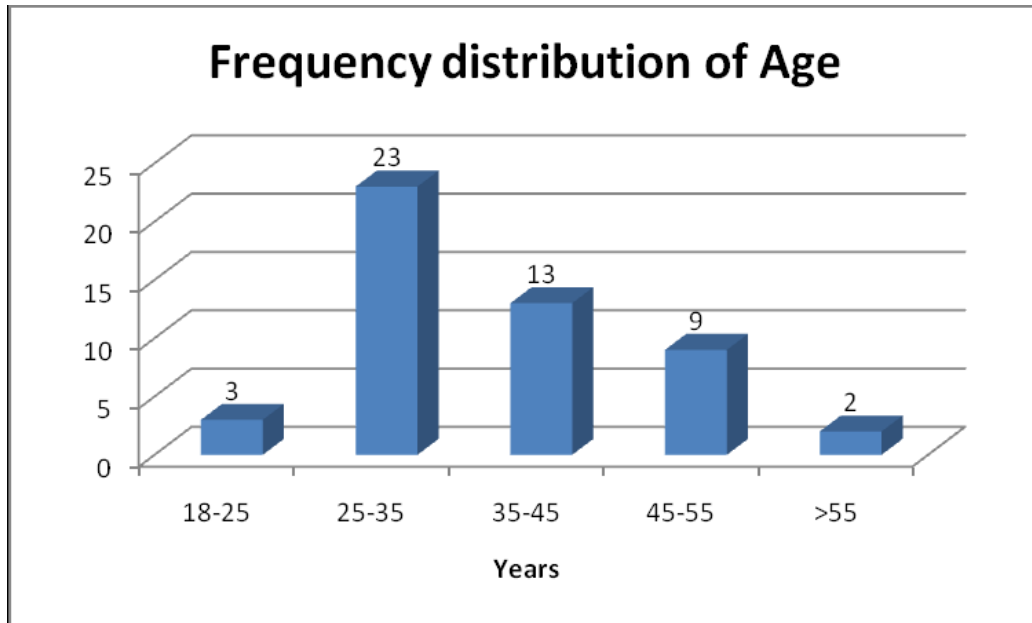
1. Mandi activity is run for 10 days at a stretch
2. For every outlet there are 6 Mandis in a year
3. A Mandi banner is hung at all vijeta outlets covered in the activity for Mandi visibility
4. A special Mandi bill receipt is made by the vijeta wholesaler which used by promoter to redeem the amount
5. There are higher slabs of redemption:
 - a. Rs. 10 redeemed for Rs. 1000 purchase
 - b. Rs. 32 redeemed for Rs. 3000 purchase
 - c. Rs.60 redeemed for Rs. 5000 purchase
6. Additional money redeemed on purchase Dove shampoo sachet strip and Fair & Lovely strip
7. Sometimes in the Mandi instead of redeeming money the promoter gives lucky draw coupons and then at the ends of Mandi there is a Luck Draw and gifts distributed.

Apart from the above two activities there are other seasonal activities such as

T20 Offer

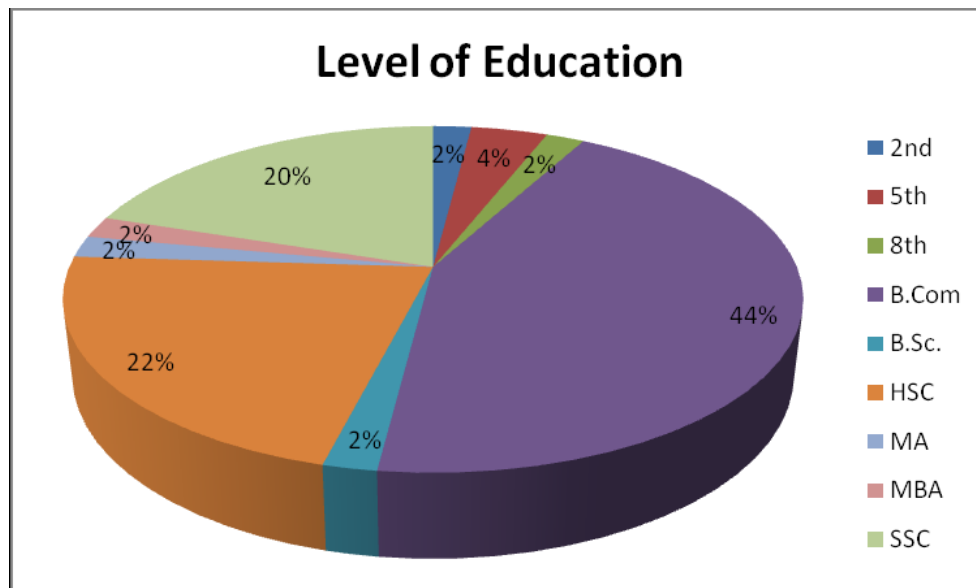
Under this offer if the vijeta member is able to consistently achieve all his MOC targets for MOC 1 to MOC 5 the points accumulated by him during this period will double. This offer is primarily created to incentivize target achievement for months in which maximum vijeta members' fall short of their target achievement.

1) Age profile of respondents



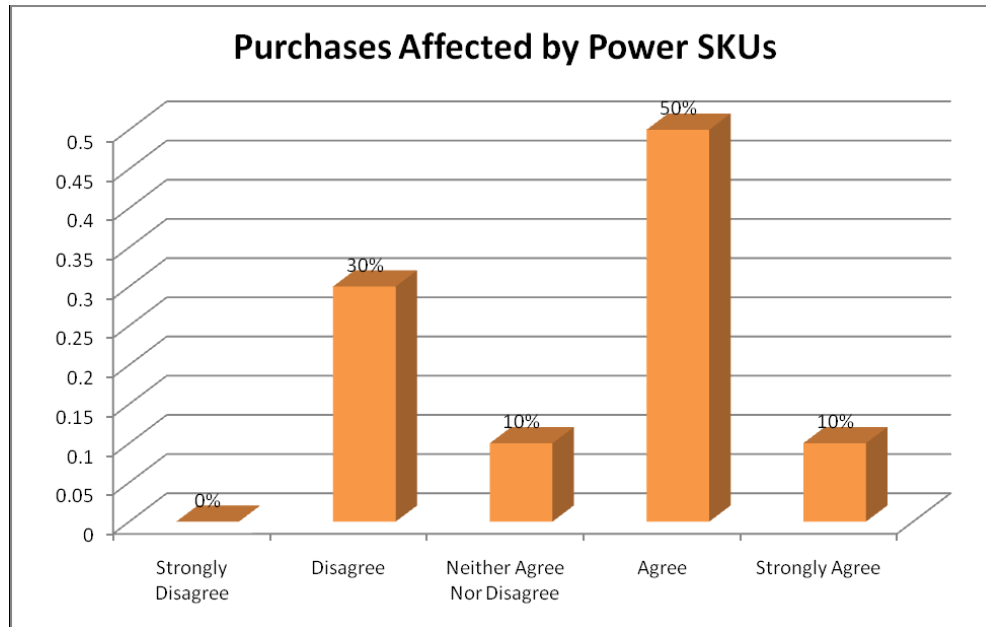
The average age of respondents was 36 years. This implies majority of wholesalers fall in the category of young and enterprising wholesalers. Hence incentivizing their purchases makes sense.

2) Education profile of respondents



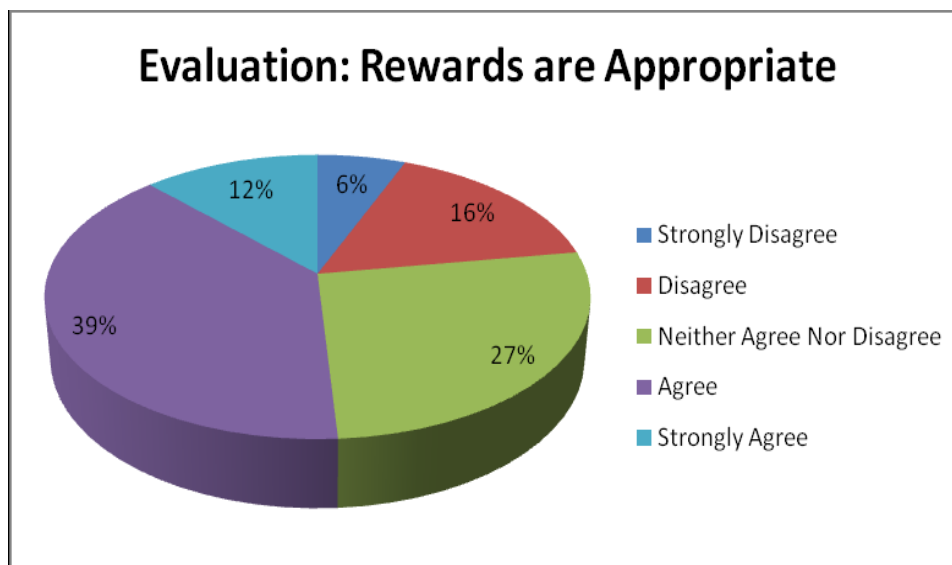
Majority of wholesalers are HSC and B.Com graduates. Hence capable of understanding the economics and terms & conditions of a loyalty program.

3) Brand Preference



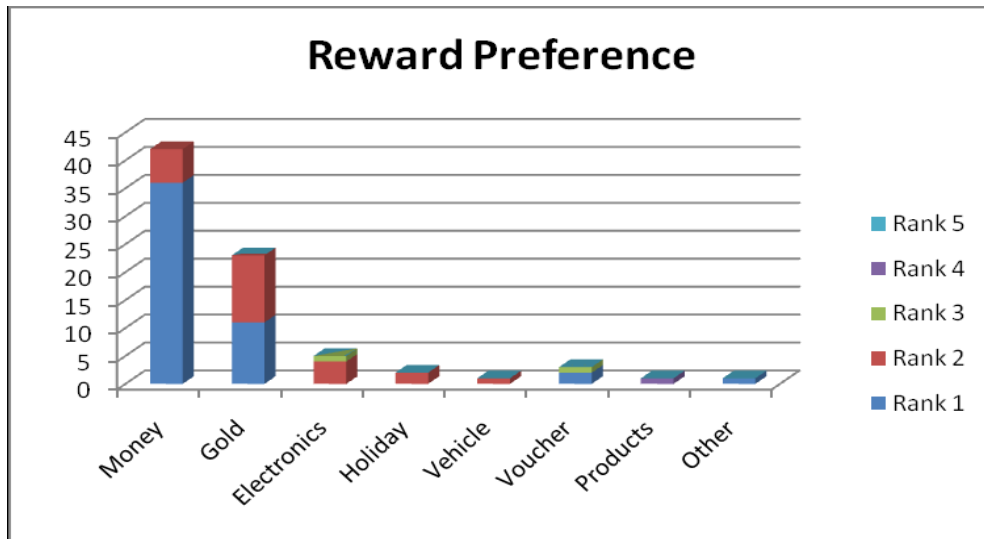
Over 50% of the respondents say that their monthly purchases are affected by the Power SKU list. Hence based on demand cycle for product categories any loyalty program should have some focus brands which help increase wholesalers share of wallet.

4) Rewards



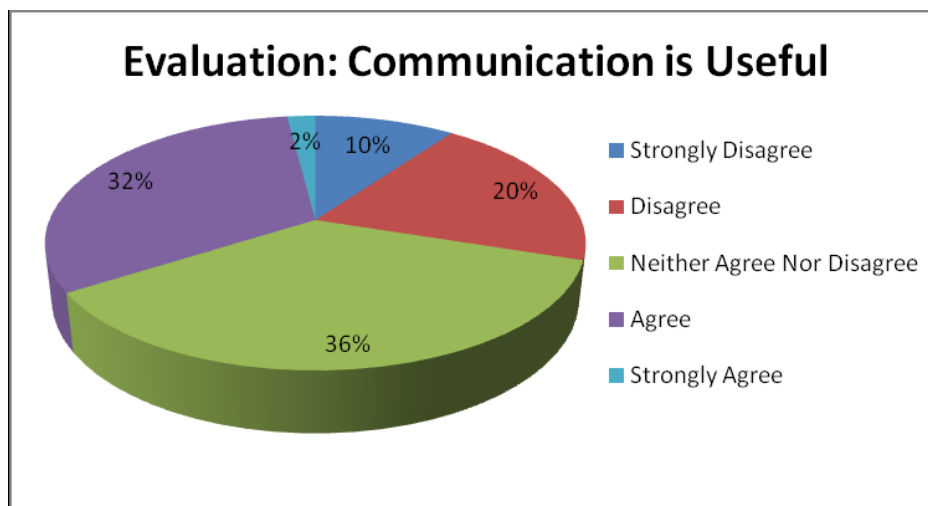
The reward categories offered under the wholesaler loyalty program are seen as appropriate by majority of wholesalers. Many of them don't have a strong opinion about the same.

5) Reward Preference



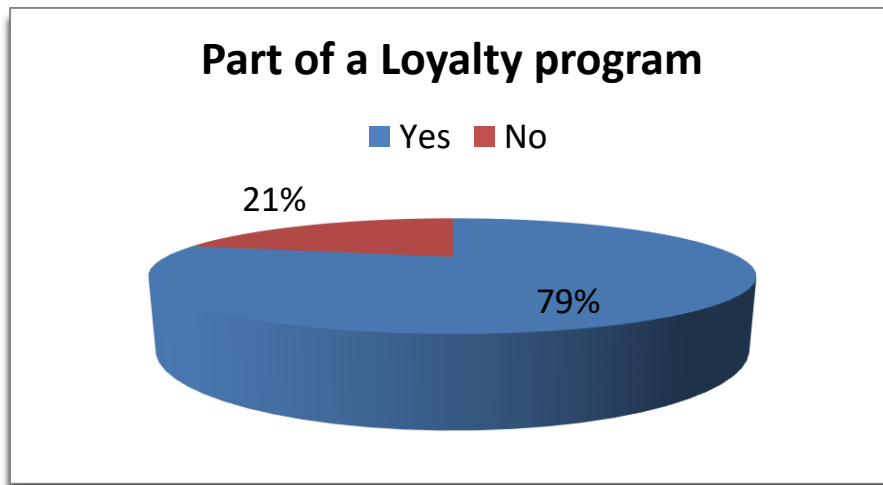
From above we see that Money and Gold which are the most liquid of the assets are preferred for redemption by the wholesalers. This implies that most wholesalers see rewards as a source of additional income.

6) Effectiveness of Letters and Pamphlets



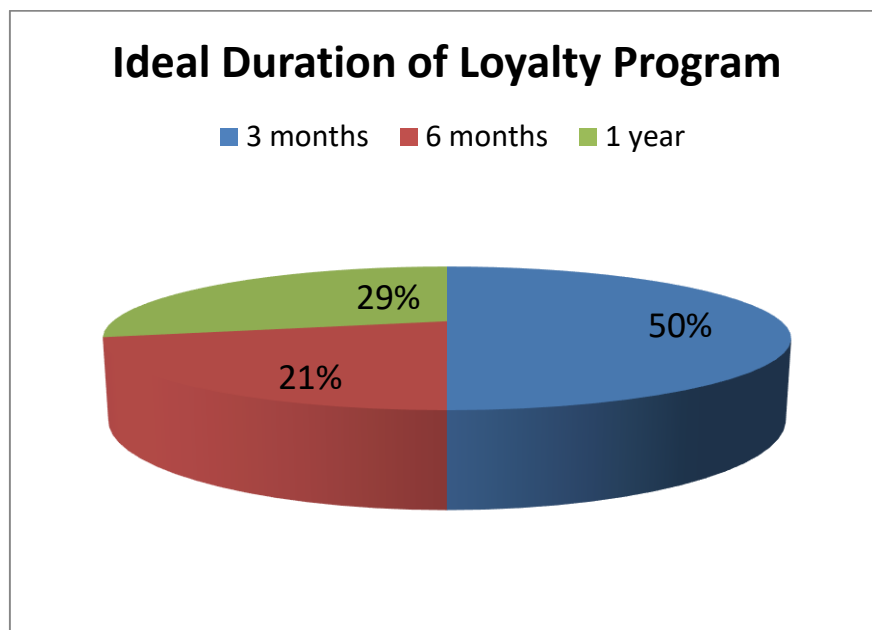
The periodic communication companies which include statement of points and other promotional material is not very carefully read and understood by the majority. This was primarily due to inability to read English by wholesalers. Another prominent reason was the perception that the communication is of little business importance.

7) Part of a Loyalty Program



A vast majority of wholesalers are a part of some loyalty programs, some of them have endorsed to multiple loyalty programs. Among all the WLPs, HUL's Vijeta program is the most popular loyalty program.

8) Duration of Loyalty program



Wholesalers prefer having shorter duration of Loyalty programs for the reason that they want to have smaller targets and quick redemption of their bonus points. Their preference is a reflection of the fact that many companies are known to default on their rewards distribution.

CROSS ANALYSIS OF LOYALTY PROGRAMS

A cross analysis of the features of various loyalty programs are shown below.

Parameters	Hindustan Uni Lever	Procter & Gamble	Colgate Palmolive	Marico
Fixed points	Base points (1pt=Rs.250), Power points (for power packs)	1 point for purchase worth Rs.250	Basic: CDC/Cibaca - 5 points, toothpowder - 10 points, toothbrush: 25 points, others - 15 points	Aftershower - 2 pts/litre or kg, other brands - 1pt/litre or kg
Variable/ bonus points	growth points (as % of base points)	15% bonus points	Bonus points - if points are carried forward to next quarter, 10% bonus on points accumulated till end of previous quarter	5% bonus points for yearly target achievement
Special packs	list of specific SKUs given for each monthly cycle	2 points on Rs. 250 purchase (For Ariel only)	One power SKU per month - double the basic points	Joker card - double points (ie, 2 pts/litre or kg) on chosen brands for 4 months/yr
Qualifying criteria	Minimum monthly turnover - separate for HPC, Foods and U2.	Visibility: Grocer - 40 streamers in front, 20 facings of rishta SKUs. Cosmetics - 4 power shelves, Pharma - 8 facings	-	Minimum avg sales per month - 100 ltr/month - urban, 50 ltr/month - rural
Other schemes	Twenty - twenty scheme	time to time discounts on different products	joining bonus - 100 points, 25% bonus on points earned in july	scratch card scheme for shop boys during diwali
Product/Brand categorization	HPC, Foods, U2	grocer, cosmetic, pharma	-	Common (after shower), region specific (amla, manjal)
Gradation of wholesalers	Platinum, Gold, Silver	Baadshah, Non Baadshah	silver - 0 to 2500 points, gold - 2500 to 7500 points, diamond - more than 7500 points	Urban, Rural

Parameters	Hindustan Uni Lever	Procter & Gamble	Colgate Palmolive	Marico
Targets	Membership valid for a quarter at a time, minimum monthly turnover criterion	monthly and quarterly	quarterly	Membership valid for a quarter at a time, minimum monthly volume criterion
Range Coverage	-	enrolment visibility requirement has streamers, haircare+paper shelves, facing for oral care	-	10% Range selling bonus for consistent purchase of 4 or more brands every month in a quarter (Hair oil/soap/blister: 3ltr/brand/month, After Shower: 1ltr/brand/month)
Rewards	Vacations, vouchers, vehicles, jewellery, electronic items	Cars, electronic items	lifestyle products, consumer durables, utility items	Electronic items, bags, bike, diamond jewellery
Visibility	Minimum visibility criterion	Requires 2 most prominent windows/shelf in Power Zone, same shelf for entire quarter	Colgate displays and boards	10% additional pts if rod is as per plan
Transparency	High - points on bill	High	High	-
Simplicity	Simple, easy to understand by wholesalers	Detailed	Simple and easy to understand	not very simple - many details

CONCLUSION

Wholesaler Power

As the above mentioned analysis shows, there is a lot of focus on the FMCG companies to engage wholesalers into their respective loyalty programs. This goes to reveal the power that is exercised by the wholesalers, especially in rural parts of the country.

In Western Uttar Pradesh, where the project is based, we find wholesalers playing a very dominant role in the secondary sale of the companies. Markets in Western Uttar Pradesh for example are serviced by the wholesale market of Meerut, also known as Town market. The retailers in far-flung areas of Western Uttar Pradesh such as Chandpur, Nuseeri, Jansat etc. are not reached by the Distributors of the companies and hence make bulk of their purchases from the wholesalers in the closest town.

In rural areas the wholesaler has power equivalent to that of a Chemist. Irrespective of what the doctors recommend, if the Chemist promotes a medicine then the consumer takes it. Similarly, when a wholesaler decides to push a product in the rural channel he can recommend the product to the retailers as a fast moving product, thereby increasing the penetration of the product. The dominance of the wholesalers is so high that in Modi Nagar, Perfetti Van Melle, the confectionery giant has 80% secondary sales attributed to the wholesale channel and only 20% sales to the retail channels.

Since the differentiation in the products is thinning and the margins offered across the spectrum by the companies more or less equal, it becomes extremely difficult to differentiate a product both for the consumers as well as for the channel partners. It is here that a lucrative Wholesale Loyalty Program differentiates the offering to the channel partners.

Another utility that these loyalty programs offers is that in case of increasing competition, the wholesalers would stay with the companies because of their enrollment in these programs. Often wholesalers stay in a program not for the margins offered but more importantly for the rewards which are of non-monetary nature. These rewards are focused on providing esteem value to the wholesaler so as to establish a relationship which is beyond the scope of monetary benefits.

Suggestions for Rewards:

- Home items and consumer durables which could be used by the entire family can be given.
- Gift vouchers/food coupons are a good choice in metros
- Jewellery as a reward to be given with discretion since it may lead to price undercutting at the wholesale level.
- Scholarships, insurance are personalized gifts which build trust and loyalty to the company.
- Festival and seasonal offers provide the surprise element. They also enable easy clearance of products.
- Rewards need to evolve with program life, catering to the changing needs of the wholesaler.
- Reward mix should be designed in such a way that both high value and low value member can choose.

Redemptions:

- The redemption cycle should be long enough to allow members to accumulate points (not less than 6 months)
- The redemption cycle should be short enough so that member satisfaction is not affected (not greater than 10 months or 1 year)
- The redemption process should be quick, and an easy process put in place to replace damaged items

Relationship building schemes:

Seasonal or festival schemes can be used to build a relationship with the wholesalers. An annual meet for this purpose can be formed along with feedback being taken from the wholesalers. This can be used as a platform for promoting new product introductions, and increasing the exclusivity of the program. Apart from this, a gift and lucky draw scheme for shop boys during festivals can be introduced, to bring in more involvement with the program and with company.

Other Issues:

- Events to meet other wholesalers are necessary to develop relationships with wholesalers.
- Small test redemptions are to be introduced first & large value redemptions to be brought later.
- Recognition and publicity for good performance among wholesalers is needed.
- Melas/ fairs involving family members create an emotional bond with company.
- It is better to avoid company products as rewards since it reduces the value of the reward.

Appendix

EXPLORATORY QUESTIONNAIRE

Name of Outlet: _____

Age of Owner: _____ Location: _____

Level of Education: _____

Loyalty Programs Member: () HUL () P&G () Marico () Cadbury () Other: _____

Q1. Why did you choose to enroll for Wholesale loyalty program? (Perceived benefits)

Q2. How has your enrolment into the Wholesale loyalty program helped you? (Actual benefits)

Q3. What factors make a good loyalty program?

Q4. What factors affect your choice of brand for a category? (Margin, Demand, Brand, etc.)

Q5. I feel that the **rewards given** in wholesale loyalty program against points are appropriate

() Strongly Agree () Agree () Neither Agree Nor Disagree () Disagree () Strongly Disagree

Q6. Which of the following is your most preferred **reward category**?

- a. Money on Card: _____ (Prepaid Card / Debit Card)
- b. Jewellery: _____ (Gold / Silver / Diamond)
- c. Electronics: _____ (Item: _____)
- d. Holiday Package: _____ (_____ days / Place: _____)
- e. Vehicle: _____ (Bike / Scooter / _____)
- f. Gift Vouchers: _____ (Food Coupon / _____)
- g. Company Products: _____
- h. Other (mention): _____ (Kisan Vikas Patra)

Q7. I feel that the periodic **letters/pamphlets** from company regarding wholesale loyalty program are useful

Strongly Agree Agree Neither Agree Nor Disagree Disagree Strongly Disagree

Q8. I **redeem** my points earned every

Quarter 6 Months Year

Q19. Any suggestion / query / feedback / complaint

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4. List of Wholesalers:

- | | | |
|--------------------|------------------|---------------------|
| 1) Bijnor | 2) Mawana | 3) Meerut |
| a) Chandan store | a) Anjana store | a) Rathal Majinder |
| b) Jaiswal | b) Joshi store | b) Ayub store |
| c) Gupta store | c) Gopal | c) Nabin Shah |
| d) Mantoosh | Chaudhary | d) S.N. Shrivastava |
| e) Bhagat Singh | d) Manoj Shukla | e) Bhargav Ent |
| f) Bhagwan store | e) Shanker store | f) Pradeep Sharma |
| g) Shakti pan shop | f) J.D. store | g) Goyal Pan |
| h) Chaiya store | | h) Sandip Agarwal |
| i) Vijay Singh | | i) Durga Ent |
| j) Shyaam Agency | | j) Sanjay Singh |
| k) Bhirender Singh | | k) Anand Agarwal |
-
- | | |
|---------------------|-------------------|
| 4) ModiNagar | 5) Hastinapur |
| a. Shyam | a. Dilip Sen |
| b. Chaurasia Pan | b. Milan Pal |
| c. Dagar Store | c. Hamim Store |
| d. Aggarwal Prachun | d. Sanjay Agarwal |
| e. Mohd. store | e. Sanjay store |
| f. Gupta Pan | |

4. List of Company officials

Mr. Abhijit Dhingra,
ASE,
PVM

Mr. Rajesh Roy,
Territory Sales Manager,
Airtel

Mr. Sandeep Mittal
Senior Manager
Direm Marketing Services Pvt. Ltd