

DISTRIBUTION TO THE INDIAN END USERS

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Today, the majority of the world's consumption is made on developed markets (Atsmon, et al., 2012). Emerging markets experience a rapid increase in consumer spend and improvement on living standard. Hence, these markets will be an essential part of the world's market within some years. Companies working on these markets need a strategy to be successful and handle these markets' circumstances. There are issues that need to be examined, for example the interface between distribution, trade, and law. This interface can impact the choice of distribution, since regulation, taxes and tariffs affect companies' way of importing, exporting, and doing business.

Background

Axis Communications AB, Axis, is a Swedish company based in Lund that is world leading supplier of network video and has since 1996 been leading the development towards a shift from analogue to digital video surveillance. The value proposition to the end user includes professional installation, and products that are based on innovative and open technical platforms. In several years, Axis has increased its turnover, and in 2012 it was almost 4.2 billion SEK (Axis Communications AB, 2013). A global company aiming at a high market position in the future, which Axis is, is forced to enter the emerging markets (Atsmon, et al., 2012). Axis wants to address the Indian market, since it is considered to have one of the world's greatest market potential (Holtbrügge & Baron, 2013). The master's thesis outlined the Indian market potential for Axis, requirements and requests from the Indian end users, trade agreements and governmental incentives, and the distribution of Axis's products to the Indian end users. This article is focused around the issue of distribution of Axis's products to the Indian market.

Axis works according to their partner model (Figure 1), which defines how Axis goes to market. Axis always sells products to

distributors, the distributors sell the products to the system integrators/resellers, and the system integrators/resellers sell the products to the end users. The system integrators also install the surveillance cameras at the end user's facility.

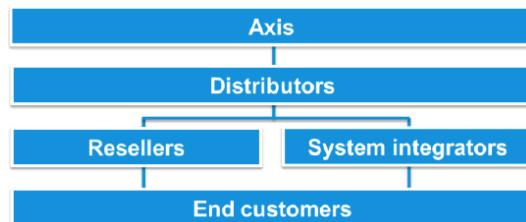


Figure 1: Axis's partner model.

The partner model is used on all markets and each partner in the model has its role. Axis develops and supply products, and supports the system integrators/resellers in selling the products to the end users. Distributors keep stock, and handle the transaction risk. The distributors have a large number of transaction points. System integrators and resellers meet the customers and sell the products to the end users and install the products. They have knowledge of security systems and Axis's products. Therefore, they play a key role in the sales process.

Today, Axis sells products to the customers on the Indian market through applying ExWorks Singapore, which means that Axis ships the products to Singapore where the distributor

takes over the responsibility and the ownership of the products. The distributors are responsible for selling the products to the system integrators/resellers, and the system integrators/resellers finally sell the products to the end users on the Indian market. The order flow, financial flow, and material flow are illustrated in Figure 2.

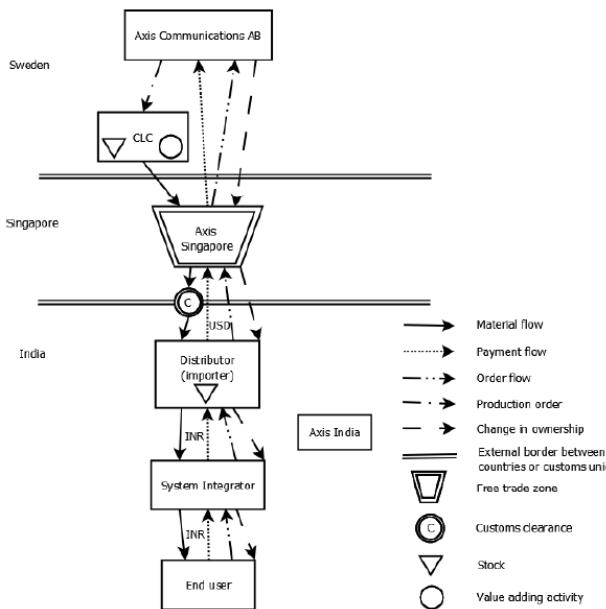


Figure 2: Today's order flow, monetary flow, and product flow from Axis Communications AB to the end users in India.

Axis has a subsidiary in India, Axis India, but this is only a sales company and it does not interfere in the process illustrated above. They are handling the marketing activities, support and education of partners, and building relationship with distributors and system integrators in India.

When a country is supplied with products, Axis has three options regarding manufacturing and configuration, and four options when determining how to distribute products to the market (Table 1). Concerning the manufacturing and configuration;

- The first option is to manufacture and

configure within the country.

- The second option is to manufacture in another country and configure within the country.
- Third, both manufacturing and configuration can be made outside the country.

When determining how to organize the distribution;

- The first option is to let Axis import.
- Second, the distributor can import products to the country.
- Third, the system integrators/resellers import. The fourth option is to let the end user import the products.

In Table 1, there are six options not applicable since the products have to be completed before Axis sells them to the distributor. Hence, six options are possible to apply when determining how to supply India with Axis's products.

The options can be seen as different scenarios with advantages and disadvantages. Some of these are known, and others are supposed to be discovered when conditions of the Indian market is explored. When distributors import, Axis on one hand does not need to work with the distribution to the Indian end users a lot, this saves time and money. But, on the other hand Axis does not know what the cost of the product is when it reaches the Indian market; costs of customs clearance and transportation are unknown. Axis works with three distributors in India, and all three handles the import process on their own. Thus, the costs vary and the final price to the end user is different depending on which of the

Table 1: Options when supplying a market with products.

Localization of major value adding activity	Production in India	N/A	N/A	N/A
Configuration in India, production outside India		N/A	N/A	N/A
Production and configuration outside India		Current flow to India		
	Axis imports into India	Distributor imports into India	System integrator imports into India	End user imports into India

(Legal) organization responsible for import into India

distributors handled the import. Axis wants the market price to be stable in order for the end user to know what price to expect, independent from who he/she purchase the product. This situation has led Axis to a need of evaluating alternatives of the distribution to the end users in India and the research question in this project was; *Based on costs and partner program aspects, what are the advantages and disadvantages for Axis to start importing to India compared to let the distributors continue handle the import?*

Method and theoretical framework

To evaluate scenarios for distribution of Axis's products into India, two frameworks for research was used; Nelson's framework for process when starting import or export (2000); and Chopra and Meindl's framework for network design decision (2004). Nelson describe that the importing/exporting decision should be made in four steps;

1. Determine what product/service to import/export.
2. Decide which are the suppliers and consumers, that is, identify the market.
3. Investigate whether the market is willing to buy your product. Consider consumers' buying power as well as the opportunity to penetrate the market.
4. Finally, determine whether the profit of the import/export activity corresponds to the effort required (Nelson, 2000).

Chopra and Meindl describe factors important to consider in facility localization. Axis does not intend to locate a new facility in India, but the framework emphasizes several aspects that will contribute to the evaluation of distribution flow. These aspects include competitive strategy, internal constraints, competitive environment, tariffs and tax incentives, regional demand, political, exchange rate, and demand risk (Chopra & Meindl, 2004).

Data was collected through a desk study and interviews with Axis's employees in Sweden and India, and partners (distributors and system integrators) in India. Evaluation of distribution scenarios was made through using criteria and comparing the scenarios. Also, findings were validated with employees at Axis. The criteria included Axis's values, strategy, and goals; possibility of applying the partner program and back-end rebates and creating a price list; scalability; currency fluctuation; applicability for different end user types; import duty; time for clearance; transfer pricing; cost of freight and insurance, broker, and administration; export possibility; and lead time.

Distribution into India

A challenge for Axis India is that the distributors today report the cost of import, freight and insurance (Interview 1). With three different distributors there are three different costs presented to the end users (Interview 1). The price will vary depending on which distributor has imported the products. Figure 5 illustrates the factors building up the end user price.

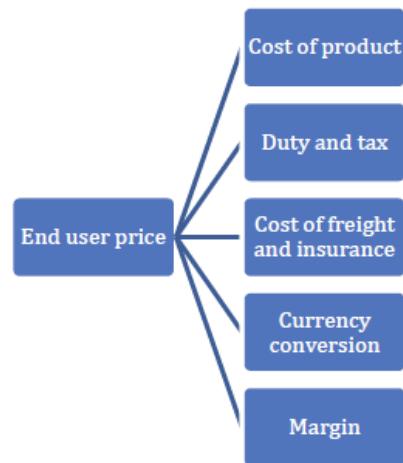


Figure 3: The end user price consists of five factors.

Another challenge is the currency fluctuation of Indian rupee towards the American dollar. Since the rate has been instable for a period of time it is hard to handle (Interview 2).

The partner model is not implemented on the Indian market to the same extent as on the mature markets, since most of the business is based on project sales, which means that the final price is negotiated on (Interview 41). Axis India's partners are three distributors and a number of system integrators and resellers (Interview 1). According to the partner model there are different prices for different types of partners (Interview 41). But prices on Axis products in India have variations between the distributors leading to that Axis cannot create and communicate a pricelist with recommended prices to the market (Interview 41). A price list would make it easier for the end users to understand the prices of Axis India's products and thereby the value of the whole offer (Interview 41). By implementing a

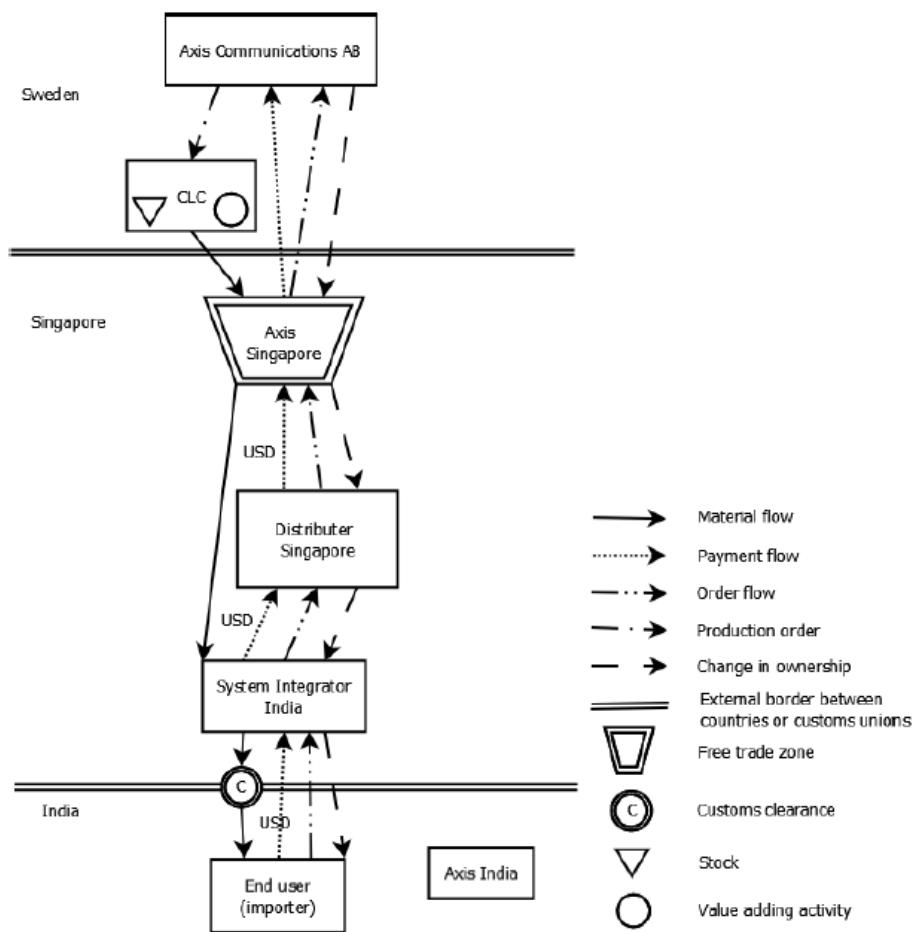


Figure 4: Distribution process for end users with duty benefits.

recommended price list Axis can establish a price structure on the market (Interview 41).

India's import system is similar to the global import system in most aspects. The amount of custom duty applied for goods imported into India depend on the type of the good, the Harmonized Commodity Description and Coding System of Tariff Nomenclature (HSN) is applied (PwC, 2012). The HSN-code for a specific product is decided by Indian custom officials on the first time that specific product arrives to India (PwC, 2012). For this process, and for all times goods are entering India, it is essential that all documents are correct. In order to ensure that all documents are correct, it is highly recommended to have someone knowledgeable in import to help arrange everything needed (PwC, 2012). When the product is classified and the duty is decided, it is paid as a percentage of the transaction value for the product (PwC, 2012). Except the HSN code, the product's origin, and the value of the product determines the cost of import (Flodgren, et al., 2010).

India is a corrupt country and custom and import are considered to be high risk areas of corruption (Ernst & Young, 2012). The risk should be mitigated through anti-bribery policies and the employees as

well as partners and agents must be informed that bribes are not accepted (Ernst & Young, 2012).

There are regulations that force the importer to label products with certain information¹ before the products enter India (European Commission, 2013). Today, Axis's products are labeled by the distributors. In addition, the products should be labeled with maximum retail price (MRP) (Interview 2, 22, 23, 24, 25, 28, 31, 33, 34, 36, 38).

The Indian government has established a number of incentives for companies, one of which Axis's end users are affected. Approximately 50 % of Axis's end users are allowed to import products to a reduced or eliminated import duty. This has resulted in an import procedure Axis did now know existed prior to this project. The end users with duty benefits import the products themselves, see Figure 4.

Conclusion

Based on the evaluation criteria, the conclusion was to recommend Axis to start import the products into India. This enables Axis to have the strategy operational and to build further on the basis of the corporate strategy, which several interviewees stressed as very important. The major advantages to start import are:

- Possible to establish a price list
- Conditions for implementing the partner program will be in place
- Back-end rebates will be applicable

The major disadvantages for Axis to start importing are:

- India is a very corrupt market. Hence, regulations on the paper might not be equal to practice
- Price pressure and negotiation are fundamental parts of the culture.

The initial process of setting up the import process will be costly and energy consuming, but in the long run it is seen as necessary to fully use the company's partner model, which is considered playing a key role in Axis's success.

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- Interview ID 1, Axis India, Finance, 2013-11-18
- Interview ID 2, Axis India, Sales, 2013-11-18
- Interview ID 22, Distributor to Axis, Assistant Product Marketing Manager, Product Marketing Manager, 2013-11-27
- Interview ID 23, Distributor to Axis, Manager – Operations, 2013-11-27
- Interview ID 24, India trade expert, Consultant Counselor for Trade and Economic Affairs, 2013-12-02
- Interview ID 25, System Integrator, Supply Chain Manager; National Manager Sales – Global & Key Accounts, 2013-11-19

¹Name and address of the manufacturer; name and kind of the product; international details and signs which should be observed in the course of transportation and handling; country of origin; production date; expiry date, if applicable.

Interview ID 28, Swedish company in India, Director Head – Supply, 2013-11-28

Interview ID 31, System Integrator, Operations manager, 2013-11-19

Interview ID 33, Distributor to Axis, General Manager – Logistics; General Manager – Taxation; Product Manager; Director – Materials, 2013-11-26

Interview ID 34, Logistics expert, Manager – Custom Clearance; Country Head – Special Products Customs, Projects and Oil & Gas, 2013-12-02

Interview ID 36, FTZ experienced business Consultant, 2013-11-25

Interview ID 38, System Integrator, Head-IBMS & PSS Practice, SIMS, GIS, 2013-11-20

Interview ID 41, Axis Sweden, Sales, 2014-03-21