

CHAPTER V

DISTRIBUTORS AND SUB-DISTRIBUTORS

Much has been said about the selection of distributors and sub-distributors and their vital role in achieving the distribution objectives. So far it has been assumed that they are unfailingly efficient and co-operative. This situation unfortunately is not always so. There are problems and difficulties arising from a complete reliance on the chain of distributors and sub-distributors. Perhaps the Company might envisage doing away with them and choose to distribute its tobacco products to the wholesalers, stockists and retailers direct, as the soft drinks industry do¹. This will considerably shorten the chain of distribution. This shorter chain undoubtedly has been seriously considered by the Company. The pros and the cons have been weighed and the present system of a long chain of distribution² has been found more economical and practical.

Advantages of the Distributors

(i) The distributors act as a useful "cushion" between the Company and the retailers. The distributors are local people and thus are well-known in the community. They are more likely to establish a closer relationship with the retailers. Hence it is easier to do business with them.

(ii) Distributors are bound by contract³ to keep a 50% buffer stock which is valuable in the event of strikes by the Company's employees or disruption in communication.

(iii) By having the distributors, the administration cost is reduced. Most of the Company's distributors are also distributors for other products⁴. Thus they are able to reduce their average overhead costs.

(iv) They create for the Company valuable and powerful allies. The cigarette business is becoming more and more

¹For example, Fraser and Neave.

²This system cannot work in countries legislated against monopolies and "restriction of trade".

³See Appendix E.

⁴Nestle's products, liquor.

competitive and the distributors' salesmen and friends are a moral support to the Company.

(v) Since the cigarette agency represents a substantial share of the distributors' total business, they are likely to spend most of their time in and work harder for the cigarette business.

(vi) The responsibility for faulty distribution and poor market work can be pinned down to the distributor concerned. Thus greater market control is exercised and price-cutting is eliminated.

(vii) It creates local participation in enterprise.

Disadvantages of the Distributors

(i) The Company is putting too much money into few pockets.

(ii) If one of the distributors is cancelled owing to unsatisfactory work, the Company is facing a danger of having educated a potentially powerful and competent man for the competitors.

(iii) As a result of the fear expressed in (ii) above, the Company may tend to keep a somewhat unsatisfactory distributor rather than cancelling his distributorship.

(iv) It is frequently noticed that an efficient firm not infrequently has a poor line of succession, that is, the sons often do not have the calibre, ability and energy of the father.

These are the problems of having exclusive distributors. Despite the consequences, if a distributor's faults are too severe, the Company will not hesitate to cancel his distributorship, as it has done in Malacca.

Advantages and Disadvantages of the Sub-Distributors

From the Company's point of view, it is not important whether a distributor has sub-distributors or not. The distributor is solely responsible for his sub-distributors with the Company acting only as an advisory body. Thus the Company is indifferent to the work of the sub-distributors, whose good or bad work reflects on the distributor concerned. The advantages and disadvantages of the sub-distributors to the distributor are discussed here.

Each distributor is given a well-defined area under his distribution and supervision. This area is often large and for economic reasons it may be wise to break up the area into sub-areas and then select a sub-distributor for each area. Owing to the geography and the poor communication of the area, a sub-distributor may be more efficient and prompt in carrying out the distribution work in his locality. He is in the local

market itself and is in a better position to appreciate and understand the local consumers and retailers and their characteristics. To illustrate this point, the case of the Port Swettenham distributor, Ban Seng Leong is considered. This distributor has a sub-distributor at Pulau Kortam. Although this sub-market is small and the sub-distributor is not a satisfactory one⁵, it is still considered worthwhile to continue with it. Transportation to this island and the neighbouring ones is a severe problem. Only once a day does the boat leave Port Swettenham for Pulau Kortam, at 10 a.m. and return at 4 p.m. Each journey takes about two hours and if the tide is low, one has to wade knee-high in the slimy mud before getting on to the island.

A distributor of the Malayan Tobacco Company's products is often an agent for other products like Nestle's⁶ and alcohol⁷. He often operates his business with an optimum staff and maximum exploitation of their labour. He would not therefore employ extra staff to do the distribution work which a sub-distributor is in a better economic position to do, by virtue of the fact that he is generally the agent for other products too.

On the other hand, a sub-distributor can be a "problem child". Apart from his small margin of immediate profits, the Company pays him a fixed commission semi-annually on his turnover. As such his main objective is to make as much sales as possible and tends to neglect his market work and the eight-point call. The Company views such blemishes and faulty market with concern and these discrepancies are taken up with the distributor through the proper channels. These faults penalize heavily on the deferred discretionary commission of the distributor concerned. It is believed that the sub-distributor may be one of the sources of the "smuggled goods"⁸ and if the Company finds sufficient evidence of this, the sub-distributor concerned shall have his distributorship

⁵ For report, see Appendix G.

⁶ Nescafe, Nestum, Nespray, Milk Maid milk, Milo are some of the products.

⁷ Wine, whisky, brandy, vodka, gin, beer, stout, sherry, etc.

⁸ These are the cigarettes offered for sale by outsiders at below the wholesale price. For the sources of these goods, refer Chapter XI.

cancelled. These are the disadvantages of having the sub-distributors, and it is for these reasons that some distributors do away with the sub-distributors. One of these is Thong Guan Limited, the distributor for Kuala Lumpur District South⁹. Thong Guan used to have sub-distributors but it was only within the last few years that it decided to do away with the assistance of the sub-distributors.

Company and Distributor or Sub-Distributor Relationship

The relationship between the Company and the Distributor is stated quite categorically in the Agreement in Appendix E. The more salient points are discussed here.

While the Company makes the distributor an exclusive agent, the distributor is prohibited from selling or in any other way associated with the tobacco products of the Company's competitors. The distributor may with the approval of the Company - a matter of formality - act as agent for other products as long as they are not tobacco products. The Company will not make any direct sales to the retailers or consumers and any sales made by the Company's salesmen are done through and for the distributor.

Each distributor is given a specific and well-defined market to sell, and he is not permitted to sell outside the defined region. He may enlist sub-distributors to help his distribution with the approval and advice of the Company. The Company, however, reserves the right to modify, add to or subtract from the "defined region".

The distributor must place his order one week in advance and payment must be made before the order is despatched. The order should include a compulsory 50% Buffer stock. The Company bears the full cost of transporting the goods to the distributor. In cases where the distributor provides his own transportation or part thereof, the Company pays him the appropriate transport allowances.

From time to time, the Company's representatives give advice and disseminate instructions regarding new policies or strategies and the distributor is expected to co-operate to the best of his ability. At the same time, he is expected to act as a part of the Company's "C.I.A."¹⁰ machinery and any development,

⁹ Kuala Lumpur District is divided into North and South, each with a distributor. The south includes Petaling Jaya.

¹⁰ Central Intelligence Agency.

strategies or policies of the competitors detected, must be passed on promptly to the Company's representatives. The distributor must provide, as best as he can, a monthly estimate of the competitors' sales.

The Company undertakes the full cost of its promotional activities with any valuable suggestions from the distributor welcomed. Nevertheless, the distributor is expected to help put up or display the point-of-purchase material.

For this highly skilled work done, the Company provides incentives and rewards in the form of immediate profits, commissions and allowances. These will be discussed in Chapter X.

As said earlier, the relationship between the Company and the sub-distributors is indirect and any communication and correspondence from the Company is done through the distributor. Apart from the fixed commission and freight allowances paid by the Company through the distributor, there are no other rewards, or incentives offered by the Company and no obligations on the part of the sub-distributor. There is no legal contract entered into between the Company and the sub-distributor as there is between the Company and the distributor.

Distributor- Sub-Distributor Relationship

No legal contract is entered into between the distributor and sub-distributor. If there is any agreement between them, it is largely verbal based on gentleman's agreement. Therefore this distributor - sub-distributor relationship is not as tightly woven as that between the Company and the distributor. An unsatisfactory sub-distributor may have his sub-distributorship cancelled without much trouble. Because of the problems created in a sub-distributorship, the Company in the last few years has cancelled a considerable number of them and its present policy is to have the minimum sub-distributors. Only those who are efficient and geographically and strategically important are being retained. As the Malaysian market widens, the qualified and deserving sub-distributors may be raised to the status of distributors. The Kajang Distributor was until recently a sub-distributor of Thong Guan Limited.

The order of, payment to and transportation of goods from the distributor to the sub-distributor are flexible and varied affairs. Strictly the sub-distributor must keep a 50% buffer stock but in practice, this is not followed. Generally only about 20% buffer stock is kept. As far as possible, payment on the basis of cash-on-delivery is advised, but the precise arrangement is left to the distributors and sub-distributors. The Company does not interfere with this. Transportation of goods from the distributor to the sub-distributor is

similarly left to their own arrangement. The distributor may either deliver the goods or the sub-distributor goes to the distributor's shop to collect them, either weekly or twice a week.

Characteristics of the Distributors and Sub-Distributors

The inter-relationships between the Company, distributors and sub-distributors have been discussed. It leaves us now to describe briefly the characteristics of the distributors and sub-distributors.

It is true to say that despite the encouragement and financial assistance given by the Government to the Bumiputras to participate in business, a very high percentage of the businesses is still in the hands of the Chinese. As far as the distributors and sub-distributors of the Malayan Tobacco Company are concerned, this is still true. In fact, a Sino-Malay ownership of the "Sharika t Sino-Malay Tobacco Berhad" at Malacca is operated by the Chinese. The same is true with most of the distributors and sub-distributors bearing Malay names but operated by the Chinese, what is known as the "Ali Baba" situation.

Most of the distributors and sub-distributors are agents for many products, usually food items and beverages. The distributors are usually wealthy people having a high social status in their own local communities. Much of the administration work is conducted in Chinese, although there is usually an English-educated clerk in each distributor's firm to communicate and correspond with the Malayan Tobacco Company's Representatives and to make out orders. This clerk is now called the Cigarette Manager whose job is supposed to be full-time. Much of the accounting work is also done in Chinese, with the abacus acting as a prominent calculating machine.