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## SUPPLY CHAIN MANAGEMENT IN TWO WHEELER INDUSTRY - A STUDY ON HERO HONDA AND BAJAJ AUTO SUPPLY CHAIN PRACTICES

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### ABSTRACT

*The present article examines the practices of Hero Honda (Hero Moto Corp) and Bajaj Auto limited supply chain practices. The two wheeler supply chain is typical in nature when to compare with other automobile segments. This article examines the practices of vendor selection, manufacturing locations and capacities of various locations, manufacturing process and technologies, distribution management and other supply chain related aspects of above companies.*

### KEYWORDS

Bajaj Auto Limited, Distribution Channels, Hero Honda, Supply Chain and Vendors Management.

### INTRODUCTION

 Supply Chain Management practices may be defined as a set of activities undertaken to promote effective and efficient management of supply chains. These include supplier partnership, physical movement of goods, meeting customer demands and information sharing throughout the supply chain. Some of the key logistics and SCM practices that impact performance are related to estimation of customer needs, efficient and effective delivery, integration and collaboration throughout the supply chain, sharing of information and vision using Information Technology as well as informal methods and use of specialists for performing specific jobs across the supply chain. All of these practices impact logistics and supply chain performance of companies. The supply chain management in automobile sector plays pivotal role in managing cost and efficiency. The two wheelers sector supply chain is much more critical in nature, as customers are spread across the nation and managing the reach of supply chain into rural and semi-urban locations is challenging for two wheelers manufacturer. The present article examines Hero Honda and Bajaj Auto two wheelers companies supply chains.

### HERO HONDA MOTORS LIMITED

In 1984, Hero Honda Motors Limited was formed as a joint venture between Honda Japan and the Hero Group promoters Brij Mohan Lal Munjal along his sons (Late) Raman Kant, Pawan Kant, Suman Kant and Sunil Kant Munjal. The first plant was established at Daruhera Haryana, on the outskirts of New Delhi. In the years to follow, large industrial areas were created for additional manufacturing facilities for Hero Honda Motors Limited along with their Ancillaries in Gurgaon, New Delhi and Sidcul, Haridwar.

### HERO HONDA MOTORS LIMITED-SUPPLY CHAIN MANAGEMENT PRACTICES

#### VENDORS MANAGEMENT IN HERO HONDA

Vendor management is critical to Hero Honda, as nearly 73 per cent of the production is currently made up of material cost. During the year 2010, the company managed an average cost reduction of Rs. 343 per vehicle despite volatility in metal prices. A national network of 256 vendors - including 36 ancillaries - forms the backbone of its plant operations. To improve plant efficiencies and inventory turns, Hero Honda has extended "Just in Time" (JIT) beyond the shop floor. Vendors are also making critical investments in quality and capacity in collaboration with the Company. For example, the online vendor connectivity program has made rapid progress.

Three years ago, the Company had only 46 vendors connected online to the company's factories. By the end of 2009-10, it is estimated that 72 per cent of the vendors and their supplies would be connected online. Around 100 ancillaries will be setting up their manufacturing base in Haridwar over the next two years to ensure a fully integrated supply chain. To begin with, 40 ancillaries will set up their facility in the Industrial Parks that are being specially developed for Hero Honda ancillaries.

During 2009-10, Hero Honda plans to work with vendors to develop new vendor production facilities. 3PL service providers have also been identified for the Haridwar plant— a first for any two-wheeler company as part of an ongoing exercise aimed at quality control, members of senior management visited vendor premises for top quality audits. This has resulted in the reduction of rejection parts per million (PPM) by 20 per cent.

During the year 2009-10, the company launched a collaborative cost improvement program with vendors. In this program the processes and methods are continuously toned so that the material cost can be managed better. Hero Honda is also evaluating horizontal deployment of third party logistic services providers (3PL) to manage costs along the supply chain better. In 2009-10, the Company plans to further study and tactfully optimize its supply chain. As part of this plan, raw materials will be optimized so that the best possible cost advantages accrue, to the company.

#### PROCUREMENT OF RAW MATERIAL

Raw material is procured from various vendors which are 117 in number. These vendors provide them all the necessary components starting from a nut or bolt to large parts as well. The companies which provide them with the various parts are:

LUCAS Industries  
TVS Fasteners Ltd  
MRF Tyres  
LUMAX,  
A .G. Industries Private Limited  
Munjal Showa Limited  
Sunbeam Auto Limited  
Rockman Industries Limited  
Satyam Auto Components Limited  
Highway Industries Limited

#### TIME LEAD AND LAG

Hero Honda being the Assembling unit, thus everything needs to be fitted on time i.e. there is not time lag between two processes. Say there is very less time lag between fitting engine onto the chassis and the headlamps which are to be installed over the chassis.

Lead time is also not there because all the processes are assembly based and needs to be done one after another. It can only be said that by the time engine gets assembled in separate division the fuel tanks and mud guards are painted in the paint shop. Thus Lead time, also, is very little or negligible.

**PRODUCTION AND OPERATION MANAGEMENT**

About the Production Process, Hero Honda does not manufacture the all parts of the bike on its own. It has a complete list of 117 vendors from which it gathers the parts. It only manufactures Fuel Tanks and some critical parts for its bikes, Do the Paint job, Prepare the Chassis according to the technical specifications and finally it assembles all the parts to the chassis which leads to production of a new bike.

Firstly, the metal sheet is taken from which the fuel tank is casted in two parts, these two parts after casting are joined together and then properly sealed. Then, these Fuel Tanks are sent to the checking zone where the test such as leakage checking and all are done so as to check problem, if any. These fuels tanks are then sent to the painting zone, where they get spray painted in 10-step process and then the fuel tanks are cured through heating so that its paint gets permanent and finally the graphics are put over it.

Now on the other side, the engines were being assembled, i.e. all the parts, like carburetor, air filter, spark plugs, etc. are fitted into the engine and then the finished engines are sent to the assembly line.

The Assembly line consists of a basket of parts which contains all the parts of the bike, and this basket continuously moves along with the main conveyor belt. This main conveyor belt holds the chassis of the motorcycle into which all parts are fitted into. The Engine, Tires, Fuel tanks, etc. all are placed into that basket containing all the parts.

This Basket directly comes from the inventory house, from where all the parts are loaded into the basket. Now, when all the parts are fitted into the chassis, the final motorcycle is prepared and is sent for further testing and analysis.

**DISTRIBUTION NETWORK**

Hero Honda has established 4 zonal offices in India at 4 different regions i.e. in North – Delhi, South – Bangalore, East – Kolkata, and West – Pune.

These Zonal offices act as intermediary between the Authorized Centers and the Hero Honda Company, they gather demands from various centers and send them to Hero Honda to which it acts and supplies the bikes. Every Zonal Office is in networking with every authorized centre in its area.

Hero Honda, in total has 771 Dealers, 693 Spare Suppliers, 1440 Authorized Service Centers and 28 Stockiest in India.

The company has a conscious strategy of penetrating new markets and unrepresented territories through its distribution network which is made up of dealers, authorized representatives, stockiest and SSPs (Sales and Service Points). In March 2001, the company had 826 such customers' points in India. By March 2009, this number went up to over 3500. On an all India basis, 50 dealers, 150 SSPs, 267 dealer's representatives and 45 city work agents were added. All the four marketing zones of the Company showed a uniform increase in new customer's points during the year in 2009-10.

**RURAL NETWORK**

Hero Honda's ambitious rural connect program "Har Gaon, Har Aangan" Also got underway. A total of 18,000 villages were covered out of the targeted 23360 villages with a population of 5,000 people. In all, more than 100,000 opinion leaders in these villages were approached. The rural initiative was carried out by 500 specially trained rural sales executives at the dealership level.

The company has made significant progress in its rural marketing initiative called Har Gaon, Har Aangan (HGHA). This national level program has made strides into thousands of Indian villages with a population of 5,000 and above. In all, more than 125,000 opinion leaders in these villages were met by specially trained 523 rural sales executives. The program itself has added sales of 25,000 vehicles from these villages in just one year. The program focuses on many activities to align with the objectives that go beyond commercial transactions, in order to build enduring relationship with the customers in these villages. The program generally covers sales promotions, loan and exchange offers, free service and check up camps, along with host value adds like consultation for obtaining driving license, safe riding educational programs and other services like health check up and awareness camps. These services are offered free of charges in the interest of society at large.

Under the HGHA program the company makes all the efforts to be a part of the villages by conducting such programs either directly or by partnering or sponsoring the events organized by the local administration on regular basis. The company believes that the rural mobility is a major contributor to GDP growth in an agrarian economy like ours. 'Sikhao Baliye' is company's unique initiative in the rural market that aims at driving the mobility of rural women. The program aims at promoting company's light and zippy gearless scooter Pleasure by creating awareness amongst its TG which primarily are all rural men, particularly opinion leaders and those who wish to impart riding training to their wives, daughters, daughter-in-laws, sisters etc., and prospects in general. The program covered 40 villages, 266 female riders received basic riding training, and 35 of them could ride the scooter immediately after the training.

**OPERATIONS**

Hero Honda has two key priorities: first, to expand and grow aggressively, and second, to develop capabilities and innovate constantly. Keeping these priorities in mind, Hero Honda undertook the following activities during the year:

**COMMISSIONING OF NEW PLANT AT HARIDWAR**

The commissioning of its third plant gives Hero Honda a total installed capacity of 4.2 million two wheelers. A capacity of this magnitude has enabled Hero Honda to retain its position as the world's largest two-wheeler manufacturer for eight successive years.

The full commissioning of the Haridwar plant allowed the company to plan its production better. Depending on volumes, production was rationalized across the three plants. This reduced changeover time helped the company increase its overall efficiency level. In turn, this helped Hero Honda bringdown overall manufacturing cost per vehicle during the year. New Models: During the year, seven new models were introduced across segments. Out of these four models were launched in the space of a month. The variability of the product mix could have posed a challenge; but, flexible systems at the three plants allowed production to proceed smoothly. Distribution Network: The company has a conscious strategy of penetrating new markets and unrepresented territories through its distribution network of dealers, authorized representatives, stockiest and SSPs. In March 2008, the company had 826 such sales and service points in India. By March 2009, this number had grown to more than 3500. All the four marketing zones of the company demonstrated a uniform increase in new dealerships and SSPs during the year in review.

**LOGISTIC SYSTEMS**

During the year 2008-09, the inbound logistic system at the Haridwar plant was revamped; Hero Honda switched from the individual logistic model to a specialized third party logistic service provider for all Haridwar-based suppliers. This switch helped the company reduce logistics cost and improve the operational efficiency of the value chain. During the year, the company also paid considerable attention to developing a multi-modal transport system, in order to derive cost economies.

Also at the Haridwar plant, Hero Honda switched from individual purchase of basic materials by supply chain Partners to consolidated settlements by the company itself. The resulting economies of scale have resulted in greater leverage with suppliers and have helped bring down material costs. The online vendor connectivity program has made rapid progress. Three years ago, the company had only 46 vendors connected online to the company's factories. By the end of 2009-10, it is estimated 72 per cent of the vendors and their supplies were connected online. During the same year, Hero Honda also worked with vendors to develop and produce alloy wheels within Haridwar. This considerably reduced dependence on costly imports.

**INFORMATION SYSTEMS**

A number of key technology initiatives were either initiated or completed in 2009-10. The application infrastructure of the organization was extended to support business processes at the new production facility at Haridwar. This is expected to be operational in 2010-11.

The organization's entire network was revamped and redundancies were built to support business users. The IT team also deployed applications for sending real time business alerts related to production, sales, service notifications automatically from the system using SMS technology. This helped business users immensely. This real time system was also used by business partners to manage their dispatches and outstanding. To improve productivity, a number of applications with work flow capabilities were developed or enhanced. Also during the year, the entire information security policies of the organization were revamped in order to mitigate risks.

A new eco-friendly state-of-the-art data centre was set up and Hero Honda migrated to a new technology architecture that included blade servers and virtualization. This would help consolidate servers and storage as well as reduce complexity. To help Hero Honda prepare for the future, two major strategic



initiatives are being planned for 2009-10. The first is Product Lifecycle Management software. This will help the company in managing the increase of complexity of a diverse product portfolio and help reduce cost and time for developing new models.

#### PRICING IN SUPPLY CHAIN

Pricing of the bike is done through all the costs associated, i.e. operational costs, selling and distribution costs, etc. Then the profit margin is also added to the price of the bikes, and then the transportation costs are added so that it becomes what we get as the ex – showroom price. This price differs from place to place because there is different transportation costs directly associated with it.

When rising input costs put a squeeze on margins, Hero Honda pioneered an online vendor connectivity programme called Direct on Line (DoL) five years ago. It has allowed the two-wheeler maker to manage its operations with lower inventories, and better margins. And the results are showing.

By its very design, DoL is a win-win for both parties. With real-time availability of production and inventory figures, Hero Honda and its vendors are able to work on a just-in-time (JIT) basis. Launched with an initial enrollment of 10 vendors in 2002, the programme has swelled to 133 DoL Certified Suppliers by the end of 2006-07.

The benefits have started to accrue already. Vendors gain from a significantly lower credit period 15 days, down from 45 days earlier. And Hero Honda gets a higher cash discount 9%, up from 6.5% earlier. The programme has helped the company generate savings of Rs 30 Crore in 2008-09 year.

#### THE GREEN SUPPLY CHAIN

Rapid industrialization and advanced technological changes have put Indian economy on fast growth. But such developments pose unprecedented challenges to human society in term of climatic and environmental degradation. Therefore the people and governments have come forward to deal with environmental threats and also to explore many opportunities so as to address the environmental issues and also to create a sustainable environmental future for all.

The Hero Honda is continuously striving for synergy between technology, system and human resources, to provide products and services, to meet the aspiration of its valued customers that too, demonstrating its "WE CARE" philosophy. While doing so, Hero Honda maintain the highest standards of ethics and societal responsibility, constantly innovate the products and process and work in partnership with its supply vendors to take the organization to new excellences. We believe that our vendors and dealers are key stakeholders and partners to work towards the goal of sustainable development.

Green Vendor Development Programme refers to the way in which organizational innovations in industrial supply chain management may be considered in the context of the environment. Organizations which act proactively not only to identified but also to implement actions in process / operation so as to address environmental issues.

Green Vendor Development Programme (GVDP) encourages a collaborative effort between Hero Honda and its suppliers to achieve Hero Honda's overall corporate environmental goal. GVDP calls for partner companies to demonstrate their commitment towards improved environmental performance and striving for continual improvement.

Six pillars have been assigned to GVDP model which are Energy management, Water management, Waste minimization, Prevention of Pollution, Substitution of hazardous chemical and Environmental compliance management. Partner vendors are given specific training on all six pillars of GVDP and mapping of processes/equipments is carried out based on logical analysis so as to identify the gaps or significant environmental aspect and accordingly improvements projects are undertaken for implementation. The programme works on PDCA approach.

HHML also endeavors to provide a platform on which the vendors can share their environment achievements and problems encountered during implementation of the green vendor program. The objective of this meet is to share success stories on environmental improvements that can be replicated at other vendor facilities. This platform lays the foundation for a mutually beneficial eco-future.

Hero Honda believes the process of sustainable development is incomplete without involving the company's supply chain. With this in mind, the company has put together a "Green Vendor Development Program" for the front end and a "Green Dealer Development Program" for the back end of the supply chain. In each of these programs, the partners' are expected to manage their environment involving material resources, industrial wastes, energy resource, pollution and other effluents based on a number of pre-determined parameters.

Hero Honda plans to support all its partners in the Green Supply Chain venture by developing required competencies, sharing knowledge, and by providing technical support. 31 vendors enrolled under this program in 06/2009 underwent requisite training and were certified as green vendors during 06/2009. A fresh lot of 40 vendors were inducted during the year for the program.

#### BAJAJ AUTO LIMITED

The Bajaj Auto Group was founded in 1926 by Jamnalal Bajaj and now consists of 27 companies. In 1945, Jamnalal Bajaj had formed M/s Bachraj Trading Corporation Private Limited, the flagship company, to sell imported two-wheelers and three-wheelers. The company acquired a license from the government in 1959 to manufacture these vehicles and went public the next year. By 1977, the company saw its plant rolling out 100,000 vehicles in a single year. In another nine years, Bajaj Auto could produce 500,000 vehicles in a year. The present Chairman of the Bajaj Auto group, Rahul Bajaj, took charge of the business in 1965. He was the first licensee of the Indian make of the Italian Vespa scooter.

The Bajaj Company has a network of 498 dealers and over 1,500 authorized service centers and 162 exclusive three-wheeler dealers spread across the country. Around 1,400 rural outlets have been created in towns with populations of 25,000 and below. The current dealer network of Baja is servicing all these outlets. Bajaj Auto is convinced that the real impetus of future two-wheeler growth will come from upcountry rural India. Bajaj Auto has defined specialist dealerships for rural markets, called 'Rural Dealerships'. During the year 2008-09, twenty new rural dealers became operational

#### BAJAJ AUTO LIMITED SUPPLY CHAIN MANAGEMENT- PROCESS OF VENDOR SELECTION IN BAJAJ AUTO

Bajaj Auto Limited does not manufacture all the parts required for its all models of motorcycles. Major portion of the parts are outsourced from various suppliers depending on which supplier produces the best of the component in the industry. Bajaj Auto's decision whether to Make or Buy is based on the Fine and Whitney Framework for Make or Buy Decision.

Bajaj auto practices a systematic process in selecting suppliers and deal with them. Production manager of the company study the application received by the suppliers and select proper suppliers as per their requirement. The selected suppliers invited for general meeting with the production manager and purchase manager of the company. In this meeting they decided conditions and time period of supplying raw materials to the company.

Once the contract signed by both the routine work continue. Whenever the company required raw material they send e-mail or call the suppliers just before three days. And within two days company gets raw materials. If the suppliers are unable to provide raw materials than Bajaj immediately informs and search for alternative vendors.

#### KEY SUPPLIERS

Bajaj auto has approximately 198 vendors for their raw materials and parts. Some of the key vendors are:-

- JBM – Frames. Company located at Faridabad, Noida and Nashik.
- MRF–Tyres. Company located at Goa, Medak, Arakonam, Tiruvottiyur, Pondicherry, Kottayam.
- Minda – Handle Bar Assembly & ignition system. Company located at Haryana, Pune, Mumbai, Bangalore, Hyderabad, and Pantnagar.
- Endurance – Brakes and Suspension. Company located at Pantnagar, Pune, and Chennai.
- Varroc – Plastic parts & Digital Meter. Company located at Aurangabad.
  - Max auto components –ignition system and switches
  - Silco cable –wires and cables
  - Makino industry –Brake shoes. Brake lining, clutch center.

Bajaj Auto Limited manufacturing plants are situated in the states of Maharashtra, Aurangabad and Uttarakhand. The vendor locations (mentioned above) also come in and around these states and so procurement of parts and raw materials is not a time taking process and also the cost of logistics is reduced thus providing an efficient supply chain. Bajaj auto maintains seven (7) days inventory. All the Mediators are connected with each other through IT linkage to know exact status of delivery of goods.

#### INTEGRATION OF SUPPLIERS WITH COMPANY BY USING INFORMATION TECHNOLOGY

Bajaj Auto restructured its products, channels, vendor management system and the performance management system. Bajaj Auto successfully implemented SAP's my SAP Enterprise Portal simultaneously with the current SAP R/3 ERP implementation.

Bajaj has linked 165 out of a total of 200 suppliers through this system. The supplier gets up-to-date information on purchase orders and contracts, material schedules, and payment details. Bajaj Auto, in turn, gets invoicing information from suppliers for its automated material receipt system. This helps in streamlining the supply chain, optimising inventories and reducing non-value-adding activities at both ends.

The my SAP ERP system enabled Bajaj auto to track the competence of its suppliers who must comply with various performance standards on quality, delivery and cost for different categories of the business. The company can track service levels from order right through to delivery for both the domestic and export markets. The company can also check inventory to ensure that it have the right stocking levels to support orders and production. Bajaj Auto use analytics to create a composite index around the figures and track it through the vendor portal.

With this information Bajaj Auto can incentivise vendors to reach higher levels of competency by offering them more business and it can also encourage price reductions through innovations, rewarding vendors with profit sharing.

In addition to operating information, provides access to unstructured information like news items, new product releases, new product introduction, dealer discussion groups and internal marketplace.

#### MANUFACTURING AND OPERATIONS

##### LOCATION OF PLANTS

The Bajaj Auto have three state of the art Manufacturing Plants, These are

1. Waluj
2. Chakan
3. Pantnagar

During the first half of 2009-10, a number of improvement activities were initiated at the shop floor level across all plants of the Company. Bajaj Auto could produce 32% higher volume of output without any significant investments. Below Table gives the plant-wise capacities and product (Models) produced in respective plants in the last two years.

TABLE 1: PLANT-WISE CAPACITIES (in numbers)

Plant Products Plant	Products	Plant capacity(units)	
		2008-09	2009-10
Waluj	Boxer, Platina, Discover and three-wheelers	1,860,000	1,860,000
Chakan	Pulsar, Avenger and Discover	1,200,000	1,200,000
Pantnagar	Platina, Platina 125, Discover and Pulsar 135	900,000	1,200,000
Total	--	3,960,00	4,260,000

##### PANTNAGAR

Bajaj Auto's production at its Pantnagar plant, Uttarakhand, has been on the rise. In 2009-10, it produced 577,947 vehicles, up by 82% compared to 2008-09. Average production at Pantnagar for January-March 2010 was 60,000 per month versus 30,000 per month a year earlier. The plant is now geared to produce 80,000 units per month in April-June 2010, and then ramp up to 120,000 vehicles per month by September-December 2010. Keeping this in mind, the supply chain activities are also getting geared up. To maximize tax benefits available at Uttarakhand, the Company has shifted products like Discover and Pulsar 135 to Pantnagar.

##### WALUJ

Waluj celebrated its 25th birthday in 2009-10. It also started production of the Discover and successfully ramped up the output. Waluj is now the export hub of Bajaj Auto. Of the 891,002 units of two- and three-wheelers exported in 2009-10, about 80% was produced at Waluj. The plant is now ready to meet even higher exports - up to 1 million units of two-wheelers and three-wheelers. Waluj won an award: 'Plant Best in Class Manufacturing Leadership Award for Two-Wheelers' by the Stars of Industry Group.

##### CHAKAN

Given its core competence in high-end products, Chakan produced various upgrade versions of Pulsar. It is now ready to deliver the new KTM bikes. Chakan was awarded the 'Super Platinum Award for Manufacturing Excellence' by Economic Times-Frost & Sullivan.

#### MANUFACTURING/ASSEMBLING FACILITIES

Bajaj Auto Ltd. has well designed manufacturing and assembling facilities at plants. They highly care of clarity and arrangement. The whole plant has divisional area like, offices, operation house, ware houses, and packing department. Bajaj Auto Ltd. have modern and technologically advance machines and state of the art assembly lines. These machineries are arranged in operation department systematically. The production process is step by step, the raw material move from one line to another line systematically. the below flow chart explain manufacturing process at plants.

##### INBOUND LOGISTICS

The raw materials and required components and spares are sourced from selected suppliers/vendors. The inbound logistics are managed by third party logistic (3PL) operators as suppliers of Bajaj Auto spread across different states. Bajaj Auto maintains seven days (7) inventories; this sourced raw material will be stored in raw material ware houses in concerned plant.

In manufacturing process, the final assembly unit will get all the assembled components from different assembly lines and assembles these components to body chassis of the the motor cycle.

The assembled motor cycle has to pass through two levels of quality inspection to maintain Zero Defects in final product. After inspection process these motor cycles will sent to Factory warehouse for distribution.

##### OUTBOUND LOGISTICS

The outbound logistic operations depend upon Bajaj Auto market segments. Bajaj Auto market is segmented by geographical wise. The geographical segmentation of Bajaj can be divided into two broad categories.

1. National Level Markets
2. Global Level Markets

The national and Global level segments are further divided into sub-segments for smooth logistic and physical distribution operations.

##### NATIONAL LEVEL OUTBOUND LOGISTICS

Transport & Logistics This function of distribution is not owned by the company in any form. This function is outsourced completely to the third party vendors (3PL Operators). The third party here is Transport Corporation of India (TCI) and a few other private vendors. The fleet to be transported is custom-designed for Bajaj Auto by the vendor. A Transit Insurance Compliance Letter (TICL) is signed between the two parties.

There are twenty vendors (3PL Operators) across India to cater the logistic requirements in vast geographical segments of Bajaj. Logistics of the vendor is decided by the Bajaj Company. The major 3PL operators of Bajaj Auto are:

- Transport Corporation of India (TCI)

- OSL
- Jamuna Transport
- Sumit Transport

Last mile logistics is decided most of the time by sub-dealers. Bikes are driven from the dealer's warehouse to the showroom by employees of sub-dealer or have it transported to him. Freight charge is built-in in the product price.

#### **BAJAJ AUTO DISTRIBUTION MANAGEMENT**

The physical flow of goods takes place from the factory warehouse to either the depot or to the carrying and forwarding agent, depending upon the geographic distance and the location of the Depot. The transport & logistics for this is outsourced to third party vendors which are under Transport Corporation of India (TCI).

Depending upon the demand these goods have, they flow from Depot or the C&F agent to the dealer and their network. In case of high profile dealers, the dealer can himself take the physical delivery of goods directly from the manufacturing plant. The dealer, at the last juncture, caters Authorized Service Center (ASO), Rural Service Outlet (RSO), Sub Dealer & its own branch.

Distribution Channel Design is dependent on the segmentation that Bajaj have done in the geographic and product category segments. Various players involved in the distribution channel network are:

- Depots
- Carrying & Forward Agent
- Dealers
- Sub Dealers.

#### **DEPOT**

For distribution Bajaj auto uses mix of depots and C&F agents. This is completely dependent on the distance of manufacturing location from dealer point. Due to extensive distance from manufacturing plant from west Bengal to north-east India, there exists a depot in Kharagpur with capacity of housing 800 vehicles. There are similar depots in Punjab, Rajasthan and southern India.

Setting up depots is a geographical strategy adopted by Bajaj Auto. But this does not mean that the company has gone all out to open a large number of depots. It has chosen strategic locations. The key role played by depots is that they are meant to cater to any sudden rise in demand of vehicles, and to cover the existing geographic span of India.

The reasons behind having a depot in different regions in India are as follows:

- Catering to a sudden shooting up of demand
- Reaching the states of the North-East and other remote and poor transport facility areas.

#### **CARRYING & FORWARDING (C&F) AGENTS**

Though the agent has a separate set of roles and responsibilities, it is just a semantic difference in the case of Bajaj Auto. In most cases, it is the "Giant dealer" of a particular region who acts as a carrying and forwarding agent for Bajaj Auto. A giant dealer is one who secures an A+ rating from the company, or has strong financial muscle in the region in comparison to the other dealers. Their key deliverables will be dealt in detail when we talk about dealers. This generally happens in states or regions which are near to the manufacturing unit. This is almost always the case for most Indian States.

#### **DEALERS**

The Bajaj Auto Limited has an extensive network of 498 dealers and over 1,500 authorised service centers and 162 exclusive three-wheeler dealers spread across the country. Around 1,400 rural outlets have been created in towns with population of 25,000 and below. The current dealer network is servicing these outlets. Dealers can be classified under 3 heads. They are as follows:

- 1. COCO-**These are Company Owned & Company Operated showrooms. These concepts exist only for Pro-Biking showrooms. Here Bajaj Auto has tried showcasing their muscle power in high end biking segment. The concept has evolved very fast and now there are 52 Pro-Biking showrooms in the country. The company itself does not take any order from the customer in these showrooms. The giant dealer of the region who is acting as a logistics partner for the pro-biking concept takes the order on behalf of the company and fulfils the customer requirement.
- 2. CODO-**These are Company Owned & Dealer Operated showrooms. In case of this concept, showrooms are owned by the company but the operations in the showroom are managed by the dealer. This is generally the case where Bajaj wants to provide the dealer financial benefits considering the high working capital requirement of the company.
- 3. DODO-**These are Dealer Owned & Dealer Operated. These dealers are fewer in number because they are generally the giant dealers who are the financial muscle for the company.

#### **SUB DEALERS, AUTHORISED SERVICE CENTER (ASC) & RURAL SALES OUTLETS (RSO)**

##### **SUB DEALERS**

Generally this are the small players in the market who helps breaking the bulk at the dealers end and providing the dealer necessary rotation of working capital. In turn they get flexible terms from the dealer and trade on smaller volumes. These channel members exist in the design because of the company's objective of increasing the reach to the end consumer.

##### **AUTHORISED SERVICE CENTER**

These are the authorised outlets of the company which can be dealer operated or independently run by a new entity. The distribution for these components is completely independent from the distribution channel of the product itself. Today, the channel has 73 distributors, who cater directly to over 15,000 retail shops across the country. This channel now accounts for over 70% of total spare parts sales of Bajaj Auto Ltd.

##### **RURAL SALES OUTLETS**

Around 1,400 rural outlets have been created in towns with population of 25,000 and below. The current dealer network is servicing these outlets. Bajaj is convinced that the real impetus of future two-wheeler growth will come from up-country rural India. Bajaj Auto has defined specialist dealerships for rural markets, called 'Rural Dealerships'. During the year 2008-09, twenty new rural dealers became operational.

##### **SUPPLY CHAIN MANAGEMENT OF SPARE PARTS**

Automobiles need periodic replacement of parts. Not surprisingly therefore, spare parts comprise a profitable business for major automobile manufacturers. The objectives of the spare parts business of Bajaj Auto are to perform an effective role in supporting new vehicle sales, maintain 'vehicle goodwill' across different geographies, makes and consumer groups, and contribute to the bottom-line.

To make the company's spare parts available in not only at authorised service centers but also the private garages and spare part retail outlets in every corner of the country. This is a high volume, credit intensive business that requires mastery over the supply of heterogeneous products.

In 2004-05, Bajaj Auto created a separate channel exclusively for distribution of spare parts. Today, the channel has 73 distributors, who cater directly to over 15,000 retail shops across the country. This channel now accounts for sales of over 70% of total spare parts of Bajaj Auto Ltd. Other 30% is distributed via the distribution channel of the bike itself.

#### **CONCLUSION**

Conclusion: the supply chain management in automobile industry is always challenging in vast country like India, the two wheelers companies not exception to this. Both Hero Honda and Bajaj Auto companies are making innovative ways to reach rural India with their supply chains. Both the companies are practicing Lean manufacturing, vendor's management, JIT system and out sourcing of logistic operations, which are prominent supply chain practices in the world. Still these companies can innovate their supply chains to reach all segments of Indian customers.

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