

**An exploratory study to understand wholesalers' responses to the changing
retail environment: Evidence from India**

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The substitution of traditional channel intermediaries has been a topic of debate among academics and practitioners, especially in the context of emerging economies such as India and China. The purpose of this research is to find out how one of the oldest intermediaries in the marketing channels the wholesalers responding to the changes in their external environment due to the emergence of newer formats of retailing like organized retail, cash-n-carry formats, and online retail. The study is based on in-depth semi-structured interviews with twelve wholesalers in the one of the oldest wholesale market in northern India. Moreover, this study also aims to provide a description of the two hundred fifty years old wholesale market. Six broad themes were identified as the responses of wholesalers to the changing retail environment. Lastly, study limitations and future research guidelines are discussed.

Keywords: wholesalers, retail, emerging economy, India

1. Introduction

Wholesaler as an intermediary has been one of those whose demise has been predicted many times, each time it has managed to survive and continues to be an important part of distribution channels at least in emerging economies. The wholesalers in emerging economies supply to retailers in rural areas and urban peripheries where the mainstream distributors of the manufacturers cannot reach profitably. These wholesalers tend to be an integral part of the distribution strategy of any company which wants to succeed in emerging economies. Studying the structure of distribution has been acknowledged as one of the fundamental tasks of channel research (Sharma and Dominguez, 1992) and there is a critical link between understanding structure and developing a viable distribution system (Robenson and Kollat, 1985). The existing literature on channel management has given very less attention to understanding wholesalers as a channel member. Though the importance of wholesalers' as a channel member may not be very important in the context of a developed economy, they are a vital link in the channels of distribution in emerging economies.

Wholesalers as an intermediary have been since the days when marketing originated. In fact, in many of these markets, the wholesalers are said to substitute the lack of infrastructure. Wholesaler as an intermediary is one who aggregates from various manufacturers and sells it to retailers who in turn sell to end consumers. Interestingly the markets in emerging economies are also experiencing the entry of various formats of retailing like the larger format organized retailers, cash-n-carry formats, online retail. These formats are impacting the way these wholesalers have been operating historically, and they have been responding to the challenges thrown up by the emergence of this newer format of retailing. In spite of the important role which the wholesaler plays in these markets regarding reaching out to unserviceable retail outlets, there has been not much literature on wholesalers. Samli and El-Ansary (2007) have acknowledged the lack of studies on the functioning and changing stature of wholesalers in

developed and developing economies. In emerging economies, there are many markets which are designated as wholesale markets, and some of these markets are centuries old. This study talks about one such market- the Yahiyaganj market in Lucknow, the capital of the biggest and most populous state in India. It is around the 250-year-old market and perhaps one of the oldest in Northern India. One important difference which needs to be emphasized is that these wholesalers are not tied-up to a single manufacturer, these are larger retailers who sell the product for all companies in a given category, and they are also independent businesses.

There are two objectives of the study, first, description of one of the oldest wholesale markets in Northern India and second to understand how wholesalers are responding to the emergence of newer formats of retailing. And add to understanding the differences in channel behaviour in different countries (Kale & McIntyre, 1991). An attempt has been made to understand the market from the angle of history, current relevance, and vibrancy of the market, the adaptability of the market, the challenges and prospects. It is expected that this description of a typical wholesale market would help in understanding the complexity of one such unique market and address some of the concerns raised earlier.

2. The relevance of wholesalers in emerging economies

Wholesaler's role as a critical institutional entity in the overall distribution system has been totally ignored. The wholesaler exists because they can provide distribution services more effectively and efficiently than other channel participants, especially manufacturers and customer (Rosenbloom, 2007). It has also been said that the wholesalers tend to make-up for the lack of infrastructure and other voids which exist in emerging markets such as India. Aithal (2012) found in his study on retailers in Indian villages that seventy percent of them were buying from the wholesaler. Channels management is complex and difficult in emerging economies, and one of the key reasons for the complexity is that majority of the sale happens through small and unorganized retailers. For example, India, which has one of the highest retail densities in the world has only 8 percent of organized retail (Bhalla et al., 2007). In India, it is estimated that there are around 14 million small retailers, and many of them are spread across more than six lakh villages in rural India.

Servicing and distributing to these small retailers is not easy and wholesalers cater to most of these small retailers. They provide them with the assortment needed and break-the-bulk for these smaller retailers. They have also been responding to the changes in the external environment and continue to do well in emerging economies. According to Bucklin (1972), the character of the retail system is very much a creature of its environment. Evidence suggests that marketing systems are influenced by specific characteristics of the external environment (Wind et al., 1973), and so are the subsystems, example wholesaler organizations (Shapiro, 1983). Though the effects of environmental uncertainty are not very clear, some evidence suggests that volatility in the firm's output environment contributes to greater channel integration (Dwyer and Welsh 1985; John and Weitz 1988). On the other hand, Klien et al. (1990), find that complex, diverse environments promote greater reliance on non-integrated (indirect) channels. In the next section, the methodology will be elaborated.

3. Methodology

The study takes a predominantly qualitative approach to study the market to capture the complexity of the phenomena. Twelve in-depth semi-structured interviews were conducted during multiple waves of the market visit from May 2015 to April 2016. Wholesalers within the market for interviews were chosen using purposive sampling technique. Interviews enabled researchers to enhance their understanding of the wholesale market and emerging issues through their reported experiences. One important difference which needs to be emphasized is that these wholesalers are independent businesses and not tied-up to a single manufacturer. One of the wholesalers also happens to be the president of the wholesale market association. Wholesalers were chosen from each of the five sub-categories identified within the market. Lastly, some of the retailers who bought from the market were also interviewed. The details of the persons interviewed for the study has been attached in Annexure 1. The basic purpose of interviewing different stakeholders in the market was to understand and appreciate the issues from their point of view. The issues which were investigated through this study to understand the history of the market, why do retailers come to buy and also the impact of changing retail environment due to the emergence of organized retailers and e-commerce. This study was conducted in one of the oldest wholesale market i.e. Yahiyaganj market in the capital city of the most populous state in northern India.

Responses from the transcript were categorized. Recurrent themes were identified by looking for emerging concepts, phenomena, and variables. Verbatim from transcripts was found and assembled against each recurrent theme. Looking at the frequency of mention and using qualitative judgment, themes were retained or removed by meaningfulness and substance (Miles and Huberman, 1994). The first two interviews were used as a pilot test. The interviewer's leading questions were confirmed after minor revisions. When the last two interviews did not report new results, the sample was considered saturated. Analysis of findings is presented in the next section.

4. Findings

This section is structured as follows; we start with the history and design of the market. Next, we move on to retailers who buy from the market concerning their relationship and the reason why they buy from this market. Then we move on to themes identified as wholesalers' response to changing the retail environment.

4.1 Yahiyaganj market: history and design

The Yahiyaganj market is considered one of the oldest markets in Northern India with a history going back to around two hundred and fifty years. The market was started by Yahiya Khan, one of the ministers of the Nawab of Lucknow Asaf-Ud-Daula (1775-1797), after whom the market is named Yahiyaganj as reported by the respondents. The idea behind the setting up the market was to organize the market and facilitate trade at that point in time. It was initially meant to be a retail market but morphed into a wholesale market which today attracts retailers from over 200-250 miles radius in and around Lucknow. On the number of shops in the market Yahiyaganj market committee chairman put the number at 1575, which were registered with the association, he said there were another 200-250 which were much smaller establishments which

were not registered with the association. Around 800 had their sales tax registration done. Most of the wholesalers are managed and run by the owner-manager and have the only shop. Though some of the larger wholesalers over the years have managed to expand their business and had a few branches, it is more of an exception than a rule. The shop size also tends to be pretty small, in fact, most of them would fall below the 500 square feet classification of even a small retailer (Ramakrishnan, 2010). Ramanlal Aggarwal one of the old timers in the market shared,

“In late 1800 there were only six big shops, all color coded, red, yellow and all the other shops were very small and could barely manage to meet their ends. The change which he observed was that as the Indian economy expanded the business also expanded and today you would find many shops being there in the market.”

The design of the market is also interesting, with the market divided clearly into zones, starting with the now non-existent comb market at one end to the grocery market at the other end. The five different areas within the market are ready-made apparels, cosmetics, grocery, and utensils. And interestingly the basic structure has not changed much over the years. In the utensil zone, today remains most of the shops are in the same category. The market is in and around a road, with the structure as explained earlier. The earlier number of one and a half thousand shops is not inclusive of another two hundred smaller shops of associated services such as snacks, tea, paan store (betel-nut shop), etc. There were a few exclusive fast moving consumer goods (FMCG) distributors, but they were very few compared to the total number of shops. There were many shops which were selling cosmetics and other women beauty accessories. These shops were a new addition in the variety and as was told to us by a wholesaler,

“Now we have Beauty Saloons opening in smaller towns and even villages and women from these come to buy for their shops. Earlier one would not see women coming and buying from these market, but that has changed”

This is a marked change from the earlier days when women would not come to buy from this market. The market is on a parallel road to the main road, but in the olden days, this was the main road, and the traffic would pass from the market itself, and the parallel main road was built in the recent times 1936. Today the road which runs through the market is hardly about 7-8 feet, but in those days it used to be the main road, and all the traffic used to pass through the street itself. Now after the construction of the new main road, the traffic does not pass through the market. The whole market is spread over a 2.5-kilometer stretch, and many shops are very old. As one respondent shared that as the Indian economy improved the business has also increased and more equitably distributed, in 1880 there were only six larger shops which were known by their colors, but today in any category one would find scores of shops. The unique ecosystem of the market also has many push carts which are the only means through which goods are supplied within the market as none of the bigger vehicles can ply on the roads within the market. And many of these pushcarts are tied-up with particular shops and have relationships running into decades. As Harish said,

“I have my know push cart people, and I can give them products worth lakhs be confident that they would ensure it reaches its destination safely.”

4.2 Who buys from the wholesale market and why?

It was apparent that though there were a lot of end consumers who had started to come to the market over the years, but it was still the small rural retailers who were patronizing this market the most. Many of them had a very clear list and shops that they would be visiting to buy their stuff. As one respondent pointed out,

“The smart retailer who wants to earn more still comes to this market. The market is still the best in terms of price and variety.”

He is one of the older shopkeepers in the market which sells grocery products. But he also acknowledged that the new generation retailers are not coming to the market as they find the issue of lack of parking and general ambience of the market not too appealing.

On how loyal the retailers who buy from these markets, there were mixed views, initially, most of the wholesalers would say that there is no loyalty and that retailers go to whichever shop they find the product the cheapest. But a little more probing would reveal that most of them had a good relationship with the retailers who buy from them. They knew them and were greeted by the wholesalers. On the aspect of support that they provide to the retailers, the responses were mixed, with some of them telling that this was a cash market, and they did not provide credit, some said the business is half in cash and half on credit. One respondent told us,

“Sometimes we have even given the retailers the transportation expense to retailers when they have expressed their inability to pay for the same”

This was acknowledged to be extreme but reflects that the relationships are strong even in these market. Some of the retailers revealed the amount of support that they received from the wholesaler,

“We are given a list which has the price which has been charged to us and the price to which we are to sell to the end-consumer in the village. As I am not good in calculations, and this helps me a lot.”

The retailers who bought from this market had varying frequency of visit, and it also depended on the season, as in the festival season the retailer visits would increase, as was put forward by one of the toy wholesalers we interviewed,

“Most of my retailers come from the nearby villages, and he would buy from me when he can sell, and if there are any local Melas (periodic markets) happening or festivals the frequency would increase. And he also said the craze for certain toys also keep changing with time, like a particular kind of doll which would be asked by all retailers”.

Our observations of the interactions between the wholesaler and the retailers who buy from them, we found that many retailers enjoyed a very good relationship with the sellers, and they would go by his recommendation on quality and best-selling product, which we observed in an old shop which was selling colors. We observed that many retailers who were buying would carry the merchandise which they bought with themselves on bags which they had brought and even on their heads. The reasons were obviously related to reducing the expense of hiring a vehicle and also the fact that they would travel back to their villages on public transport, and it would not be easy if they have too much to carry. This had implications on the quantity that they could buy at one time and also the frequency at which they will have to visit the market. In fact,

when we asked a few retailers about how frequently did they come to the market to buy most of them said a week to ten days.

On the credit aspect of the market, the initial response was that *“No, it is cash market, the buyer is free and he keeps moving from one shop to the other till, he gets the best price, and he buys”* But after a little bit more probing *“For our regular customers we do give them credit, as they have been buying from us for a long time.”*

The reality is that the wholesaler extends credit so that the retailer is tied-up with him. But he also knows that once the credit limit exceeds the optimal level the retailer might switch to another wholesaler, so he ensures that it is enough for the retailer to come back and not much so that he shifts.

4.3 Wholesalers’ responses to changing retail environment

The market has seen many ups and downs, and for most of the wholesalers, the starting of the Big Bazaar (a larger format) retail store was one of the major turning points which weaned away many of their customers. The novelty of shopping along with recent opening up of the economy made buying from the larger format stores more appealing. This happened around a decade and a half back. The market took it in its stride, and many of the wholesalers increased the proportion of retail business and improved their service levels.

The next change which they are currently in the middle of is the explosion of online sales, consumers across the country have taken up online buying in a big way, and the shops in the wholesale market see it as both a threat as well an opportunity. Many of them want to upgrade their shops into online formats and cash in on the opportunity, and some of them have started tying up with online formats to sell their products through their format. One interesting finding of the interviews was that many of them did not find the newly started cash-n-carry format of Walmart which has been started in Lucknow as a threat. When asked about how the market has changed in the last 20-25 years, The President of the Trade Association told,

“Though we have embraced new technology like, electronic weighing machines and have made limited forays into e-commerce, the fundamental characteristics of the market has not changed much.”

One wholesaler whom we met in the market shared,

“Fifteen years back I could sell anything which I wanted, but not today, the retailer comes with a list and is very particular about the brand.”

The older generation is more than optimistic about the future of the market as one of the older respondent said,

“The overall business has been improving and I do not see any reasons why it would go down, but yes we if put effort to tackle challenges currently confronting the market we can grow much faster and bigger” though the same enthusiasm is not shared by his own son, who commented *“I do not know how are sales happening in this market”*

When asked to list the current challenges for the market most of the people felt the need to curb encroachment the road and traffic issues being the most important ones. One of the

questions we were asking any of the wholesalers was how did they see the threat coming from the new formats in the market, like the larger organized retailers and the online e-commerce business which is booming in India. Harish said,

“We have survived through the challenge posed by the organized retailers and Malls; we will also survive the e-commerce onslaught”.

On similar lines, Junaid, elder son of Mohammad (owner of one of the biggest retail store in the market), said,

“Though we had lost to the newer formats of retailing, to begin with, but today I see many of them coming back to these markets, and we have made conscious efforts to win them back with better assortment, price and facilities,”

Though he is also acknowledged that the shopkeepers sitting in the Yahiyaganj market had to adequately respond, and some support from the government will help. On the front of how the retailers were responding, we also spoke to the son of Harish who shared that there are at least two or three wholesalers who come to seek his advice on how to partner in the online retail. But the conversations gave us a sense that though everyone knew about the kinds of threats which newer formats were throwing up, they saw no serious threats to their way of working. The threat apparently was seen more from online and larger retailers than newer formats like cash-n-carry. As was put forward by the Mohammad,

“Earlier I would be traveling 3-4 days a week for collecting money from the retailers in the nearby towns; nowadays I hardly travel for the collection of money as my clientele from far off places has dropped dramatically. The reason was improved transportation facilities, and people who could not send supplies to smaller markets earlier could do it today, and thus people from far off distances have stopped coming as they are able to get the supplies much closer.”

On the threat from organized retail, the toy wholesaler said,

“There prices are perhaps lower because they buy in higher quantities but my regular customer buys from me, and I do not perceive any threat from them.”

One common concern which shared by all the wholesalers was the lack of proper parking space in the marketplace and basic sanitation facilities (such toilet facilities, drinking water, etc.). One of the cloth shop owners said,

“In the last ten years, the major evolution he had seen was the willingness of the customer to buy and try higher priced products, which he attributed to the malls and organized retail.”

When we asked did he faced any threat to the business from the retailer, he said no, because he predominately was in the unbranded business, and it did not matter to him much. But, the sales would get impacted from time-to-time as his sale would depend on the sales of the retailers, who might not sell because his customer would have bought from a sale in an organized retail store. But he said overall he seen only an upward trend regarding earnings and profit potential. He did not see much threat from online business.

The market had evolved from being a pure wholesale market to a mix of retail and wholesale. As the plaza owner accepted that today they do around 50 percent of their business in retail and remaining in wholesale versus the only wholesale model a few years back. Many of the

wholesalers have responded by adding more services to their shops, and some of them have given it a feel of an organized mall to attract and retain buyers. And most of the bigger wholesaler were aware of the online options and had plans to make an entry into the same soon. The conversations gave us a sense that though everyone knew about the kinds of threats which newer formats were throwing up, they saw no serious threats to their way of working. The threat apparently was seen more from online and larger retailers than newer formats like cash-n-carry.

5. Discussion

The design of the market, which has evolved over the years, the current structure hasn't changed much, but the facilities and amenities for shoppers can be improved. This improvement would attract more shoppers to the market and perhaps improve the sales of the market. One interesting observation was that the focus of the market had moved away from being a pure wholesale format to being a mix of retail and wholesale. The end consumers and retailers are still attracted to the market due to the reasons of variety and pricing. And as with any retail format the wholesalers and trying to change themselves according to the threats in the external environment, by adding more choice in their shops, better services and adapting to online selling. The wholesaler's response to the changes in the external environment is also something worth noticing, as, many of them have taken up the online formats and are planning to start a portal to sell their products online. They have also upgraded their offerings and service levels to attract customers who have migrated to newer retail formats. Most of them are planning to engage more seriously with e-commerce, and also improve their inventory management, want to offer something better to their regular customers. Responses to the changing retail environment have been categorized into six categories based on the analysis of findings:

a. Infrastructural changes

The wholesalers have realized that the way that they had been operating till now will be insufficient in the increased competition. So most of them have looked at improving the physical infrastructure that they have had. Wholesalers have been refurbishing their shops by incorporating the learnings from the structures in the organized retail set-up.

Physical infrastructure

The physical space has also been increased by some of them, though it is not possible for everyone as there is a limitation in the availability of space in the market. But many of them have built multi-storied buildings to counter this challenge.

Technology blends tradition

They have started computerized billing systems which use to earlier hand written, installed CCTV cameras across the shops and introduced electronic weighing machines. They have also added like cold drinking water with a purifier for customers.

b. Promotion-related changes

Wholesalers have been trying to improve the look and feel of the shop. Moreover, they have also been focusing on their salesperson for internal promotion. Some of them have also been trying to give occasional price discounts and promotional through traditional and internet

media vehicles. This is an important response by even few wholesalers in the present time of information technology. Other wholesalers are also expected to follow as they wouldn't want to miss out the evolving urban consumer segment.

External promotion

This was observed at the shop level. The typical response has been no we have not made any expenditure on promotions. One of the respondents did acknowledge that in the initial days they did put some pamphlets in the local newspapers, but they have discontinued the same. On the fact that they were present on some popular B2B websites he said it was the website people who had made him put the ad. But then in the one wholesale shop, we were told that he sometimes does a shock sale by putting up a notice that we are giving fifty percent discount on a particular brand, and that generates a lot of walk-ins. But apart from this, we did not get many instances of promotion by the wholesalers.

Internal promotion

Regarding internal promotion, one would find that many of them had invested in improving the quality of manpower that they had. Like at one of the stores, salaries of the staff were improved, salespersons were provided uniforms, and responsibilities of the salesperson are reduced. Similarly, at another store, one finds that most of the salesgirls have been employed in recent years, and also given uniforms. This is a refreshing change given the negligible participation of women in the wholesale market. They have also increased the attention being provided to the display of the products. Some of them have observed what the organized retailer do to display and replicate them in their shops.

c. Relationship building with customers

Though on the face of it many of the wholesalers said that there were few long-term relationships, accepted that they had retailers who had been buying from them for decades now. Wholesalers also extend additional services such as a discount, credit, gifts during the festive season, etc.

Complementary offerings

One of the respondents told us that he would regularly call and speak to them and give them some small gifts like key chains, calendars, and other gifts.

Credit services

The provision of credit was something which was also an integral part of their strategies to retain retailers. On the amount of credit, they said that it depended on how quickly was it returned, and the cycle would typically be one purchase to the other.

Additional services

The additional services they provided like at times taking care of the transportation expenses and delivering the products till the main road. The handholding regarding telling the retailers about new products which are up for sale was also something which these wholesalers did.

d. Business expansion

Wholesalers are now expanding their business both by increasing consumers as well as products. They now offer product and services to end consumers as well. Moreover, they have been adding newer product categories to compete with the newer retail formats.

Structural change

Wholesalers have shifted the customer mix from only wholesale to wholesale and retail. This is a deliberate strategy. All of them have reduced the reliance on wholesale business, which is both a factor of the retailers from very far coming to the market and the wholesalers themselves reducing their reliance on wholesale as a proportion of their business as a measure of risk reduction. The wholesalers who had traditionally been only wholesalers have slowly moved on to accept the fact that they have to cater to end-consumers also. This is also a response to increasing their overall business and improve margins. The break-up which was shared by some of them was today they had fifty percent of their consumers coming from the end consumer segment versus pure wholesale some years back.

Product categories expansion

The other related change which has been brought is the addition of categories which help them protect against seasonal fluctuations in sales. And overall many of them increased the number of categories which are available with them. They have been adding more and newer product categories, be it cookery in the case of one wholesale store, even entering into seasonal products for festival seasons.

e. Identifying Niches

Many of the traditional wholesalers have made an attempt to enter into niches which probably are not easy for others to enter. Like the traditional crockery wholesale store is into exclusive Brass utensils. The artists who work on these brass utensils are very few, and it is a dying art. They have been retained and patronized by the wholesaler, and in the process, they have entered into a niche which is very strong.

f. Cross selling through emerging channels

The wholesalers have also explored the possibility of new sales channels. As many of the brass products that are produced are sold through third party websites and shops in Metros. There has been a limited attempt by some of the wholesalers to try and start their websites.

6. Concluding remarks

The study of the Yahiyaganj market is one of the first attempts to document the history and significance of a wholesale market in an emerging economy. This description of a wholesale market in an emerging economy itself has been missing, and this should help the distribution managers understand these markets better and develop their strategies accordingly. This is an exploratory study, and thus the outcome was a direction in which further research could be pursued and also certain specific questions.

The specific areas in which the study could be extended further would include understanding the retailer who buys from these markets and the future of this kind of markets. Specifically, one could investigate if they buy all the categories which they need for their shop or

do they come for only specific categories. It would be interesting to classify the retailers based on their location, both distance, location type, shop type, and size. Further, these issues could be linked to the size of their shops, frequency, and quantity that they buy from the market in each visit. This could bring out clearer implications for the manager wanting to manage their channels and dependence on wholesalers. On the threats for these markets, some wholesalers could be surveyed on the perceived threat from the newer formats. We could try and further understand if this perception varies the cross product categories? The market could also be studied from a public policy angle to come up with recommendations to further enhance the appeal of the market.

One of the limitations is the nature of market which is highly unorganized and makes it very difficult to collect data on the quantum of business in this market. The reasons are, one is the lack of use of technology in billing and stock keeping, which is driven by lack of awareness and comfort with technology. And, the other is the ability to avoid taxation in a non-computerized context. This is a major constraint because without the data on the quantum of business it becomes extremely difficult to convey the importance of an old wholesale market such as Yahiyaganj.

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Annexure 1: Summary of interview sample used in this study

S. No.	Name of the person (Pseudonym)	Gender	Age	Type of Business	Years into business	Interview length (minutes)
1.	Harish	Male	65	Utensil Business; President of the U.P. Trader Association	135 years (5 th generation)	90
2.	Ramanlal	Male	81	Utensil Business	135 Years (5 th generation)	57
3.	Shyam	Male	77	Pulses & Grain Business	55-60 years	43
4.	Sanjay	Male	55	Ladies beauty products previously was into Sleeper & shoe business	40 years	32
5.	Puneet	Male	47	Ladies artificial jewellery	60 years (3 rd generation)	25

6.	Prateek	Male	39	General FMCG & Beauty product Shop	40 years	27
7.	Ali	Male	26	Toy business	5 years	39
8.	Ramesh	Male	56	Utensil Business	135 years (6 th generation)	45
9.	Jitendra	Male	42	Utensil Business; (Wanting to extend his business online- Thathera Craft)	135 years (6 th generation)	30
10.	Mohammad	Male	74	General retail store in supermarket format (Plaza)	60 years (4 th generation)	55
11.	Junaid	Male	37	Readymade garment business- Jeans, Shirts etc.	15 years	27
12.	Rakesh	Male	39	Colours and kitchen utensil cleaning products	20 years	25