

## Distribution Channel and Government Policies for Breweries Products in Karnataka State

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### ABSTRACT

The present Investigation makes an attempt to analyze the distribution channel and government policies for breweries products in Karnataka State. This study reveals that distribution of breweries products is made through Karnataka State Beverages Corporation Limited depots. The industry poses a dilemma to the state, borne by the temptation of large revenues, on the one hand, and the embarrassment in giving encouragement to drinking, on the other. Liquor industry has always remained under strict governmental control in terms of capacity creation, distribution and taxation. While the overall public perception spells restraint, but it is the symbol of high life.

**Key words:** Breweries products, Distribution channel, Government policies, Karnataka

Liquor industry has always remained under strict governmental control in terms of capacity creation, distribution and taxation. While the overall public perception spells restraint, but it is the symbol of high life even in puritan India. Alcohol has been in use around the world in the Indian region for centuries. Its easy availability in the recent years, as a common commodity has lead to myriad problems affecting the social and physical health of individuals and society (Smith and Mitry 2006). Efforts to tackle the problems have been piecemeal and fragmented resulting in a lack of direction and focus. Alcoholic beverages are divided into three general classes: beers, wines, and spirits. Indian Liquor Industry with estimated market value of INR 340 billion is growing at 12-15 per cent over the last two years (Dillon *et al.* 1993). The industry is estimated to have sold 115 million cases of IMFL last year. The sector is expected to maintain its CAGR of 15 per cent while the premium segment Wine and Vodka is expected to grow at a higher rate. With consolidation and foreign acquisitions gaining steam the sector is about to witness next phase with realization rising in line with that of their foreign counterparts. Thus the study was undertaken on consumer preference for different types and brands of breweries products as a typical case of vertical coordination.

### MATERIALS AND METHODS

The study was conducted in Bangalore, where alcoholic beverages consumption is more. Bangalore is the fastest growing metropolitan city in Asia. The population is highly heterogeneous with diverse cultured, regional, religious, speaking diverse languages, different food preference and economic background. This Bangalore city conglomeration covers an area of 8,005 square kilometers with a population of 50 lakh. Because of the existence of various linguistic, religious and ethnic groups, it has been a very good marketing centre for launching new products. Bangalore is situated in the south-east part of Karnataka at an average

elevation of 920 meters (3,018 feet). It is positioned at 12.97° N 77.56° E and covers an area of 2190 km<sup>2</sup>. Bangalore district borders with Bangalore rural and Chikkaballapura district in the northeast, Tumkur district in the northwest, Ramanagar district in the southwest and the neighbouring state of Tamil Nadu in the southeast. Data regarding distribution of breweries products and Government policy was collected from Karnataka state Beverages Corporation limited. Data regarding distribution of breweries products and Government policy was collected from Karnataka state Beverages Corporation limited.

### RESULTS AND DISCUSSION

#### *Distribution channel for breweries products*

Karnataka State Beverages Corporation Limited was established as a Private Limited Company under the Companies Act, 1956 for the sourcing and distribution of Indian Made Liquor and Foreign Liquor. For this purpose, Government of Karnataka has issued a Distributors License to the KSBCL under the Karnataka Excise (Sale of Indian and Foreign Liquors) Rules, 1968. All manufacturers/suppliers who want to sell liquor or beer in Karnataka, whether produced in Karnataka or outside have to canalize it through KSBCL only (Liquor includes Indian Made Foreign Liquors, Beer and Wine).

#### *Direct sales to retailers*

Up to 30.06.2006, the company was selling only to wholesalers (183 Nos. as on that date). However, the Government took a decision to abolish wholesaler system with effect from 01.07.2006. Consequently, the company was required to sell directly to retailers (Malliswari 2007). The number increased from 183 to 7319. The KSBCL has met this challenge successfully. In the process, the company's margin has gone up from two per cent (till 30.06.2006) to 7.1per cent. Compare for which period to Rs.179.40 crores collected as margin in the year 2006-07,

the company has collected Rs.384.80 crores as margin money in the year 2007-08 which is an increase by 114 per cent.

*The Impact of policy regime on domestic breweries products*

**Taxation:** Tax on alcohol is an important source of revenue for government. Karnataka government is leading 18 per cent of total income as revenue from the sale of alcoholic breweries products. Huge taxes are applied to reduce the consumption of liquor. The price of alcoholic beverages strongly influences consumption patterns. Generally a consumer responds to price increase by reduced consumption, particularly excess or harmful use of alcohol. Martinez *et al.* (1998) studied that the greatest simulative economic effects of the alcohol industry are employment creation and revenue to the government income through taxation.

**Advertising:** Advertising on media is banned so that people should not be motivated to intake of alcoholic beverages. To show breweries products consumption and smoking is totally banned Indian movies. Surrogate advertisement is used by breweries manufacturer such as drinking water, CD advertising and sponsorship sport event to get publicity.

**Availability:** Beverages are not a common commodity. Its availability is restricted such that licence is required for sale of breweries products. A licensing system requires that anyone who wants to sell or produce alcoholic beverages has to apply for a licence granted by concerned authorities after paying a prescribed fee.

**Control including prohibition:** selling of alcoholic beverages is prohibited during election and many occasion which leads to nuisance. Malliswari (2007) reported that alcohol policies in many countries have long been based on the assumption that a wide range of health and social problems associated with the abuse of alcohol can be directly correlated with average daily per capita alcohol consumption.

**Rationing and state monopolies:** Alcohol comes under State legislation. Each state has monopoly to fixed regime and marketing of breweries products. In cases where State Monopolies are not politically feasible, such a licencing system could be useful in minimizing alcohol related harm, as part of an alcohol control policy.

**Promotion of low alcohol content:** more promotion should be given to low alcohol content like beer and wine,

**Regulation of density of outlets:** use of the licensing system for limiting the number, concentration and location of licensed outlets in one area.

**Hours and days of sales:** Government should restrict the sales up to 11 PM. Alcohol related offences are more in night. Few Government holidays are considered as dry days means selling of breweries products is banned on dry day.

**Drinking location:** Prohibition of public drinking at specific setting such as educational institution, public places (offices and factories), recreational settings (parks and beaches, cinema halls, sports stadium), fast food restaurant and hospitals.

**Minimum drinking age:** Minimum drinking age in Karnataka is 18 years. Many States it varies from 18 to 25 years. Greenfield and Giesbrecht (2006) reported that different states have different legal minimum age limits for alcohol consumption. There is increasing lobbying by the alcohol industry for reduction in the permissible age. Young people, especially teenagers, are more sensitive to alcohol use because their bodies and brains are still developing.

**Packaging:** Packaging should contain warning that "consumption of liquor is injurious to health". Labeling also contain date of manufacture, alcohol content so that consumers must be aware about consumption pattern.

**Drunken driving:** Strict legislation against drunken driving should be enacted by Government. Many accidents happen on the New Year eve.

**Alcohol related offence:** Alcohol related offences are more. Consumer becomes violent after consumption of alcohol. Government should have strict rules to avoid such offence. Greenfield and Giesbrecht (2006) examined the effect of personal involvement (drinking, violent behavior) on beliefs concerning the causal connections between drinking alcohol and aggressive behavior.

**Treatment and rehabilitation program:** Government is spending lot of amount for treatment and rehabilitation because alcohol is harmful for health and leads to addiction. Its continuous consumption causes the serious disorder in human body.

Government may promote low alcohol content products like beer and wine by permitting to sell in the departmental stores thereby reducing the consumption of high alcohol content drinks and its side effects. Government may make possessing of license mandatory for purchase and consumption of liquor and minimum age to be fixed at 25 years.

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