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generates a deeper, more objective (and iterative) learning, and planning process. The literature contains several comprehensive frameworks that cover likely areas of interest to auditors (see Kotler, Gregor, and Rodgers, 1977; Mokwa, 1986; Berry, Conant, and Parasuraman, 1991; Brownlie, 1996; Wilson, 2002).

THE AUDIT PROCESS

Auditors use an audit framework to conduct a structured consulting project that identifies ways in which the audited firm can improve its marketing. The audit may be conducted by either internal or external auditors, but auditors must be independent of the audited unit in either case. Most authors argue that conducting regular, periodic audits maximizes the value of the process. For a given firm, having a common framework applied over time will aid in developing more long-term learning. Regular audits also avoid the fear employees sometimes have that an ad hoc audit is a prelude to unwelcome changes. Brownlie (1996) covers audit process issues particularly well. Enis and Garfein (1992) also outline a computerized approach to auditing.

EMPIRICAL EVIDENCE

It is difficult to tell how widespread marketing audits are, partly because many firms may engage in elements of an audit (e.g., situation analysis) without calling the process an “audit.” Trade coverage of audits suggests service applications are particularly common (see Berry, Conant, and Parasuraman, 1991 for good coverage of the elements of a service audit). Despite a compelling logic to the process, there is also little evidence beyond case studies regarding the benefits of conducting audits. One exception is Taghian and Shaw (2008), who find a positive correlation between conducting marketing audits and (self-reported) change in market share and financial performance.

RELATIONSHIP TO OTHER CONSTRUCTS

The marketing audit is typically seen as one way of evaluating the health of a firm’s marketing practices. In this sense, it is strongly related to broader research on marketing performance measurement (Bonomia and Clark, 1988), marketing control (Jaworski, 1988), market orientation, and the more recent movement toward marketing accountability and marketing metrics.

Bibliography


marketing channel strategy

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INTRODUCTION

Marketing channel strategy – one of the “Four P’s” of the marketing mix (“place,” along with
product, price, and promotion (see MARKETING MIX) - comprises the set of decisions made, and structures created, that help move a manufacturer's product or service from its place of manufacture to the ultimate end-user. Unlike the other three “P’s,” it inherently involves collaboration and interaction among multiple corporate entities, all in the pursuit of a single goal: profitable end-user sales. The strength of partnering with other companies or entities is the access it affords to partners’ capabilities. The corresponding challenge is the structuring and ongoing management of a complex set of activities, undertaken across corporate borders, without complete control. This article lays out the key elements of effective channel design and channel management.

MARKETING CHANNEL DEFINITION AND ELEMENTS

A “marketing channel” (also called a “distribution channel” or “route to market”) is defined as follows:

A marketing channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption.¹

This definition highlights three concepts important in managing a marketing channel. Consider the italicized terms in the definition, in reverse order.

First, a channel’s very purpose is to make its product or service available for use or consumption. This means that the primary focus is always on end-users and their satisfaction. As a marketing concept, this hardly seems earth-shattering; after all, do we not start every analysis with the consumer or end-user? Sadly, this is often not the case when managers consider their channel strategies. For example, a manufacturer selling to the ultimate end-user through a retailer may erroneously consider the retailer a “customer.” In fact, the retailer is not the manufacturer’s customer, but a partner in jointly serving the ultimate end-user (who is the true consumer).

An easy way to verify the identity of the end-user is to ask the question, “Who pays the channel’s bills?” Only ultimate end-users inject fresh money into the channel and thus pay for all the costs of running the channel, as well as any profits above and beyond those enjoyed by all channel members.

Secondly, running a marketing channel is a process, rather than an “event” happening at the moment of sale. Distribution involves the cumulative investment of time and effort, usually by multiple channel members, engaged in different costly and value-added activities, which together culminate in a sale. These activities involve coordination among multiple partners, communication forward and backward through the channel, and the participation of payment facilitators and financing entities in addition to those partners handling the physical inventory itself.

Thirdly, keeping a marketing channel running well means recognizing and managing the interdependence of channel partners. Different channel members have responsibility for different functions and activities in the marketing channel, and therefore each is dependent on the good offices of all the other channel partners. Given this interdependence, attention must be paid to the possibility of channel conflicts that could disturb channel partners’ incentives to continue performing their assigned roles. Should any such conflicts arise, the judicious application of levers of channel power can help to keep conflict from disrupting the channel’s operation.

This article uses these three elements as core concepts in describing channel design and channel management and implementation in more detail below, after discussing the inherently strategic nature of channel design and management.

WHY MARKETING CHANNEL DESIGN AND MANAGEMENT IS STRATEGIC

The design and management of a well-working marketing channel not only takes considerable effort and thought, but it affects the productivity of the rest of the company’s marketing efforts as well. An excellent new product idea may enjoy a certain amount of market potential. However, unless the product is distributed appropriately and supported by the efforts of intermediaries, it may fail miserably in the marketplace. Conversely, a well-orchestrated distribution effort can significantly increase
the productivity of marketing investments in product design.

Further, the design and execution of a marketing channel is expensive, both at set-up and as an ongoing concern. One analysis estimates that transportation costs average 21% of the cost of goods sold in the United States; border-related trade barriers add a further 44%; and retail and wholesale distribution costs average 55% of the landed cost of goods sold in industrialized countries. These costs combine to a 170% total estimated trade cost above the cost of goods sold. Clearly, managing the costs of such an effort can have a substantial impact on the product’s ultimate sales and profitability in the market.

In addition, developing and running a marketing channel involves the use of other agents and/or companies (the designer’s “channel partners”) to whom the channel designer allocates important channel responsibilities, yet over whom the channel designer has limited control. This places the channel designer at considerable risk, because of the noncompensatory nature of the channel’s work elements. In particular, it is typically not possible to compensate for a channel partner’s nonperformance of a designated function by “doing more of” another function over which the channel designer does have control (imagine trying to compensate for a retailer’s poor stocking efforts on store shelves by doing more promotion of the product, or shipping more frequently!). The successful channel designer and manager must therefore take account of this risk and foresee and manage any emerging problems; this requires a strategic and long-range focus rather than a tactical, short-term one.

Once established, marketing channel systems tend to be very difficult to dismantle or completely redesign. They involve investments in relationships with sales forces, distributors, and retailers; negotiations over shelf space or promotional considerations; and the development and adoption of information technology systems that allow the partners to communicate efficiently and quickly. These types of expenditures are not just current costs, but are rightly viewed as investments by the channel designer, with a payoff that is enjoyed for many years into the future (if the relationship is fruitful). The strategic goal is therefore to “do it right the first time.”

Because of the positive externalities a well-run channel confers on other marketing efforts of the firm, its expense, the risk inherent in partnering with independent channel members, and the difficulty of redesigning or abandoning an established channel structure; it is therefore clear that proper channel design and management has strategic (i.e., long-run and wide-ranging) importance to the overall marketing strategy of the firm.

DEMAND-SIDE INSIGHTS FOR MARKETING CHANNEL DESIGN

The fact that the end-user is the only channel member who injects money into the channel system enhances the value of understanding end-user demands and deciding how (and how intensively) to meet them. End-users demand not only products, but also a varied set of services from the channel. In short, it is not only of interest to a consumer what s/he buys, but also how s/he buys. The types of channel services demanded by consumers are sometimes aptly called “service outputs,” identifying these services as the output of the work of channel members.

Service outputs vary across different specific channels and end-users. However, a generic list of service outputs includes lot size, spatial convenience, assortment, speed of shopping/acquisition, and various elements of customer service.

Service outputs are inherently good. For example, avoiding shopping hassle, or getting a desired product quickly rather than with a delay, are attractive aspects of the buying process. However, not all consumers value a service output to the same extent. This implies that the delineation of consumer segments for marketing channel design is a function of the variations in consumers’ service output demands. This is quite a different concept of segmentation (see MARKET SEGMENTATION AND TARGETING) than the one a firm might use when thinking about physical product design; the fact that manufacturers send the same product to market through multiple channels implies that physical product attributes alone are insufficient to determine a product’s sales and profit potential.
Thus, even a parity product can be significantly differentiated through the provision of carefully chosen service output levels. The strategic design of the service output bundle to offer along with the product can create loyal sales at a high margin, because the augmentation of the product with a desired set of service outputs effectively turns a competitive product into a highly differentiated product/service bundle. This is extremely good news for firms selling established lines of mature products that face head-to-head product-attribute competition. Indeed, it is a rare company that can boast more than one or a few truly innovative, unique, patent-protected products that face no current or potential competition. The ability to sell the usual product array depends on the channel’s offering of an attractive combination of product and service outputs.

SUPPLY-SIDE AND EFFICIENCY INSIGHTS FOR MARKETING CHANNEL DESIGN

It might seem from the above discussion of service outputs that the channel should seek to provide all valued service outputs in order to prosper in a product-competitive marketplace. Unfortunately, this is not a generally feasible strategy, because of the cost of delivering intensive service output levels. Thus, while a demand-focused approach to marketing channel strategy is critical in developing consumer satisfaction, a complete profit-maximizing strategy requires controlling the cost side of the channel as well.

More generally, setting up a marketing channel structure involves addressing the following issues:

- decide what “work” must be done in the channel to generate targeted end-users’ desired service outputs;
- choose channel intermediaries that can reach targeted end-users;
- split the “work” of the channel amongst the chosen channel partners for maximum efficiency (i.e., minimum cost);
- create a reward system that awards adequate compensation for channel members’ work.

Decide what “work” must be done in the channel. The “work” of the channel includes performance of a set of channel flows, which are costly functions that must be done in a marketing channel in order to move the product (or service) from the hands of the manufacturer into those of the end-user. A generic list of channel flows includes physical possession, ownership, promotion, negotiation, financing, risking, ordering, and payment.4

Channel flows are costly; they can be done by just one, or by more than one, channel member; and they are done in order to produce desired service outputs. Because of the tension between the value of generating service outputs and the cost of doing so, it is worthwhile to weed out costly but non-value-added functions. One manager of a multinational company, sent to the South American marketplace with a mission of managing distribution costs, found that the company could remove inventory from over half of its stocking distributors in the multicountry region without compromising speed of delivery or product availability. An added benefit was the greater freshness of the product, which was subject to quality degradation over a period of months sitting in inventory. In such cases as this, careful monitoring and control of waste in the performance of channel flows can not only reduce costs, but can in some cases also actually increase quality and service provision.

In a specific channel application, the channel manager is urged to customize the generic list of channel flows so that their names and descriptions fit the market concerned. For example, physical possession and ownership may be fruitfully combined into one flow called inventory holding if the holder of product is commonly also its owner. On the other hand, it frequently makes sense to split up the promotion flow into multiple separate flows, such as sales force costs, advertising, sales promotions, and trade show expenses. Yet other flows, such as risking, may be renamed to apply more directly to the business at hand; the cost of risking can be monetized by finding out the cost of an insurance policy to cover a negative outcome in the business, for example. If such is the case, insurance may be a better term than risking for that business.

Because distribution is so costly, it behooves the channel manager to try to audit the channel
in order to understand channel cost levels, who bears them, and how to improve their management. It is often best to examine the accounting and financial systems of channel partners in order to see at what level channel costs can be measured.

When establishing a new channel structure or expanding an existing one, the channel designer must figure out what levels of channel functions need to be done in order to meet target end-users’ demands for service outputs. For example, an arts and crafts retailer like Michaels in North America may first recognize that its “casual crafter” consumer segment wants quick availability of a wide range of arts and crafts products, along with project ideas and information on needed supplies and the appropriateness of the suggested project for various age and skill groups. These demands imply a high value for quick delivery (i.e., low out-of-stock levels), assortment and variety, and customer service and education. When Michaels wanted to grow its store network significantly in the 1990s and 2000s, the company realized that these service output demands translated into the need to manage the distribution channel from its suppliers, through its distribution centers, down to its retail stores, to improve the channel’s performance on movement, storage, tracking, merchandising, and replenishment of product. This recognition spurred a multiyear effort on the supply-side of the channel; such initiatives are substantial both in time and money costs. However, without such an effort, significant system growth would be impossible.

Choose channel intermediaries that can reach targeted end-users. Once the channel designer understands the work that needs to be done to generate desired service output levels, the structure of the channel must be determined. Channel structure specifies:

- the types of intermediaries to be used; and
- the specific identity of each intermediary with whom to partner.

There are many types of intermediaries from which to choose. For example, retailers may be bricks-and-mortar or online (or both); large and multistore or small and mom-and-pop in scope; organized as a franchise business; or broad-line or specialty stores. The manufacturer may use an independent distributor, a value-added reseller, an independent sales representative firm, or a sales broker to help sell its products to downstream buyers. Franchisees, direct selling individual resellers, or multilevel marketing distributor/resellers are alternatives to a standard retailer.

Similarly, once the manufacturer decides what types of intermediaries will be the best partners, it is also necessary to pick the specific partner(s) of each type. For example, when Jenny Craig weight-loss centers decided to augment its client service by offering to send weekly food shipments to them (rather than requiring them to stop in at Jenny Craig retail centers each week to pick up their food), it knew that it needed a third-party delivery partner (thus settling on the type of channel intermediary to use). Jenny Craig chose Federal Express as the shipper for its “Jenny Direct” program—perhaps in a nod to FedEx’s reputation for reliability and quick delivery, key service outputs for a consumer who is replacing all of their regular meals with Jenny Craig food.

More generally, in choosing both the type and the specific identity of its channel partners, a manufacturer generally takes into account the following factors:

- Market coverage (will the potential channel partner help me reach my target end-user segments?)
- Partnership potential and commonality of interest (will the potential channel partner benefit, as I will, from a strong effort to satisfy the target end-user segment?)
- Capability (can the potential channel partner perform the designated channel flows and functions using the right technology and with sufficient skill?).

Split the “work” of the channel amongst the chosen channel partners. With an identified set of channel partners, the channel designer must next decide what elements of the channel workload are to be allocated to which channel member(s). Some channel functions, such as inventory holding, may be performed serially
marketing channel strategy

by multiple channel members. Other channel functions, such as promotion or negotiation, could conceivably be focused in the hands of just one channel member. The goal in allocating the work of the channel is to control the total cost of running channel operations, because any unnecessary cost is lost profit to the channel as a whole. Another consideration (discussed further in the section below on channel conflict) is the safeguarding of the channel against the possibility that a channel partner shirks in its performance of channel workflow.

Create a reward system that causes channel members to earn adequate compensation for the work they do. A well-designed and implemented channel creates gross margins (revenue minus cost of goods sold) high enough to cover all channel costs, and to generate profit to each channel member. In order to preserve the incentives of each channel member to continue to do its allotted work and thus perpetuate good channel outcomes, adequate compensation must be awarded. The channel designer can use discounts off list price; functional discounts; spiffs; sales contests; and many other reward mechanisms to directly or indirectly influence the performance of appropriate channel effort. A detailed analysis of incentive creation in the channel is beyond the scope of this discussion, but in general, good incentives are ones that:

- reward the desired behavior;
- can be recognized by the recipient as tied to the performance of the desired behavior;
- are of sufficiently high value to make it worthwhile to engage in the desired behavior.

MARKETING CHANNEL CONFLICT AS A BARRIER TO EFFECTIVE CHANNEL MANAGEMENT

Let us suppose that a well-designed channel structure has in fact been put in place, based on the analyses suggested above on the demand- and supply-sides. Alternatively, we can suppose that a preexisting channel has been analyzed and appropriate incremental changes have been made to close as many gaps on the demand- and supply-sides as possible. Can the channel designer now rest on his/her laurels as the channel seamlessly rolls along in the marketplace?

Unfortunately, the answer is probably no. Persistent channel conflict problems beset most channels, even very well-designed ones. Channel conflict is characterized by one channel member’s behavior which is in opposition to the desires of another channel member, so that the channel members are acting adversarially, rather than cooperatively, vis-à-vis one another. Three general types of channel conflicts are goal, domain, and perceptual (or perception of reality) conflict.

Goal conflict. Two channel members experience goal conflict when their objectives or time horizons are incompatible. This form of conflict is ubiquitous in marketing channels, because of the very fact that channel partners are chosen for their different capabilities - not because they are clones of the channel designer. Although all channel partners may well be interested in the same higher-level goal, such as profit maximization, the actions that increase one channel
member's profit do not always increase the profit of all channel members. For example, in a franchise channel, investments by the franchisee in better service, more personnel, training, cleanliness, etc. offer benefits to both the franchisee and the franchisor, because the resulting increased sales engender royalty payments to the franchisor as well as net income to the franchisee. However, the franchisee must bear all of these costs itself. Thus, the franchisee does not internalize the full benefits of these investments, and as a result, its goal of maximizing its bottom-line income (which includes those costs) will lead it to spend less on such investments than the franchisor would prefer.

**Domain conflict.** Domain conflicts refer to disagreements between channel members over either the responsibilities of, or the rights from, running the channel. Responsibilities include the performance of costly (but value-added) channel flows, and/or the adoption of appropriate technologies for getting the work of the channel done. Rights from running the channel include any direct or indirect financial benefits from participating in the channel. For example, a manufacturer selling B2B products to business customer end-users may use an independent distributor to reach its smaller customers, but reserve larger customers for its in-house sales force (see *SALES FORCE STRATEGY*). If the distributor invests in good faith in growing a customer relationship, and eventually succeeds in generating high sales from that customer, its “reward” may perversely be the removal of that customer from the distributor's control and reallocation of the customer account to an in-house salesperson. In this all-too-common example, the distributor exerts costly sales and support effort to build the customer account (i.e., takes responsibility), and as a result likely perceives a certain right to the profits from sales to that account. When the account is taken away, the distributor therefore experiences a domain conflict with the manufacturer, due to the distributor’s belief that this customer was and remains part of the distributor’s domain, while the manufacturer believes the customer rightfully belongs to the in-house salesperson.

**Perceptual conflict.** Perceptual conflicts between channel members occur when they view the same marketplace or set of market stimuli, but perceive them differently. Such conflicts are actually quite common; they can arise when a distributor or retailer has direct contact with end-users and therefore a deep understanding of what end-users want, while the manufacturer may not communicate with them directly. Another common source of perceptual conflict is a difference in norms or culture; what one country’s manufacturer views as normal business practices (e.g., working late in the evenings or on weekends) may be viewed as unacceptable in some other countries or cultures. These perceptual differences can lead to conflicts over what constitutes adequate in-market sales effort or what promotional tools are the most effective.

Perceptual conflict is particularly insidious, because by its very nature, it is so hard to detect. The natural tendency is to assume that others see the world the same way that you do, so it can be very hard to recognize that a difference in perception is the root cause of conflict in the channel. If a conflict is not even recognized, there is little chance it will be resolved, much less, anticipated and prevented. Once perceptual conflict is recognized, it has often festered for so long that it is then difficult to deal with.

When any of these conflict sources is strong enough, the entire functioning of the channel may be in jeopardy, because different channel members specialize in the performance of certain subsets of channel functions and flows. A disgruntled channel member who shirks in the performance of its designated channel functions can therefore generate suboptimal service output provision and consumer satisfaction.

While some degree of conflict is to be expected even in a well-working channel, destructive conflict is to be avoided and, if possible, anticipated and prevented before it blossoms. For example, when John Deere began offering lawn tractors through Home Depot – even though it had historically always partnered with its independent dealer network as its sole route to market – Deere management anticipated the possibility of serious domain conflict, because of the possibility of cannibalization (see *CANNIBALISM*) of dealer sales. To minimize this, Deere only offered entry-level products
through Home Depot, while offering the full line through its dealers; as well, Deere dealers became the post-sale service provider for all Home Depot sales, thus offering a revenue stream even on units the dealer itself had not sold, as well as opening an opportunity to up-sell these consumers on accessories and, ultimately, their next lawn tractor. Dealers learned in this process that Home Depot sales did not just cannibalize their sales, but actually expanded the market, attracting new buyers who might never have visited a Deere dealership. Thus, even though adding another route to market is almost always a recipe for increased channel conflict, John Deere’s actions prevented the conflict from escalating out of control. Indeed, the addition of the new channel in fact made the legacy channel members – Deere’s independent dealers – actually better off than before the channel expansion.

In an example like this, the prevention of serious channel conflict involves not only an alert focus on channel partners’ attitudes, but also an awareness of the tools available to the channel designer to combat emergent conflict situations. These tools are elements of channel influence or channel power, discussed in the next section.

MARKETING CHANNEL POWER AS A TOOL OF CONFLICT MANAGEMENT

When a channel member uses threats, monetary or nonmonetary rewards, contractual terms, education and expertise, or the value of the brand itself, to align the interests of its partners with its own, that channel member is acting as a channel captain and using sources of channel power. Channel power is defined as the ability to induce another channel member to take an action which that channel member would not otherwise have done.9

One conceptualization of power posits that channel member A’s power over channel member B is greater, (a) the greater is the utility that A can offer to B, and (b) the scarcer is the source of A’s utility to B.10 The concept of scarcity is straightforward: the more A is like a monopolist, the more leverage A can exert over B. For instance, when establishing distribution in a foreign country, it is quite possible that there is only one distributor a manufacturer could use; this distributor wields considerable scarcity power. Meanwhile, the concept of utility simply means that A can offer B something that B values. This "something" could be market access, increased sales, technical expertise, or association with a valued brand-name partner. Further, these two fundamental power sources are complementary inputs to A’s total power over B, so that each one enhances the incremental value of the other. A corollary of this is that without at least a modicum of one source of power, the value of the other power source is very low (e.g., with many rivals [i.e., low scarcity], a high level of utility does not afford A a high overall power position; analogously, if A’s offer is not of high utility to B, it hardly matters if A is scarce or not).

While this notion of power arising from scarcity and utility is intuitively very appealing, it does not identify a specific typology of utility power sources. Another reference suggests five sources of power that can be thought of as elements of utility power: coerce, reward, expertise, legitimate, and referent.11 Coercive power is the threat that a benefit will be withheld unless a channel partner behaves as the powerful channel member requests. Reward power, in some sense the converse of coercive power, is the offer of a valued benefit if the channel partner does behave as the powerful channel member requests. Expertise power is the ability to share valued knowledge with a channel partner; legitimate power is the perceived right that one channel partner has to influence another; and referent power is the ability to influence another channel member who wants to “identify with” the powerful channel member. By specifying how the powerful channel member offers utility to the dependent channel member, this framework identifies what type of influence one channel member has over others.

Importantly, these power sources describe the potential of a channel member to exert influence over another; they do not require the actual exercise of that power. Also of importance is the fact that all channel members wield some power; by contrast, if a channel member had literally no power sources at all, it would exit the channel relationship because it could command no profit
from the venture. Additionally, while one can audit a channel to evaluate current power positions of each channel member, a company can also make strategic investments in one or several power sources in order to develop its influence over time in its channel relationships. Examples of the accretion of power over time through such strategic investments are the accumulated brand equity (referent power) and operational expertise (expertise power) of franchisor McDonald’s, or the reward power inherent in the size of a channel partner like Walmart.

In sum, channel power should be viewed as a strategic resource of the firm and investments in channel power should be made judiciously with a view toward the development of scarce sources of leverage.

Power can be abused as well as constructively used. In the short run, the use of channel power to improve one’s own share of channel profits, to the detriment of other members’ profits, may be successful. However, in the long run, this strategy can backfire for at least two reasons. One is that an overly greedy, coercive channel member may literally bankrupt other channel partners and cause them to leave the channel; this leaves the channel with some functions uncovered, which previously were done—essentially at subsidized levels—by the now-defunct channel partner. Ultimately these channel flows will have to be done by some other channel member, who is not likely to agree to subsidize their performance as the earlier channel member did. The other reason an abusive power-wielding strategy can backfire is that eventually, competitors will emerge with whom the “abused” channel partners will be more than happy to partner instead. Eventually, the abusive channel member will find itself without partners, both because its former partners desert it and because its reputation will precede it and make it difficult to form new relationships.

In sum, channel power is the overall term for a set of tools that give a channel member leverage over the actions of other channel members. In a constructive, well-working channel, power is either latent, or is exercised judiciously to further the channel’s goals. In those situations of great power imbalance, the dominant channel member may take advantage of weaker ones in the short run, although in the longer run, such a channel structure is unstable.

CONCLUSION

Channel design and management is an important strategic focus of a successful market-focused company. It involves long-term attention to the demands of end-users not only for the firm’s products, but also for the services the channel can offer; the necessity to manage the significant costs that distribution inflicts on the company, through judicious allocation of responsibility for channel flow performance to the chosen members of the channel; and the ability to maintain channel partners’ positive incentives and motivations to execute on the specified channel design. These are formidable tasks for any channel designer or manager. However, the upside potential is great, precisely because the challenge is itself great; those who succeed are rewarded with long-standing and loyal relationships with both channel partners and end-user consumers and customers.

ENDNOTES

1 Coughlan, Anne T. et al. (2006), p. 2; italics added.
2 Anderson and van Wincoop (2004), p. 691-692. Their definition of “trade cost” includes “all costs incurred in getting a good to a final user other than the marginal cost of producing the good itself: transportation costs (both freight and time costs), policy barriers (tariffs and nontariff barriers), information costs, contract enforcement costs, costs associated with the use of different currencies, legal and regulatory costs, and local distribution costs (wholesale and retail).” The combined effect the authors calculate is \[(1.21 \times 1.44 \times 1.55) - 1 = 1.7,\] or a 170 percent increase above production costs. Note that these estimates omit channel promotional costs, which would further increase the total cost estimate.
3 See Chapter 2 of Coughlan et al. (2006) for a thorough discussion of service output demands.
4 See Chapter 3 of Coughlan et al. (2006) for a detailed discussion of the eight generic channel flows.
marketing costs


6 See www.jennycraig.com for details on the "Jenny Direct" program.

7 See Calderaro and Coughlan (2007) for an analysis of the uses of spiffs in marketing channels; Calderaro and Coughlan (2009) for a discussion of sales contests; and Chapter 11 of Nagle and Hogan (2006) for a discussion of some of the other reward structures mentioned here. Chapter 10 of Coughlan et al. (2006) provides legal insights into the use of various pricing and reward policies in a channel management context.

8 See Chapter 7 of Coughlan et al. (2006) for a detailed discussion of sources of channel conflict.

9 See Chapter 6 of Coughlan et al. (2006) for a detailed discussion of channel power.

10 This notion of power is adapted to the channel context from Emerson (1962).


Bibliography


Almost a century ago, Shaw (1912) explored the problems in distribution focusing on reducing marketing costs and improving the productivity. The themes of cutting marketing costs and increasing efficiency explored in that paper still resonate today. Marketing costs account for the largest part of the consumer dollar. The prefix "cutting" features in most current articles on marketing costs. Further, a large number of articles link lack of profitability to escalating marketing costs. We need to build the perception that marketing costs produce value, and should therefore be viewed as investments in building the assets of a firm (see MARKET-BASED ASSETS).

**MARKETING COSTS AND TACTICS**

Most marketing textbooks discuss cost under a section on Marketing Arithmetic covering topics such as margins, fixed and variable costs, and breakeven analysis. Marketing costs are mentioned, usually qualitatively, while detailing the marketing mix decisions. Some of the examples are costs associated with the following:

1. Product quality, packaging, logo and brand development, and brand extensions.
2. Price decisions covering fixed and variable costs, breakeven analysis, and the demand (see DEMAND ELASTICITY).
3. Distribution requiring an analysis of transportation, inventory carrying, distribution margins, incentives to "push" products including allowances to trade.
4. Communication budgets including allocation by promotion mix and media selection, and agency compensation (see COMMUNICATIONS BUDGETING).

Most material does not provide any detail about the amounts as the figures vary by product, product lifecycle, and country. However, in some industries such as pharmaceuticals and healthcare, and government and nonprofit organizations, marketing costs are