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C.6 Channel Cooperation

EXPLANATION OF THE CONCEPT

After the channel of distribution has been designed, there remains the task of assuring that channel members cooperate so that the marketing mix of the product is carried out. This calls for the judicious use of power and incentives to bring about the desired behavior by channel members.

Channel Power and Channel Leadership. Channels of distribution are made up of independent manufacturers, wholesalers, agents, and retailers. If their activities are to be coordinated, someone must take the lead. The institution that takes leadership of a channel of distribution is called the **channel captain.**

The channel captain is usually the institution perceived as having the greatest power over other channel members. A channel member is perceived to have power when it can exercise control over the marketing activities of other channel members.[1] Thus if a manufacturer can influence a retailer's advertising, display activities, or pricing, it will be perceived as having power over the retailer.

What are the sources of power that permit an institution to become the channel captain? A channel member's power stems from economic sources that allow the imposition of reward or punishment and noneconomic sources that rely on influence.[2] Economic sources of power might include trade discounts or advertising allowances, while noneconomic sources of power could include expertise about the market or marketing practices.

The institution that becomes channel captain will design the channel of distribution and will take responsibility for developing channel cooperation. What institution will that tend to be? Little suggests that neither small retailers nor small wholesalers have the inclination or the power to become leaders of the channel.[3] The choice, he states, is between the manufacturer and the multilevel merchandisers, large integrated chain organizations such as Sears, Kroger, K mart, that combine wholesaling and retailing. Each of these institutions has its own source of power. Manufacturers have power because they control the design of their own products and can promote them directly with consumers to generate demand. However, this power is lessened as the need for distribution intensity increases and as the product matures and loses its differentiation. Multilevel merchandisers realize power because, unlike manufacturers, they have direct access to consumer markets and can reach them with great economy. This power is limited by the great variety of products handled and the resulting inability to conceive and design products or engage in promotion of individual items.

Who will be channel captain depends upon the balance of power between these two institutions. While manufacturers have historically held the upper hand in many channels, integrated chain retailers have grown to have enormous power because their customer bases are essential to many manufacturers. As a result they are coming to leadership positions in many product categories. (See also GLOSSARY entry C.5 on private brands.)

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[1]Suggested by Michael Etgar, "Selection of an Effective Channel Control Mix," *Journal of Marketing* 42 (July 1978), p. 55.

[2]See Ibid., p. 54.

[3]This paragraph is based on Robert W. Little, "The Marketing Channel: Who Should Lead This Extra-corporate Organization?" *Journal of Marketing* 34 (January 1970), pp. 31–38.

Manufacturer Needs from the Channel. In building cooperation between channel members, the channel captain must recognize that the needs of the manufacturer are different from the needs of the wholesaler and retailer. What does the manufacturer require from the channel of distribution? The manufacturer's foremost need is for economical access for the firm's product to wholesalers' and retailers' customers. Manufacturers do not usually have direct access to consumers and developing that access is not usually economically feasible. Wholesalers and retailers already have access to consumers with much of the cost of reaching them absorbed by other products in their lines.

The second requirement of manufacturers is for cooperation from channel members in implementing the marketing mix for their product. The need for cooperation will vary from product to product, but may include support through personal selling, advertising, display, financing, holding inventory, customer service, or pricing.

Retailer and Wholesaler Needs from the Channel. The requirements of middlemen, wholesalers and retailers, are different from those of the manufacturer.[4] The successful middleman firm sees its primary mission as being a purchasing agent for its target market, while manufacturers would like it to behave as selling agent for their products. Middlemen select a product to carry in terms of how well it meets the needs of their target market more than by its markup, features, or advertising support.

Middlemen also differ from manufacturers by thinking about product lines rather than individual products. Middlemen try to build an assortment of goods that meets the full range of needs of their customer group. Thus product additions are judged in terms of how well the product fits into the existing product assortment. Manufacturers find it difficult to get middlemen to put selling effort behind individual products. Middlemen, many of whom have extraordinarily long lines, focus on selling the assortment, not individual items. What middlemen perceive that they have to offer manufacturers is not marketing support, but access to their customer group.

Sources of Channel Conflict. While the goal of the channel captain is cooperation within the channel, the result is often conflict. **Channel conflict** is the perception by one channel member that another channel member is impeding attainment of its needs.[5]

What is the source of conflict? Certainly a leading cause is the difference in needs between manufacturers and middlemen. The likelihood of conflict in channels of distribution is heightened by the frequent interaction between the members and their interdependence. The tendency of channel members to specialize—manufacturers in developing products and middlemen in developing customer bases—throws the two together and makes them dependent on each other. Channels are made up of independent businesses trying to maintain their autonomy despite their interdependence.

Etgar suggests that sources of channel conflict can be classified as attitudinal or structural.[6]

- *Attitudinal Conflict.* Attitudinal conflicts arise from differing ways of viewing the channel and its environment. Attitudinal conflicts may arise from disagreements about roles of channel members, differences in expectations about channel success, different ways of perceiving the environment (local versus national), or misunderstandings arising from ineffective communications between channel members.
- *Structural Conflict.* When the needs of channel members clash, the result is structural conflict. Structural conflict can arise from three

[4]This section is based on Phillip McVey, "Are Distribution Channels What the Textbooks Say?" *Journal of Marketing* 24 (January 1960), pp. 61–67.

[5]John F. Gaski, "The Theory of Power and Conflict in Channels of Distribution," *Journal of Marketing* 48 (Summer 1984), p. 11.

[6]See Michael Etgar, "Sources and Types of Intrachannel Conflict," *Journal of Retailing* 55 (Spring 1979), pp. 64–67.

sources: When channel members are pursuing different goals, when a channel member attempts to gain autonomous control over some marketing activity, or when channel members are in competition for the same limited resource.

These two classes of conflict are significant because, as we shall see later, they require different approaches for their resolution.

PROCESS AND TECHNIQUES FOR ATTAINING CHANNEL COOPERATION

Achieving cooperation between members of the channel of distribution requires careful planning that reconciles the requirements of the manufacturer with the needs of the middlemen.

The Process for Developing Channel Cooperation. The purpose of the process for developing channel cooperation is to gain channel member participation in implementation of the marketing mix for a product. Planning for cooperation is done by the channel captain and should take place as part of development of the **marketing mix** for the product or product line.

The process for developing channel cooperation has four steps that are presented below and summarized in Figure C.6–1.[7]

Step 1: Develop the Marketing Mix

What is the marketing mix?
What are consumer shopping needs?
What are channel member needs?

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Step 2: Define the Role of Channel Members

What role is the manufacturer to play?
What role is the wholesaler/agent to play?
What role is the retailer to play?

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Step 3: Provide Incentives for Cooperation

What action is desired from channel member?
What incentive matches desired action?

↓

Step 4: Provide for Conflict Resolution

What is the cause of the conflict?
What remedy matches the cause?

FIGURE C.6–1

The Process for Attaining Channel Cooperation

- *Step 1: Develop the Marketing Mix.* Channel cooperation steps are defined as part of the **marketing planning process** (see Chapter 4). Since channel cooperation is concerned with implementation of the marketing mix, it should be designed after the main elements of the marketing mix have been developed. The marketing mix becomes the objective that the cooperation process seeks to achieve. The marketing mix, particularly the distribution program, is developed with an understanding of both consumer shopping needs and the needs of channel members. These same needs guide development of the channel cooperation process.
- *Step 2: Define Roles of Channel Members.* With the marketing mix defined, the desired participation of each channel member must be established. For each program in the marketing mix, the channel captain must define what role the manufacturer will play, what the wholesaler or agent is to do, and what is expected of the retailer. In defining channel member roles, the channel captain must be aware that channel members will be motivated to serve their own needs and define roles that are compatible with those needs. In developing roles, it must also be remembered that each channel member is a specialist. Roles for channel members should utilize their specialized skills rather than ask them to perform in roles outside their special skills.
- *Step 3: Provide Incentives for Cooperation.* In order to assure that channel members play the roles assigned and provide the cooperation required by the marketing mix, incentives must be provided. These incentives are a form of payment for services that are rendered by the channel member. Incentives can be provided in many ways. Some of the more widely used forms are discussed in the next section. The incentive provided should be matched to the

[7]The process presented here is a development of one presented by Louis W. Stern and Adel I. El-Ansary, *Marketing Channels,* 2d ed, (Englewood Cliffs, N. J.: Prentice Hall, 1982), pp. 266–67.

action desired on the part of the channel member. For example, a cooperative advertising allowance would be appropriate to encourage a retailer to bear some of the burden of advertising a product and a display allowance would be used to encourage display of the product in the retail store.

- *Step 4: Provide for Conflict Resolution.* Even where channel cooperation is carefully planned, there is a good chance that there will be conflict among the autonomous units of the channel. While a moderate level of tension is sometimes healthful by serving to bring out competitive efforts, a serious outbreak of conflict can disrupt channel relations, bringing an end to cooperation. In such cases, the channel cooperation process must provide for action to determine the cause of the conflict and provide remedies that match the problem. In the closing section we shall look in more detail at measures to resolve channel conflict.

Incentives for Gaining Channel Cooperation. Incentives are a form of compensation offered to channel members for performing services on behalf of a product. The incentives can be monetary, such as a trade discount, or nonmonetary, such as store management advice. Incentives can be positive or negative. Offering a cooperative advertising allowance is a positive incentive to perform a service. Negative incentives, such as terminating a retailer's right to distribute a product, operate by coercion. The threat of coercion is more likely to create channel conflict than is a positive incentive.

In designing an incentive program, the incentives selected should be matched to the role and specific tasks that the channel member is to fulfill. Some incentives are targeted in their effect. A cooperative advertising allowance is a targeted incentive. Other incentives, such as a trade discount, are very broad, encouraging the channel member to carry the product and generally cooperate. The incentives offered must also be equal to or superior to competitive offerings if they are to be attractive to the middlemen. Channel incentives that are coercive or impair competition may be illegal under antitrust laws (see GLOSSARY entry D.2). Some of the more widely used incentives are listed below. Most of them are the subject of other GLOSSARY entries.

- *Discounts and Allowances.* The most fundamental incentive provided to channel members is discounts and allowances. These financial incentives, which come in great variety from broad to highly targeted, provide middlemen with the margin between their purchase price and their selling price. The trade discount, the broadest incentive, is provided to middlemen as an incentive to provide the basic services of stocking a product and offering it to their customer base.

  Other discounts offer a reduction in selling price for more specific acts of cooperation. A cash discount is a reduction in price for paying promptly; a seasonal discount is a reduction for buying out of season or in advance of a heavy season; quantity discounts are an incentive to buy in large lots and carry heavy inventory.

  Allowances are like discounts, usually offering payments or price reductions for specific support. Two mentioned earlier are cooperative advertising allowances given for advertising support by middlemen and display allowances offered for special display support in the retail outlet (see GLOSSARY entry C.11).
- *Distribution Selectivity.* Exclusive or selective distribution means that product availability is limited to one or a few wholesalers or retailers in a geographic area. Selectivity in distribution provides incentive for those offered the product to cooperate. If the brand is a strong one and well supported by promotion, having the product on an exclusive or selective basis provides the middleman with a competitive advantage. In exchange, the middleman can be asked to provide an above average level of support for the product. For the manufacturer, the tradeoff is the reduction in the level of exposure for the product (see GLOSSARY entry C.12).
- *Vertical Marketing Systems.* When one channel member gains control over other channel members so that the channel can be managed as a system, it is termed a **vertical marketing system.** There are several forms of vertical marketing systems. One channel member may gain control by the power of indispensable products or distribution system (an administered channel), or the channel members may agree on the terms of their relationship con-

tractually (such as a franchise agreement), or one channel member may purchase the other channel members, forming an integrated channel (Goodyear and Sherwin-Williams are examples). The major advantage of vertical marketing systems is that they offer more complete control and greater ability to coordinate the marketing activities of the channel members. Such systems also require major resources and a long time period to develop (see GLOSSARY entry C.7).

- *Marketing Expertise.* Channel cooperation can also be gained by offering marketing advice and assistance to channel members. The advice may take many forms including training of sales people, store layout or display assistance, advertising assistance, help in setting up inventory control systems or credit systems, or counsel on pricing practices. Some marketers offer complete merchandising programs for the channel member to implement. If such programs are adopted, the result can be substantial cooperation.
- *Push versus Pull.* **Push** and **pull** are alternative means of gaining channel member cooperation through the use of promotion. Under a pull approach, the manufacturer directs promotion to the end consumer, creating demand at the retail level. Consumer **sales promotion** is likely to be a major portion of the **promotional mix** under the pull approach. Consumer demand forces the retailer and, in turn, the wholesaler to stock the product in order to meet customer demand. Under push, the manufacturer sells to the next level in the channel of distribution, offering the middlemen incentives to cooperate by carrying the product and, in turn, selling it to the next level in the channel. Pull is clearly more coercive than push. It is most appropriate for consumer convenience goods and products sold through long-line wholesalers and self-service retail outlets. It is rarely used for industrial goods (see GLOSSARY entry C.30).
- *Product Branding.* A major means of gaining middleman cooperation, related to the pull strategy, is to develop strong brand name products. Strong consumer demand for these products makes them indispensable to middlemen. Creating consumer preference for a brand requires more than just promotion; it requires a quality product with competitive advantage that represents good value. In product categories with broad consumer usage and strong brands, retailers and wholesalers often attempt to regain bargaining power from national brand marketers by sponsoring their own private labels or store brands, usually sold at lower price. However, the success of store brands is dependent upon the presence of national brands that set the standard for quality and value (see GLOSSARY entry C.5).
- *Customer Service.* Customer service can be offered to the end customer to improve consumer preference for a brand. Customer service can also be extended to channel members as an incentive to cooperate. Fast order processing, a liberal returns policy, and fast delivery are order fulfillment services that often meet important middleman needs and provide incentive for cooperation. For some middlemen, holding field inventories or financing of middleman inventories will provide essential assistance that leads to cooperation (see GLOSSARY entry C.9).
- *Product Development.* Product development is usually the domain of the manufacturer. If a superior new product can be developed, it can be offered to channel members as an incentive to cooperate. This can be particularly effective if a new product can be developed that meets a void in the product line of the middlemen, thus meeting their need for a more complete assortment to offer to their customers (see GLOSSARY entry C.17).

Dealing with Channel Conflict. Channel conflict is likely to occur when a channel member perceives that the incentive to act in the way desired by the channel captain is not sufficient to overcome the channel members self-interest. The first step in resolving channel conflict is to determine the underlying cause of the conflict. With this completed, a solution that fits the real problem can be designed.

As noted earlier, the causes of channel conflict can be classified as attitudinal or structural, each calling for different measures to resolve the conflict.[8]

- *Resolving Attitudinal Conflicts.* Attitudinal conflicts arise when channel members have different information about the market situation. This may surface in the form of different perceptions of member roles, the nature of the market, or the likely outcome of the marketing

[8]This section is based on Etgar, "Intrachannel Conflict," pp. 61–78.

program, or it may be seen as frustration that occurs when a channel member is not informed about vital elements of the marketing program.

Attitudinal conflicts are caused by poor communications and can best be addressed with improved communications. The channel captain should provide clearer, more specific information on the marketing program for the product, on role expectations, and on projected outcomes. Better delivery of the information, perhaps one-on-one, can be used to improve communication.

In diagnosing channel conflict, marketers need to take care that an apparent communications problem is not masking a more fundamental structural problem. Often channel members with structural conflicts will screen out conflicting communications, giving the false impression that the problem can be cured by clearer communications and better listening.

- *Resolving Structural Conflicts.* Structural conflicts occur when channel members disagree about goals, autonomy, and resource allocation. These more fundamental disagreements obviously cannot be papered over by a clearer or more complete explanation. What is required is that one of the channel members change its goals so that it complies with the other party or that the dissenting member drop out of the channel. To resolve the conflict, the channel member can offer additional incentive to the channel member to gain compliance or, if the price gets too high, seek a replacement channel member. A more far reaching change would be to change the channel design by going direct, thereby eliminating the middleman, or by purchasing suitable middlemen, thereby integrating the channel. Sometimes the threat of such action is sufficient to overcome the conflict.

SUGGESTIONS FOR FURTHER READING

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