CHAPTER 3

3.0 REVIEW OF LITERATURE

3.1 MARKETING CHANNEL SYSTEM

A marketing channel system predominantly 'focuses on the process of ownership and physical transfer of commodities, products and services' [ref 13.p.1]. Typically, a number of different enterprises other than the manufacturer of the products or services, get involved in the marketing function. The perception that they form part of an inter-related system may not exist among most channel participants (ref 13.p.2). Since the guiding principle behind any channel member's staying within the system would be their perceived needs, relative state or degree of risk within the arrangement, channels invariably are dynamic.

In contrast to the above loose channel arrangements, highly organised systems are also found to exist in some specific
cases. Such arrangements, while offering some degree of stability to the channel members, tend to be dominated by any one or group of channel members. The perceived stability too is relative, as compared to the loose channel arrangements over extended time periods (ref 13.p.2).

Simultaneous membership in different channel arrangements by many institutions make the understanding of marketing channels more complex. This participation in different channels by the members may be by strategic policy or by accident. As perspectives shift from that of the consumer to researcher to that of the manufacturer, the channels of distribution take on different meanings. The state of the economy, the socio-cultural settings and consumer needs and desires are found to have a bearing on the nature and functions of the marketing channels.

From the vantage point of the manufacturer, channels of distribution hold equal status alongside the product, pricing and promotion components, forming an integral part of the marketing mix. For the manufacturer it represents the means of transferring goods to the final buyers and users. The success of any organisation is dependent on the extent to which it can reach its customers, and
satisfy their shopping needs and cater to their habits. The cost constraints of the seller works as the restraining factor. But 'without a good distribution system, sales will be mediocre or non-existent', even in the case of the best product of a company. (ref 21.p.368). A channel of distribution involves a manufacturer, wholesaler, retailer and a variety of facilitating institutions, engaged in buying and selling relationships among themselves and hence can be viewed as a system.

The manufacturer thus has a specific concern in developing an appropriate channel strategy for his products so that his offering match the specific requirements of his target market. The objectives as expected to be fulfilled by the channels has to be spelled out clearly. For the small manufacturer the channel of distribution is a significant factor.

3.2 DEFINITIONS OF MARKETING CHANNELS

Traditionally the channel of distribution is viewed as the sequence of firms involved in moving a product from the producer to the user (ref 14. J H Donnelly Jr. 1976). It is
'an organised network of agencies and institutions which, in combination, perform all the activities required to link producers with users and users with producers in order to accomplish the marketing task. (ref 9. R Cox and T T Schutte, 1975).

The American Marketing Association defines channels of distribution as 'the structure of intra-company organisation units and extra company agents and dealers, wholesaler and retailers, through which a commodity, product or service is marketed. (ref 9. A M A 1960). L P Bucklin, (1966) says, 'A channel of distribution shall be considered to comprise a set of institutions which perform all of the activities (functions) utilised to move a product and its title from production to consumption'. (ref 24).

Bert Rosenbloom (1978) says, 'the marketing channel may be defined as the external contractual organisation which management operates to achieve its distribution objectives'. (ref 15). The course taken in the transfer of the title to a commodity constitutes its channel of distribution. (Beckman T N, Maynard H M & Division W R; Principles of marketing, 1957 p.7).
'Marketing channel ..... is a path traced in the direct or indirect transfer of ownership to a product, as it moves from a producer to ultimate consumers or industrial users'. (ref 23. Cundiff, Still & Govoni. 1980).

Another definition by Bowersox, et al (1980) says; Marketing channel is defined as a system of relationships that exists among institutions involved in the process of buying and selling (ref 13).

There are a large number of other definitions. But as can be seen, the definitions vary with the differing perspectives. While some define the marketing channel as a network of organisations engaged in the transfer of goods and title to the same from producer to consumers, some other definitions view it as a system of relationships that exist among institutions engaged in the process of buying and selling. Channels are also perceived as a path traced by title to goods and services, as they move through various agencies. Marketing channel is also described as a loose coalition of business firms who have banded together for the purpose of trade (ref 15).

'PLACE' is one of the controllable variables of the marketing mix which looks into where, when and by whom the
product will be distributed, so that the target market derives the best utility in terms of time and value.

It thus evolves that, marketing channel is not a predesigned structure of different organisations existing to take up the distribution of any manufacturers' products. Rather, a channel does not exist till the negotiatory functions have taken place between the series of organisations. This in effect opens up a path for the flow of goods and their titles to the consumers from the producer. Obviously, a marketing channel is organisation specific, or more precisely, product specific.

The sequence of organisations and their relationship evolve through a negotiatory function which is predominantly guided by the distribution objectives of the manufacturer. The activities of the manufacturer have to be coordinated with those of the middlemen used in the distribution of any given product.

3.3 CHANNEL PARTICIPANTS

The structure of a marketing channel describes the arrangement and linkage of its members. With the variety of intermediaries available, and considering the varying
requirements of consumers, the number of distribution paths open to the manufacturer is very large. The ideal path or a combination of paths has to be chosen, which is possible only with a clear perception of the type of intermediaries, their interests and the roles each one can take up.

A marketing channel is considered to be a group of inter-related intermediaries involved in the flow of goods and their titles to the consumers. Though there are a wide variety of participants in the channel, all are not considered to be members. Going by the definition (ref 15) of the channel by B. Rosenbloom, the participants are identifiable by the 'thread' of negotiation that links them together. Thus membership in the channel is based on the performance of negotiatory functions viz. buying, selling and transfer of title to goods. Non-performers of the negotiatory functions, though they are participants of the channel, are not members.

The members of the marketing channel are the producer and the consumer at either end, with the retailer and the wholesaler in between, as intermediaries.(ref 17). The intermediaries can either be merchants or agents. This contactual organisation forms the traditional marketing channel as described by most authors.
In the context of management perspective, it is more appropriate to view final users as target markets which are served by the commercial subsystem of the channel (ref 15). The commercial channel by definition excludes users or consumers. This view also preserves the lofty position the consumers have as prime benefactor and final judges of the desirability of a given marketing process.

Facilitating institutions, though they do not perform any negotiatory functions are participants of the channel as they contribute to the smooth functioning of the channel. They include all agencies undertaking transportation, banking, insurance and publicity other than negotiating purchases or sales, so as to play a supportive role in the effective performance of the channel. They tend to engage in multiple channel relationships as they do not generally accept the risk involvement necessary to qualify as a primary participant.

3.4 NUMBER OF CHANNEL LEVELS

Marketing channels vary based on the number of levels in each sequence. A channel level is comprised of an institution which performs some function so as to bring the product or service one step closer to consumption. The
The number of levels in a channel represents the channel length.

Zero level channel or direct marketing channel involves the manufacturer selling his products directly to the consumer. A one-stage channel involves a retailer who distributes to the consumer after having purchased the items from the producer. In a two-stage channel, wholesalers take-up the job of distributing to the retailers, who sell to consumers. A three-level channel structure includes a jobber who performs between the wholesaler and the retailer. Multi-stage channel structures are also observed, but with less frequency. (ref 24.p.414).

Today, vast numbers of intermediaries or specialists exist within distribution channels. Manufacturer has to rely on some type of specialist for sale of their products to customers. The function of exchange which was once restricted to the central market place has now been taken over by wholesalers and retailers.

3.5 RETAILERS

The US Bureau of Census defines retailers as "all establishments engaged in selling merchandise for personal
or household consumption and rendering services incident to the sale of such goods". (ref 13). A retailer is characterised by its selling, directly to ultimate consumers. Though generally sales are effected in small lots by retailer, this is not an essential feature.

The retailer could either be a merchant or an agent. Broadly, four categories of retailers are identifiable; Mail Order Houses - a recent development in India, restricted to certain regions; Automatic merchandising machines operators - using vending machines which are yet to become popular in the country; Direct selling firms - a much employed door to door canvassing effort and Retail establishments - dominating the scene in terms of numbers.

3.6 WHOLESALERS

The US Bureau of Census defines wholesalers as "all establishments or places of business primarily engaged in selling merchandise to retailers; to industrial, commercial, institutional or professional users; or to other wholesalers; or acting as agents in buying merchandise for or selling merchandise to such persons or companies." (ref 13).
Wholesalers are characterised by that, as middlemen, they do not generally sell to ultimate consumers. Though most wholesalers deal in large lots, this is not an essential feature of wholesalers. While they usually make sales for purpose of resale, there are many who sell to industrial or institutional users. There are also instances when wholesalers make sales in small lots to household consumers as well, but considering their total transactions, this is not very significant.

Broadly, three categories of wholesalers are identified: Merchant Wholesalers - including merchants and distributors; Manufacturers Own Sales Branches and Merchandise Agents and Brokers - who involve in the process based on a variety of terms and conditions.

3.7 INTER-ORGANISATIONAL BEHAVIOUR

From a manufacturer's perspective, the performance of the sequence of organisations within the channel he employs has a direct bearing on his success. To ensure that every member contributes to this objective, he has to appreciate that the channel represents a coalition of dissimilar firms that have banded together for mutual advantage (ref 24
Each member of the channel would have a specific set of objectives for being part of the channel. The collective set of objectives of all the members must synchronise so that the system would operate in a smooth and efficient manner.

Thus the relationship between channel members is a predominant factor which determines the success of the system. Each firm has to define its relation with the other members in the channel. This definition of roles has been distinguished into five types by McCammon (ref 24 p.428).

Power, leadership and conflict form three of the basic elements of inter-organisational behaviour in the context of marketing channels. (ref 13 p.99).

3.7.1 POWER

Power is generally defined (Dahli) as the ability to get someone to do something that would not otherwise be done.(ref 13 p.94). It is viewed by Etzione as the ability to induce change in the face of resistance.(ref 15.p.84). Miller and Butler say, power refers to a person's ability to control the behaviour of others. For Price, the essence
of power is the capacity to influence the behaviour of others. (ref 15.p.84).

In the context of marketing channels, the term 'Power' is used to refer to the capacity of channel member(s) to control or influence the behaviour of other channel member(s). The understanding of the use of power by any of the channel member of the manufacturer, rests on the sources or bases of power that the member is capable of drawing from.

Reward power, coercive power, expert power, legitimate power, and referent power are accepted as the major bases of power that a channel member can draw from (Bowersox, pp 102-105).

While, Reward power refers to a channel member's ability to give something of value to the other members so as to facilitate their goal accomplishment, Coercive power refers to the capacity to deprive something or give punishments, unless the other members co-operate. Expert power is derived from the superior knowledge and expertise of a channel member, which the others will need for their own goal accomplishments.
Referent power which emanates from a member's image in the market is a psychological source of power (ref 13.p.103). The SSI manufacturer by virtue of his low-budget promotion and resultant low profile, is unable to command a referent power over the market and thereby the channels, which would compel the channel members to desire identifying with the unit.

Legitimate power, which Bowersox calls the most complex source of power, is linked to the acceptance that one channel member has the 'right' to define the behaviour of others. It could be based on position, role or reputation. It is more of an automatic attribution of power. Here again the SSI manufacturer would have constraints. Preliminary interviews with a few SSI manufacturers revealed that they seldom enjoyed this positional power.

It is also accepted that power in the context of marketing channel behaviour does not follow the above typology absolutely. Often power positions result from a combination of different bases.

3.7.2 LEADERSHIP

Leadership is derived from a channel member's possession of power and the tolerance of other firms in accepting
direction. Leadership is the use of power to improve a system as well as individual performance. The tolerance of other members of these attempts at improvement, determines the level of leadership a member can exert over them. The power base from which a particular member would operate and the balance level of the other members must both be determined before the member decides to take on a leadership role within the channels.

3.7.3 COMMUNICATION

Another element of channel relationship is communication. Communication sets the basis for free flow of information between the channel members and also between the channel and environment. Efficient performance of the channels is determined by the perfect understanding between the channel members. This is made possible by an effective flow of information within the channel.

While communication assumes prominence in channel performance, it is plagued by two behavioural problems (ref 15 P. 95-96). Wittreich summarises them rather succinctly:
"The people who manufacture the goods and the people who move the goods into the hands of the ultimate consumer do not share the same business philosophy (goals) and do not talk essentially the same language ".

Effective communication, thus is hindered by differing goals of the channel members and also the difference in terminology used by them. The perceptual difference on a wide variety of issues coupled with the tendency of some members to be secretive, affect the effectiveness of channel communication negatively. The possibility of omission, deletion and distortion of information, especially in a competitive environment makes communication a critical element of channel relationships.

3.7.4 CONFLICT

In all social systems the presence of conflict is inevitable. As Stern and German points out, "A state of conflict may exist when two or more components of any given system of action...become objects of each others frustrations". Frustration is caused in one member when he is deprived of or inhibited from attaining some of his goals. When another member of the system is perceived as
the cause of this frustration, conflict arises between the two.

Another definition of channel conflict by Bowersox et.al. (ref 13.p.73) states, 'it is a situation in which one member of a distribution channel perceives another member as an adversary engaging in behaviour designed to injure, thwart or gain scarce resources at its expense". Conflict follows a cyclic pattern in that it originates, grows, steadies and then is resolved.

Conflict originates from a variety of causes and often from a combination of factors. Conflict at times is expressed while it may also exist covered by routine behaviour of channel members (ref 13 p.73). Stern and Heskett (ref 13 p.73) argues that though conflict may exist, in many cases the frustrated members may not take any specific action to change their behaviour or that of the other channel members.

While conflict is known to be of horizontal inter type or vertical nature, here in this study, we take only the vertical conflict situation. Vertical conflict refers to stress and frustrations between different levels within a given channel.
3.7.5 CO-OPERATION

Co-operation between channel members is more basic than what is obvious. On the one hand, the members are driven by the force of 'monostasy', the desire to be independent; each one wanting to define one's own goals and means of accomplishing the same, while on the other, exists the realisation that by working together, more can be accomplished; stimulating a desire for standing together - 'systasy'. When systasy predominates, co-operation will result (ref 13 p.113).

3.7.6 DEPENDENCE

Dependence is a state in which channel members are put into, when each one finds it difficult to perform all the functions necessary for a successful existence in market. It results from diverse functional requirements for accomplishing the various goals of the members. Functional specialisation of the members contribute to their dependence on each other to the extent they wish to achieve their goals.
3.7.7 TRUST

Trust is that element which ensures continued interaction between channel members. While trust is at times referred to as a fall out of cooperation (James C Anderson & James A Naruss Journal of Marketing, JAN 1990 p.48), it may also be that an environment of trust is a pre-requisite for cooperation. A causal relationship between the two has not yet been empirically established. But trust develops and grows between two members only in an atmosphere of mutual acceptance and adequate understanding of each other's strengths. An efficient communication link between the two helps them to have a proper perception about each other.

3.7.8 SATISFACTION

Satisfaction is the positive feeling one derives on accomplishment of desired objectives. The channel member sets his own goals. Decisions and actions are taken towards attaining these goals. The resultant reaction of his target groups or that of other members provide the required feedback on actions he had initiated. The extent to which the actual outcomes match the expected, determines the level of satisfaction a channel member derives. The cyclic sequence of goal setting, action, feedback and
satisfaction is dynamic. Goals are redefined and new ones set, as soon as earlier ones are attained and satisfaction experienced.

3.7.9 GOODWILL

Goodwill is understood as the sum of all positive images the organisation has been capable of evoking among the public. It is the resultant of good decisions and deeds supported by positive public relations and customer, satisfaction. While goodwill is not amenable to quantification, it can be perceived in the attitude and response of the public, including those of the consumers, towards the organisation in general and its proposals in particular.