CHAPTER 2

REVIEW OF LITERATURE AND IDENTIFICATION OF RESEARCH GAPS

Extensive review of extant literature on relationship marketing and channel relationships was undertaken with the following specific objectives in mind:

1. Understand how marketing in general and relationship marketing in particular have evolved over the past eight to nine decades.

2. Identify the factors facilitating manufacturers to develop enduring relationships with their customers, in B2B context.

3. Get insights into the channel relationship strategies of manufacturers of industrial products and their perceived effectiveness.

4. Identify the research gaps that form the basis for the present study and define its scope and objectives more precisely.

2.1 Marketing Practices in Pre-Industrial Era

While marketing exchanges can be traced back as far as 7000B.C. marketing as a distinct discipline began to evolve in early 20th century (Sheth&Parvatiyar, 1995, p 397). Pre-industrial era refers to the period prior to mid-18th century. During this era most of the economies worldwide were dominated by agriculture and trading of art and artifacts (Sheth&Parvatiyar, 1995, p 405). During the pre-industrial era interactions between buyers and sellers used to be direct, which in the contemporary literature is termed as direct marketing. Relationships were an off shoot of direct marketing.(Dasari&Gunaseelan,2012). Relationships thus formed, trust and loyalty being the foundations, used to last for several generations(Kingson et al ,1986,p97). Relationship marketing, therefore is not an altogether new concept and has its roots in the socio-commercial interactions that prevailed in the pre-industrial era.

For example in Africa most traders had business transactions only with select clans and it was next to impossible for outsiders to break into the system (Mwamula-Lubandi, 1992 p.146). Palanpuri clan of Gujarat (India) and Orthodox Jews were known for their domination on diamonds trade all over the world (Rothermund, 1993, p.7). Old ‘silk route’ linking China,
Afghanistan and India was leveraged by Chinese traders to expand their market (Li, 1981 p.4).

Development of open-air markets or bazaars consolidated the ongoing business and trade. Apart from providing common platforms for buyers and sellers to facilitate regular, periodic exchanges such bazaars discouraged nomadic trade, minimizing the risk of fly-by-night traders swindling gullible customers. (Sheth & Parvatiyar, 1995, p.407).

Though the seeds of relationship marketing were sown in pre-industrial era, it took a long time for the tree to be fully grown.

2.2 Transactional Marketing

Relationship orientation prevalent in the pre-industrial era had to make a quiet exit and give room to transactional exchanges that became the dominant mode in the industrial era.

Industrial revolution (A.D.1750-1830) and the consequent industrialization of economies led to mass production of goods. To achieve economies of scale in order to be cost effective, mass production became imperative. This resulted in production of goods in excess of the local demand, unlike the pre-industrial era where the production of artifacts was limited to the demand that existed. This further led to increased inventories that had to be sold aggressively. Thus emerged the transactional orientation of marketing where the producers of goods were more preoccupied with selling their produce through aggressive promotional tactics, at the cost of building lasting relationships (Sheth & Parvatiyar, 1995, p 406). A transactional exchange involves a single, short term interaction with a well-defined beginning and ending (Bagozzi, 1979). It has no long term orientation. Transactional marketing is a business strategy that focuses on single, "point of sale" transactions. The emphasis is on maximizing the efficiency and volume of individual sales rather than developing an enduring relationship with the buyer (Rouse, 2009).

2.2.1. Four ‘P’s of Marketing

The transactional approach is based on the four traditional elements of marketing, referred to as the four Ps (Rouse, 2009). The four Ps address the following marketing tasks, which are transactional in nature.

- **Product** --- Creating a product that meets consumer needs.
• **Pricing** -- Establishing a product price that will be profitable while still attractive to consumers.

• **Placement** -- Establishing an efficient distribution chain for the product.

• **Promotion** -- Creating a visible profile for the product that makes it appealing to customers.

The concept of marketing mix popularly known as 4Ps of marketing was conceptualized by Borden (1954) and developed McCarthy (1960). Transactional marketing based on 4Ps (product, place, price and promotion) ‘rapidly became the overwhelmingly dominant marketing paradigm’ and is ‘---far from being concerned with a customer’s interests’ (Dixon & Blois, 1983). 4 Ps approach at best fits the *production-oriented* definition of marketing where the focus is on achieving scale and efficiency and not necessarily customer satisfaction (Dixon & Blois, 1983). As a natural consequence of this short-sightedness of marketers (christened as *marketing myopia* by Theodore Levitt way back in 1960), the focus of marketing had turned into managing the 4Ps best suited for transactional marketing. Marketers, ‘instead of truly exploring the nature of the firm’s market relationships and genuinely catering to the needs and desires of customers’ were bogged down by the compulsion to indulge in short-term transactional exchanges (Groonross, 1994). Further, critics of transactional marketing theory (Groonroos, 1991; Gummerson 1991) questioned its applicability under diverse market conditions as its validity heavily depended on market growth and during times of stagnation it was found inappropriate. The transactional marketing paradigm, instead of being a customer-oriented approach had become a product-oriented (Gummerson, 1997) or production-oriented (Dixon & Blois, 1983) philosophy.

Most of the new products developed during the 70s and 80s of the 20th century in US and Europe began to stagnate and transactional marketing was found gallingly inadequate by marketers to tide over the crisis. Desperate attempts by marketers to push their sales by resorting to puffery, persuasive selling and other such unethical practices further alienated them from customers (Sheth & Parvatiyar, 1995, p.406).

**2.3 Re-emergence of Relationship Marketing**

Inadequacy of transactional orientation, particularly during times of stagnation made the marketers realize that they had to shed the transactional mindset and focus on mutually
beneficial, long lasting relationships that involved rediscovering the virtues of relationship focus that prevailed in the pre-industrial era. (Dasari&Gunaseelan, 2012).

The term 'Relationship Marketing', was first explicitly used by Berry (1983, p.25) who defined Relationship Marketing as “Attracting, maintaining and –in multi-service organizations-enhancing customer relationships.” The focus of relationship marketing as explicitly stated in this definition is: maintenance of relationships of a long-term nature. Business to business (B2B) and service markets call for the active participation of customers to successfully produce and deliver the goods and services (Gummerson 1987, p.11). These interactions foster lasting relationships. Spekman (1988,p81 ) commenting on the need for long-term buyer-supplier relationships observes “Increased competition from offshore producers, shorter product life cycles and rapidly changing technologies have forced buyers to search for suppliers whose expertise and competence can be leveraged. Therefore to develop a long-term relationship, buyers cannot rely on an adversarial approach to supplier management.

Organizations started realizing the importance of establishing lasting relationships with their customers for marketing their products which cannot effectively be done through discrete exchanges, a clear shift away from transactional marketing (Palmer, 1994,p 572).Palmer (1994, p. 573) further emphasizes the importance of relationship marketing as under:

"Successful marketing should focus attention not just on how to gain new customers, but how to develop loyalty from those that an organization has previously and expensively gained. It is about seeing a relationship from the customers' perspective and understanding just what they seek in a relationship."

A direct benefit of relational approach is - firms maintaining long-term relationships with their customers are able to achieve a higher level of profitability compared to those that adopt a transactional approach( Kalwani&Narayandas ,1995, p 14).Supporting this view Sheth&Parvatiyar (1995) state that relationship marketing is characterized by mutual cooperation and interdependence as opposed to competition & conflict and choice independence-the hallmarks of transactional marketing.

Even from a purely economic perspective, the imperative for suppliers to maintain lasting relationships with their customers is unequivocally established. Findings of several empirical
studies (Reichheld, 1996 p.43), proved that the cost of acquiring a new customer was four or five times more than retaining an existing customer.

Emphasizing the need for marketers to adopt a cooperative and collaborative approach with their customers, which is the hallmark of relational approach, Parvatiyar&Sheth (2000,p9)) define the relationship marketing as “the ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value at reduced cost.” Supporting the views expressed by the other prominent scholars discussed earlier, Parvatiyar&Sheth (2000, p.13) identify the following factors responsible for the shift in the orientation of suppliers from transactional to relational.

a. Rapid strides made by Information Technology (IT).

b. Total Quality Management (TQM) movement where the entire focus of the organization is on the customer.

c. Emergence of services as a predominant component of solutions selling.

d. Increased competition making it imperative for the suppliers to come out with new strategies for retaining customers.

As corroborated by the research cited above, relational approach once again became the dominant strategy of suppliers and manufacturers for marketing their products and services post 1980. This strategic shift coincided with the emergence of services as a major contributor to the Gross Domestic Product (GDP) of developed as also emerging economies. This was more of an imperative for marketers than being a mere coincidence. Production and delivery of services call for a close, long lasting interactions with customers culminating into enduring relationships.

2.4. Inter-firm Relationships: Facilitating Factors

To reap the benefits of relationships the firms engaged in the relationship viz. supplier firm and the buyer firm need to make some adaptations and relation specific investments. According to Kohn (1986) competition (a salient feature of transactional approach) is inherently destructive and mutual cooperation (corner stone of relationship marketing) inherently more productive. Relationship marketing characterized by interdependencies
reduces the transaction costs and improves the overall quality of business partnerships. This view was also supported by Kalwani & Narayandas (1995).

Both suppliers and customers need to make adaptations for reaping the benefits of relationships. Adaptations by suppliers take the form of customization of products and production processes and customers also make suitable adaptations in their production processes to accommodate the modifications made by suppliers (Hallen et al, 1991, p31).

One of the factors facilitating enduring supplier-customer relationships is the relationship specific investments made by both the sides. These investments can be in terms of time, resources, facilities and processes. Stressing the importance of relationship specific investments, Heide & John (1990, p27) state that specific investments made by Original Equipment Manufacturers (OEMs) and their suppliers engender joint action and facilitate continuity of the relationship. Speaking of the benefits of business relationships Dyer & Singh (1998, p676) affirm that “collaborating firms can generate relational rents through relationship-specific assets, knowledge-sharing routines, complementary resource endowments and effective governance” which firms maintaining an arms-length relationship cannot hope to achieve.

Adaptations by suppliers and customers also engender the relationship. Menzies & Helen (2003, p8) found that inter-firm adaptation is a pre-requisite in strategic relationships. This supports the views of Hallen et al (1991). Customers also need to make few adaptations to make the relationship with the supplier an enduring one. Highlighting the importance of customer adaptations for enhancing the outcomes of relational exchanges, Tuli et al (2007, p12) state “A supplier can do a more effective job of deploying its products when a customer is willing to adjust to and accommodate both the supplier’s needs and unforeseen contingencies as they arise.”

In India, apart from the global developments highlighted above, economic reforms resulting in the opening up of economy; entry of multinational corporations in both products and services; explosion of IT and ITES and the consequent increase in buying-power of consumer that triggered off the retail revolution were the special circumstances in the last 15-20 years that influenced the manufacturers and marketers to shift their orientation from product-centric to customer-centric, an ideal platform for the formation and maintenance of lasting relationships with customers (Dasari & Gunaseelan, 2012).
2.5. Relationship Marketing Vs. Marketing Relations

Distinguishing marketing relations from relationship marketing helps delimit the factors that facilitate enduring relationships between suppliers and customers. In the absence of a clear cut distinction between these two concepts there is a possibility of the scope of the study becoming too wide to be of any practical relevance.

Scholars of modern era, while acknowledging the complementary nature of marketing relations and relationship marketing do not treat these two concepts as synonymous. Kotler (1977) defines marketing as “the study of exchanges”. In every exchange there are two human actors. However all the exchanges do not result in long-term relationships. Some of the exchanges are purely transactional and others are inherently relational in nature culminating in enduring relationship between the actors. According to Parvatiyar&Sheth (2000, pp 6-7):

“……what distinguishes marketing relationships from relationship marketing are their nature and specificity.

Marketing relationships could take any form, including adversarial relationships, rivalry relationships, affiliation relationships and independent or dependent relationships.

…..relationship marketing is not concerned with all aspects of marketing relationships. The core theme of all relationship marketing perspectives and definitions is a focus on cooperative and collaborative relationships between the firm and its customers and/or other marketing actors.

Parvatiyar&Sheth (2000, p7) further clarify that “relationship marketing describes a specific marketing approach that is a subset or a specific focus of marketing.”

Channel partners, who form a vital link between the manufacturers and end customers fall under the ‘other marketing actors’ category specified by Parvatiyar&Sheth(2000,p7). Interdependent relationships between manufacturers and channel partners culminate in long-term channel relationships, which is the focus of this study.

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4 Emphasis mine
2.6. Industrial Marketing and Purchase (IMP) Group’s Interaction Model of Buyer-Seller Relationships

Industrial Marketing and Purchase (IMP) Group established in Germany more than 30 years ago are into research in the industrial marketing domain. They had undertaken two major research projects known as IMP1 and IMP2 (Hakansson & Snehota, 2000, p. 70), apart from forming a research network connecting researchers spread over several countries in European Union (EU) and other parts of the globe.

2.6.1. IMP1

Researchers spread across five countries in Europe collected descriptive data about buyer-seller relationships in B2B context, during the period 1976-82, the underlying hypothesis being “the content of supplier-customer relationships is broader than simple economic exchanges.” The theoretical outcome of IMP1 was elaborated as “The interaction model of buyer-seller relationships.” (Hakanson, 1982 p. 15). The interaction model thereafter became a base for further elaboration of conceptual frameworks and propositions with regard to international purchasing (Hallen, 1980, p. 56) and marketing strategies (Hallen et al. 1989 p. 35).

2.6.2. IMP2

The focus of IMP2 which was flagged off in 1986 was “Interdependencies in and between the relationships and the effects of interdependencies on the network of companies involved” (Hakansson & Snehota, 2000, p. 72). Empirical studies of business networks have addressed the issue of connectedness in business relationships and the effects of interdependencies (Blankenberg & Johanson, 1992, p. 5).

In the studies conducted under IMP2 three different types of issues often came into focus in the relationships: technical, social and economic (Hakansson & Snehota, 2000, p. 75-78).

1. Technical Content

Technicians often play an important role in the contacts between companies. A study conducted in a Swedish company found that key customers perceived R&D Manager as the most important individual in the interactions.
2. Social Content

Interactions happen between individuals who get the opportunity to develop social relationships. Trust, commitment and influence/power while used positively can enhance the relationships. They can also create problems if any of the parties try to use them to their advantage. Underlying the social content of most inter-organizational relationships are the interpersonal relationships that develop among individuals in the partner firms.

3. Economic Content

A relationship can be seen as an asset and market investment. For established companies some of their largest resources are their existing relationships.

Hakansson & Snehota (2000, p.79) theorize that:

1. Business relationships are connected. *They are elements of a wider economic network.*

Relationships are connected to each other and are part of something larger. All interactions therefore in some way or other mirror the larger context. Every relationship has to be seen and judged in relation to the connected relationships that either of the two counterparts has with others and in some situations *in relation to relationships between third parties.* Every relationship is also a part of something larger; it is an integrator of surrounding relationships. In other words every relationship is not only a bridge between two actors but also a reflector of other surrounding relationships. Networking as a concept has a much deeper meaning in this context.

2. A relationship is a combination. It affects productivity and efficiency in firms and can therefore be used to exploit complementarities between activities performed by different companies and their resources. Relationships can be used to link activities to each other, combining individual adaptations and scale-effective production.

In many industrial settings business relationships are a key mechanism of efficiency. This view is further supported by Metcalf et al (1990) who opine that suppliers should communicate to the customers of their technical competence early in the relationship so as to facilitate mutually beneficial adaptations by both the partners.
2.7. The Commitment –Trust Theory

Many organizations began to realize that cooperation in an affiliated network is the key to success and not predatory competition as suggested by the economic theory (Bleek &David, 1993, p.1). The seminal work by Morgan & Hunt (1994) gave birth to the theory that emphasizes the spirit of cooperation and collaboration instrumental in building lasting relationships, popularly known as “Commitment-Trust theory”. Morgan & Hunt (1994, p.22) define relationship marketing as “All marketing activities directed toward establishing, developing and maintaining successful relational exchanges.”

Commitment and trust were identified by Morgan & Hunt (1994, p 22) as the “Key Mediating Variables” (KMVs) of relationship marketing, which act as mediators between five antecedents (p.23) viz. relationship termination costs, relationship benefits, shared values, communication and opportunistic behavior AND five outcomes viz. acquiescence, propensity to leave, cooperation, functional conflict and uncertainty (p.23). Results of their study indicate that firms committed to the relationship acquiesce because they are willing to do so as opposed to exercising of coercive power compelling the firms to compliance. The commitment trust theory maintains that those networks characterized by relationship commitment and trust engender cooperation, apart from the other four outcomes mentioned earlier.

According to Morgan & Hunt (1994, p34), for the relationship trust and commitment to develop firms should:

1. Provide resources, opportunities and benefits that are superior to the offerings of alternate partners.

2. Maintain high standard of corporate values and allying themselves with exchange partners having similar values.

3. Communicate valuable information, including expectations, market intelligence and evaluations of partners’ performance.

4. Avoiding malevolently taking advantage of their exchange partners.

Morgan & Hunt (1994, p34) conclude that actions listed above will enable firms and their networks to enjoy sustainable competitive advantages over their rivals. They found support from scholars like Hibbard et al (2001) who concluded that a channel member that puts
conscious efforts to nurture a close relationship with the channel partners based on trust and commitment has better chances of a constructive response, even in the face of destructive acts by other members. Sirdeshmukh et al (2002, p.32) posit that the effect of trust on loyalty is partially mediated by value. They contend that value, a superordinate goal in market exchanges, has a dominant effect on loyalty in trust-loyalty relationships by acting as a key mediator.

2.7.1. Criticism of Commitment & Trust Theory

Morgan & Hunt’s (1994) interpretation of relationship marketing was considered by many scholars to be too broad and inclusive. Peterson (1995, p.279) opined that many of the partnerships such as buyer partnerships, supplier partnerships, internal partnerships and lateral partnerships included by Morgan and Hunt in their definition of relationship marketing were outside the domain of marketing and hence their inclusion risked diluting the value and contribution of the marketing discipline in directing relationship marketing practice and research or theory development. Parvatiyar & Sheth (2000, p.8) supported this view of not defining relationship marketing too broadly to dilute the role of marketing discipline in developing the theory and practice of relationship marketing. According to them “relationship marketing has the greatest potential for becoming a discipline and developing its own theory if it delimits its domain to the firm-customer aspect of relationship.”

Later day scholars like Palmatier et al (2007, p.186) contend that the effects of relational investments on outcomes are not fully mediated by commitment and trust as posited by Morgan & Hunt and researchers should also consider the effect of RSIs (Relational Specific Investments) and other mediating mechanisms such as reciprocity, gratitude, exchange effectiveness etc on the relational outcomes.

2.8. Relationship Marketing and Key Account Management (KAM)

Firms looking for ways to leverage their suppliers’ capabilities for enhancing the value delivered to their customers move away from adversarial relationships with multiple suppliers towards close long-term relationships with fewer suppliers. (Spekman, 1988 p 75).

The guiding principle of key account management (KAM) is 80-20 rule i.e. 20% of customers account for 80% of profits. KAM approach is different from the traditional approach on the crucial parameters depicted below (Canon & Narayandas, 2000, p.409).
### Table 2.1: Traditional Vs. KAM Approach

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Traditional approach</th>
<th>KAM approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time horizon</td>
<td>Short term</td>
<td>Long term</td>
</tr>
<tr>
<td>Objective</td>
<td>Maximize revenue</td>
<td>Obtain position of preferred supplier</td>
</tr>
<tr>
<td>Selling firm interface</td>
<td>Individual sales person</td>
<td>Group of people from various disciplines</td>
</tr>
<tr>
<td>Buying firm interface</td>
<td>Relatively few contacts</td>
<td>Many people</td>
</tr>
<tr>
<td>Relative dependence</td>
<td>Varies</td>
<td>High interdependence</td>
</tr>
<tr>
<td>Product</td>
<td>Core</td>
<td>Core + Augmented</td>
</tr>
</tbody>
</table>

In India steel majors like SAIL, TATA Steel and JSW; all leading banks and insurance companies servicing business clients and leading players in IT/ITES sectors have already embraced the KAM philosophy. MOUs with major customers shielding them from frequent rate hikes and offering them volume based incentives, quite common in all the above sectors have been found to be very effective and mutually rewarding. (Dasari & Gunaseelan, 2012)

### 2.9. Relationship Marketing and Exchange Orientation (EO)

Notwithstanding the benefits reaped by the relational exchanges, some customers may still prefer transactional exchanges as they feel that relational exchanges do not fit into their way of carrying out the business transactions. In support of this Cannon & William (1999, p 457) contend that some buyer firms do not want or need close ties with all of their suppliers. They also conclude that importance of the supply to the buyer and the obstacles in procurement and non-availability of a large number of suppliers also determine the need for close relationships. Rackham and De Vincentis (1999) observe that some industrial buyers are solely interested in price and convenience and do not see any potential added value in maintaining relationships with suppliers. Supporting this view Day (2000, p 24) states that “some customers want nothing more than timely exchange of the product or service with minimum of hassles”.

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5 Jindal South-West Limited an integrated manufacturer of steel

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In India government departments and Public Sector Undertakings (PSUs) prefer the transactional approach. They float tenders for all major purchases and based on a composite rating of offers, that takes into account price, delivery, terms of payment, warranty, orders are finalized. Such an approach also dispels any aspersions about few influential suppliers getting undue favors from the government buyers. Being transparent is of utmost importance for government buyers and transactional approach is suited for them to stay clear of any controversies. Even in the private sector transactional approach is occasionally resorted to, particularly for major projects involving substantial outlay.

Day (2000, p25) introduces the concept of the relationship spectrum. Transactional exchanges are at the extreme left of this spectrum and collaborative exchanges at the extreme right. Some scholars (Lefaix-Durand & Kozak, 2009) refer to this spectrum as ‘transactional-relational continuum.’ Studies in B2B and Service marketing reveal the existence of a hybrid form between transactional and relational exchanges. (Coviello et al. 2002; Chaston 2000; Styles and Ambler 2003). A dichotomous approach to study of exchanges falls short in explaining the co-existence of both the exchange types viz. transactional and relational in the contemporary marketing space (Lefaix-Durand & Kozak, 2009). Lefaix-Durand & Kozak (2009) introduce a new conceptual and operational tool named EO (Exchange Orientation) that helps integrate exchanges on the transactional-relational continuum. They define EO as the position of exchange along the transactional/relational continuum.

Sales personnel need to assess the EO of buyers to be effective in their dealings instead of adopting relational approach when it is not called for. Geiger & Finch (2011) suggest that “sales personnel have to be trained to incorporate both transactional and relational selling skills into their repertoire. Palmatier et al (2008) identify the factors that determine a customer’s relationship orientation (RO) and explain how a customer’s relationship orientation determines the effectiveness of relationship marketing. Palmatier et al (2008) define Relationship Orientation (RO) as “a party’s desire to engage in a strong relationship with a current or potential partner to conduct a specific exchange.”

In this his study the construct RO has been measured, which can be considered as a proxy for EO.
2.10. Relationship Marketing Vs. Customer Relationship Management (CRM)

CRM is intended for marketers to retain the existing customers by creating barriers for exit for the customers and entry barriers for competitors. This is achieved by establishing bonds with customers that could be financial, social, customized and structural in nature. The type of bond depends on the stage of the relationship. The elements of relationship marketing, combined with 'customer-centric' marketing should have ideally formed the foundation for CRM. However the perspective of CRM had been narrowed down greatly by marketers due to competitive pressures and short term compulsions reducing it to a mere metaphor (O'Malley & Tynan, 1999, pp.589&597).

In the current supplier-customer relationships milieu, CRM is little more than a software package. Many companies, either buying or selling CRM solutions do not seem to go beyond the narrow information technology (IT) approach. While relationship marketing (RM) is a philosophy, CRM has been reduced to an IT tool/technology (O'Malley et al 2008, p.178). Reward points offered by credit-card companies and loyalty programs of air-line companies are a case in point. They lack uniqueness and are easily replicated by competitors.

Ramesh (2011, p 52) comments on the advent of loyalty programs in India as under:

In Indian (sic.), many companies have inroad (sic.) into loyalty programs successfully. Mega cards, Petro cards, Debit cards are some of the loyalty cards used by Indian companies. Proenca et al (2007) caution that the application of RM concept to consumer markets requires care and may not entirely be appropriate in all contexts. Dasari & Gunaseelan (2012) lament that in the course curriculum of some of the business schools, CRM figures under IT discipline and not as marketing major. This is somewhat disappointing as the academia are expected to help marketing managers integrate the philosophy and spirit of relationship marketing into CRM, instead of it being treated as one more tool in their repertoire.

2.11. Relationship Marketing and Distribution Channels

As the present study is on channel relationship strategies of steel manufacturers, understanding the factors that facilitate enduring relationships between the manufacturers and channel partners will help sharpen its focus and define its scope more objectively.
Anderson & Weitz (1989 pp. 320-21) established that a high level of two way communication was the hallmark of a trusting relationship between a manufacturer and the channel partner. Trust is one of the mediating variables proposed by Margan & Hunt (1994) in the commitment-trust model. Communication mediated by trust yields the desired outcomes. Frazier & Antia (1995, p.324) opine that collaborative communications foster solidarity, flexibility and trust among the channel partners whereas threatening communications give rise to mistrust and opportunism. Commenting on the importance of collaborative communications in channel relationships, Mohr et al (1999, p.45) state that “collaborative communication, with its focus on frequent, two-way, formalized, and cooperative interactions, can deliver very positive benefits in channel relationships” Past reputation (good/bad) of the manufacturers also affects the trust channel partners have on them. Trust engenders a spirit of cooperation between manufactures and channel partners. An upshot of successful manufacturer–distributor cooperation is that it produces more profits than would otherwise be generated by the two companies working on their own (Peteraf, 1993 p.184). Cooperation and flexibility on the part of manufacturers are critical for the success of channel partners because they support sharing and integration of knowledge and resources and help reconfigure resources in response to changing circumstances (Johnson et al. 2003).

Channel activities are a major source of value-added benefits to end users providing an opportunity to firms to develop competitive advantage by reducing the costs of performing these activities and using distribution as a differentiator (Weitz & Jap, 1995, p.308). Supporting this view, Vazquez et al (2005) assert that manufacturers and wholesalers should not only gain satisfaction from the economic and social benefits of the cooperation, but should also gain a competitive advantage, profits and strategic outcomes that help them to compete in the market more efficiently. Vazquez et al (2005) further affirm that the manufacturer must consider the distributor as an associate and not as a rival, whose work is of strategic importance in acquiring a competitive advantage.

However there are some limitations for manufacturers to engage in lasting relationships with their channel partners. For instance, independent channel members who do not enter into formal agreements with manufacturers may not be comfortable patronizing only a single supplier as they would like to offer an assortment of goods to the end customers. This limits the degree to which trusting and committed relationships can develop in conventional channels. This is because of manufacturers having their own concerns of maintaining the
confidentiality and secrecy of their technology and business practices, which independent channel partners may not be able to totally ensure (Dasari&Gunaseelan, 2012).

The above insights go a long way in identifying the antecedents of channel relationships.

2.12. Management of Channel Relationships

Conventional channel arrangements wherein downstream channel members act as an independent entity were a big deterrent for manufacturers to develop competitive advantage. Manufacturers were apprehensive of channel firms having business relationships with competitive suppliers and sharing sensitive information with competitors. Under these circumstances the exchanges were more of a transactional nature and the conditions are not generally conducive to forging long term relationships. (Dasari&Gunaseelan, 2012)

The above limitations of conventional channels led to the emergence of Vertical Marketing Systems (VMS) viz. corporate, administered and contractual (McCamon, 1965). In VMS there is a vertical alignment of all the channel members viz. manufacturers, wholesalers and retailers for achieving the common objective of enhanced customer service. In the conventional stand-alone channel arrangements the focus is on maximizing individual gains whereas in VMS the emphasis is on improving the efficiency and effectiveness of the channel by reducing duplication of efforts and counter-productive conflicts. In corporate VMS manufacturers themselves handle the downstream distribution functions. In administered VMS independent distributors/dealers act as per the guidelines furnished by manufacturers and if there is a contractual arrangement binding manufacturers and downstream channel partners it is known as contractual VMS.

Weitz&Jap (1995) describe the following control mechanisms to coordinate the activities of both vertically integrated and conventional channels.

**Authoritative Control**

One party in the relationship uses its position/power to control the activities of the other party. Depending on who is more powerful the controlling member could be a manufacturer or sometimes dealer himself.

The opportunity to control other members arises from an imbalance in resources. The channel governance structure in such a case is unilateral.
**Contractual Control**

This involves an agreement by both the parties in the relationship on terms that define their responsibilities and rewards for performing channel activities. The governance structure is bilateral but not necessarily symmetrical. While both the parties play an active role in implementing the terms of the agreement, the symmetry tilts in favor of the one who is more powerful.

**Normative Control**

This involves a shared set of implicit principles or norms that coordinate the activities performed by both the parties and govern the relationship.

In the context of channel governance mechanisms, it was observed by some scholars (Stern & El-Ansary, 1988) that powerful channel partners pass on the costs and the inefficiencies of the channel by shifting some of their responsibilities like carrying inventory to the manufacturers.

There was a gradual shift from corporate vertical channels to the conventional independent channels due to the realization by manufacturers that they lacked adequate distinctive competencies to manage the channel activities resulting in system inefficiencies, which the independent channel partners possessed (Weitz & Jap, 1995). However such a shift involves a trade off by manufacturers between channel efficiency and channel control & coordination. The realization by both manufacturers and channel partners that in an ongoing relationship they are more likely to engage in constructive conflict resolution seems to have gone in favor of this shift. The benefits to be gained by relational governance likely outweigh the risk of not being an exclusive partner.

Anderson & Narus (1984, p 70) observed that manufacturers that provide outcomes meeting or exceeding distributors’ expectations and are superior to those available from alternate suppliers will be able to develop and maintain sound relationships with the distributors. They also found that fostering meaningful communication is an important prerequisite for manufacturers to improve the relationships with distributors. In the context of ‘Distributor Firm-Manufacturer Firm Working Relationships’ Anderson & Narus (1990, p 46) established the existence of a positive relationship between influence over the partner firm
and satisfaction and a *negative* relationship between influence by the partner firm and satisfaction. Commenting on the consequences of unilateral dependence on channel governance, Heide (1994, p81) ascertained that systematic dependence of relational partners promoted bilateral governance. However unilateral dependence decreased the effectiveness of bilateral governance.

Based on limited empirical research on conventional channel relationships, Weitz&Jap (1995) found that:

i. Trust, commitment and idiosyncratic investments play an important role in the governance of bilateral relationships

ii. Communications, negotiations and other influence strategies differ in bilateral versus unilateral relationships.

Weitz&Jap (1995) further observed that the increased power of channel intermediaries had led to shift of attention from unilateral to bilateral control mechanisms for managing symmetrical relationships. Kumar et al (1995a,p 349 ) in a study conducted on automobile dealers found that firms in asymmetric relationships engage a lot more in conflicts and have less incentives to restrain themselves. According to them “*Highly interdependent relationships are more likely to endure and be the basis of sustainable competitive advantage, even if some level of asymmetry persists.*” Johnson (1999, p6) stresses the importance of flexibility in inter-firm relationships and by espousing this firms communicate their good faith in the relationship.

Commenting on the importance of relational norms, Hide &John (1992) opine that inter-firm relationships frequently involve solidarity norms, defined as bilateral expectations that a high value is placed on the relationship itself. Supporting this view, Ganesan (1993, p.186) state that a long-term orientation of the channel partners, a contributing factor for lasting relationships, reduces the use of active aggressive negotiating strategies. Kumar et al (1994) established that a retailer’s perceptions of distributive and procedural fairness have positive effect on relationship quality. Distributive fairness is the perception of a channel partner that the rewards they receive are commensurate with their efforts (Frazier 1983,p.74). Procedural fairness is the perception of downstream channel partners that the processes and procedures adopted by the manufacturers while dealing with them are fair (Kumar et al, 1992). Surprisingly, procedural fairness has comparatively stronger effects on relationship quality than distribution fairness.
In a study conducted on the influence of formal contracts on relational governance, Poppo & Zenzer (2002) found that contrary to the worldly view, formal contracts and relational governance function as complements. They further suggest (p.721) that customized contracts reduce the possibility of parties exhibiting opportunistic behavior. This is contrary to the findings of Jap & Ganesan (2000) that the presence of relational norms engender mutual trust and confidence among the channel members and not necessarily formal contracts. Vazquez et al (2005) assert that manufacturer–wholesaler propensity to cooperate depends to a large extent on the ability of both partners to develop governance mechanisms that minimize transaction costs and create more value for the customer.

According to a study by Jap & Ganesan (2000) a retailer’s TSIs (Transaction Specific Investments)⁶ i.e the investments specific to an ongoing relationship, adversely affect their perception of manufacturer’s commitment. This is in line with the findings of previous scholars (Heide & John, 1992) who concluded that specific investments by a buyer do not have a universally positive effect on the vertical control (defined as the buyer’s control over the supplier’s decisions). Therefore a manufacturer is better off to take the initiative in making relation specific investments (RSI) with a long-term perspective than persuading the downstream channel partners to make such investments.

Stressing the importance of information sharing by partners for successful collaborative relationships, Andotra and Chalotra (2011, p33) suggest that “Frequent sharing of business information in a cordial and friendly environment would enable the parties to solve any problem tactically, without jeopardizing the interests of others."⁷

2.12.1. Tests of Loyalty and Commitment

Baxter & Wilmot (1984) identified three secret tests of loyalty and commitment in the interpersonal context, which can be adapted to a channel relationship.

i. A buyer might use an “endurance test” (say decrease in purchase) to gauge the depth of supplier’s commitment.

ii. A “triangle test” can be made use of by the buyer by creating a situation where in a real or hypothetical supplier is brought into the picture to test the commitment of the supplier under the changed circumstances.

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⁶ Some scholars refer to this as “Idiosyncratic Investments”
⁷ Italics added by me
iii. In a “separation test” the buyer discontinues dealing with the supplier for a period of time and waits for the supplier to initiate further interaction. However it is unlikely that channel partners having an on-going, mutually beneficial relationship with their principals indulge in such ‘loyalty’ tests which may be resorted to by those channel partners having a transactional orientation.

2.12.2. Other Perspectives of Channel Relationships

According to Vazquez et al (2005) “investments of either manufacturer or wholesaler in inter firm relation-specific assets, alongside mutual trust in what is being done, increases the propensity to cooperate and establish a long-term, stable relationship.” Highlighting the importance of cultural factors in building relationships, Flambard-Ruaud(2005, p.61) assert that the methods for building relationships are different in emerging markets as opposed to developed economies and the relative importance of the attributes which make up the relationship are valued differently in different parts of the world. This is an interesting observation in the light of the research questions raised in chapter 1.

2.13. Supplier-Customer Relationships in Mature Industrial Markets

The quality of a relationship also depends on the stage of life cycle of the industry. In a mature industry relationships are expected to be more transparent as compared the ones formed during the introduction and growth stages. Mature markets are characterized by cost-focused competition, commoditization of offerings, and multiple suppliers vying for highly knowledgeable and powerful customers (Geiger&Finch, 2011).

In a study of three dyads involved in the selling and buying of frequently purchased intermediate components in mature industrial markets Narayandas&Rangan (2004) found that:

1. In mature industrial markets, the more powerful party will prefer an informal agreement at the outset of a buyer–seller relationship.
2. To be able to move a relationship to the next level, firms need to go beyond the terms of the contract.
3. Trust invariably forms between individual people in an organization, whereas commitment is an inter-organizational phenomenon. According to them, ‘this distinction is a nuanced departure from extant wisdom.’
Bruhn & Astrid (2004, p. 67) highlight the role and importance of regular interactions a service provider has to have with a client, which they term as customer dialogue, in retaining customers. Konhauser (2007, p. 54) affirms: “A supplier, who is able to gather the relevant information from its customers and use it appropriately and constantly to match their own value expectations with the value expectations of selected customers, will gain sustainable competitive advantage.” Konhauser (2007, p. 49) further established that shared values strongly influenced the strength of the relationship.

In spite of the conventional life cycle approach suggesting that in mature industries, standardization in products and services would lead to manufacturers adopting a transactional approach, researchers have ascertained that a relationship selling strategy in fact could be greatly beneficial in dealing with buyers in mature markets (Geiger & Finch, 2011).

Steel industry in India, focus of the present study, is in a stage of maturity. The channel relationships in this industry therefore have to be studied and analyzed accordingly. The literature surveyed by me broadly dealt with the pre-requisites for forging enduring relationships; factors facilitating inter-firm relationships; relevance of relationship marketing theories for distribution channels; channel relationship strategies and impact of governance structures & control mechanisms on channel relationships. Most of the literature on channel relationships, accessed in my research, was based on the studies conducted in U.S and Europe in Both B2C and B2B. However, I did not come across any studies pertaining to steel industry in the literature survey carried out by me. Further, I could not find any studies undertaken in the Indian sub-continent on channel relationships in B2B context. Therefore undertaking such a study was an exciting proposition. Indian businessmen are culturally different from their western counterparts. The strategies found to be effective in the West may or may not be equally effective in India. By studying the channel relationships in steel industry in the Indian context I would make a humble contribution to the existing body of literature and pave the path for further research to be carried out in the Indian sub-continent on the subject.

2.14. The Present Study

The market for steel and allied products in the geographical area of the study (South India) is a mature business market. The existing channel arrangements are somewhere in between independent conventional systems and an administered VMS (Vertical Marketing System) described by McCamon (1965). In a VMS there is a vertical alignment of all the channel members viz. manufacturers, wholesalers and retailers for achieving the common objective of
improved customer service. In the conventional stand-alone channel arrangements the focus is on maximizing individual gains where as in a VMS the emphasis is on improving the efficiency and effectiveness of the channel by reducing duplication of efforts and counter-productive conflicts. Channel partners and manufacturers of steel and allied products in India generally have a bilateral but asymmetric governing system. The asymmetry is mainly because of the dominance exercised by manufacturers in the pre liberalization era and the legacy continues even after two decades.

Channel activities are a major source of value-added benefits to end users. Distribution channels provide an opportunity to manufacturers to develop competitive advantage. This is achieved by reducing the channel costs and improving customer service. All things remaining the same, a well-managed channel of distribution could be a major differentiating factor for a manufacturer (Weitz & Jap, 1995). Independent channel members offer an assortment of goods to the end customers and may not be comfortable patronizing only a single supplier. Dealers of steel and allied products having tie-ups with three are more suppliers is not an unusual practice in India. Because of this, loyalty of channel members is divided among suppliers. This poses an additional challenge to manufacturers to develop trusting and committed relationships with the downstream channel partners in conventional channels. Manufacturers in general aim to gain competitive advantage by nurturing fruitful channel relationships. However the efforts of manufacturers are restricted by the concerns, some of them have about the integrity of channel firms. Some of the manufacturers are apprehensive that channel partners enter into multiple relationships with competitive suppliers thereby presenting the risk of sharing sensitive information with competitors. The above limitations of conventional channels led to the emergence of Corporate VMS (McCamon, 1965), an initiative by manufacturers to integrate forward. Corporate VMS is characterized by centralized planning and decision making.

However during the last few decades there has been a gradual shift from corporate vertical channels back to the conventional independent channels. This is because of the realization by manufacturers that they lack distinctive competencies to manage the channel activities efficiently, which the independent channels possess. On account of this, authoritative controls where manufacturers used to be the dominating force had to make way to mutually beneficial relationships of a long-term nature characterized by symmetrical governance structure (Weitz & Jap, 1995).
Vazquez et al (2005, p 125) aptly describe the shift in power balance in the manufacturer-channel partner dyads as under:

"----the manufacturer –distributor relationship has evolved away from a phase of market negotiation between adversaries with different degrees of power towards one of establishing, developing and maintaining successful cooperation relationships."

The present study aims to explore the dynamics of channel relationships in the scenario presented above.

2.15. Research Gaps and Need for the Present Study

In spite of manufacturers investing their time and resources on relation building activities, effectiveness of their efforts are found to vary across customers (Palmatier et al., 2008). A thorough investigation of the antecedents and mediating/moderating factors that influence the outcomes of relationship marketing strategies may help find some of the answers.

Steel by nature is a bulky substance which requires special equipment and facilities for handling, storage and transportation (Dasari, 2012). Steel products are sold direct to major OEMs by manufacturers. Small and Medium enterprises (SMEs) however do not have the wherewithal to deal directly with the manufacturers who enforce certain norms and standards with respect to minimum order quantity, extension of credit etc. Distributors and dealers appointed by manufacturers cater to the needs of SME customers.

While a number of studies have been carried out in U.S and the West (Vazquez et al, 2005; Jap & Ganesan, 2000; Nevin, 1995) to determine the factors affecting the relationship marketing outcomes in manufacturer-dealer dyads in a B2B context, survey of extant literature carried out by me has not revealed any studies undertaken in India on the subject. Even outside India, no empirical studies on channel relationship strategies of manufacturers of steel and allied products and their effectiveness were available in the literature reviewed by me as a part of my research.

While the extant research has been able to establish some of the linkages - either direct or through mediators/moderators between the relationship building efforts of manufacturers and the corresponding outcomes (Morgan & Hunt 1994; Palmatier et al 2006), not many of them analyzed the channel relationship strategies from the perspective of dealers. In the Indian

8 The terms distributors, dealers and channel partners have been used interchangeably in this study as there is no significant difference in their functions, though the scale of activities may differ.
context, support extended by manufacturers when the dealers are engulfed by business pressures and challenges making their position critical, albeit temporarily, is not only reciprocated by dealers but also remembered for a lifetime. The extant studies do not adequately address the critical support extended by manufacturers, which is one of the pillars on which manufacturer-dealer relationships are built in the Indian sub-continent. Further, in the extant literature there is no specific mention of how the intensity of the relationship can be measured and its possible impact on the relationship outcomes, though there are few references to relationship quality (Palmatier et al 2006 & 2008).

Another critical variable influencing the channel relationships is supplier’s versatility, which is a measure of the adaptability and flexibility of the manufacturers. In oriental culture lot of importance is attached to the versatility of the supplier, which though not identical, is analogous to the expert power described by the extant scholars (Stern & El-Ansary, 1988). Not many scholars have explored this construct in depth, though its proxies viz. flexibility, adaptability etc did figure, albeit on a standalone basis in some of the studies (Palmatier et al 2006; Samaha et al 2011).

The present study undertaken in the geographical area of South India adopts the perspective of dealers of steel and allied products and attempts to bridge the gaps identified above in channel relationship strategies.