CHAPTER TWO
REVIEW OF LITERATURE

Peterson et al. (1997) stated that all marketing functions are carried out through three distinctive types of marketing channels: communication channels, transaction channels, and distribution channels. By definition, communication channels enable the flow of various types of information between buyers and sellers. Transaction channels realize ordering and payment activities between buyers and sellers, and distribution channels facilitate the physical exchange of products and services between buyers and sellers. Stewart, Frazier, and Martin incorporated marketing functions into two types of channels: communication channels and distribution channels. The latter has a broader definition, meaning “a mechanism through which a product or service can be selected, purchased/ordered, and received by a segment of the firm's customers.”

Sometimes distribution tasks are equal to marketing flows. Eight generic marketing flows exist, namely, physical possession, ownership, promotion, negotiation, financing, risking, ordering and payment. Physical possession refers to all storage activities, including transportation between two channel members (Coughlan et al., 2001).

Distribution Channels have become the most important component of marketing today and are receiving increased attention. Channels not only add value to products and services, but also create customer and shareholder value, brand equity and market presence for a company. For most service organizations, consumer marketing and industrial marketing firms, the distribution channel, or inter organizational network of institutions, comprising of agents, wholesalers, distributors, and retailers (Gorchels, 2004; Pelton et al., 2002; Lambart et al., 1998) play a significant role in the flow of goods from producers to consumers. According to Cespedes (2006), demand generation, inventory storage, distribution of goods, providing credit to buyers, after sales service, product modification and maintenance are some of the functions that a channel performs. The channel member also called as an intermediary is a member of the distribution channel excluding the manufacturer and the consumer. Intermediaries come between these two and perform one or more of the above functions. The
shifting of channel power from manufacturers to retailers, wholesalers, and distributors has
had a great impact on distribution. In many cases, the consumer perceives all of the top
brands as substitutes for each other leading to a lower brand loyalty, which in turn decrease
the manufacturer’s power. This actually increases the distributor’s power because sales are
then determined by what is in stock and most often what is recommended by the distributor
and not by what particular brand offers (Lambart et al., 1998).

The marketing channel may be defined as: "The external contractual organization that
management operates to achieve its distribution objectives" (Rosenbloom, 2004).

From the viewpoint of the manufacturer, a key aspect of marketing strategy is to determine
how best to go to market (Bowersox & Cooper, 1992). Marketing channel decisions are
among the most critical decisions facing management. The channels chosen intimately affect
all the marketing decisions (Kotler, 2003). As a strategic marketing tool marketing channels
had, for many years, taken something of a "back seat" to the other three strategic areas of the
marketing mix: product, price, and promotion. Many firms viewed marketing channel
strategy as somewhat of a "leftover" after the more "important" product, price, and
promotional strategies had been considered. Although termed “the long neglected side of
marketing” this attitude appears to be changing.

Mallen (1963) said that there are six basic channel decisions with which the marketing
manager must concern himself or herself, and for which he or she might be held responsible.
These are as follows:

1. Direct or indirect channels
2. Single of multiple channels
3. Length of channel
4. Types of intermediaries
5. Number of distributors at each level.
6. Which intermediaries

These decisions are made by an overall planning analysis within five basic frameworks. First
is economic orientation, which basically has to do with efficiency. It focuses on costs and
economic outputs and is generally a short-term view. Second is a behavioral framework.
This orientation is more social and looks to power and conflict. It is much longer range than
the economic framework mentioned previously. Third is a political economic framework.
This is a newer orientation and looks at the distribution system or channel as a social system consisting of interacting sets of major economic and social political forces that affect behavior and performance (Stern & Reve, 1980). Another framework is ecological. This approach focuses on the interaction between the firm and its environment. Finally, we have a strategic managerial system approach that emphasizes decision making and a developed system of strategy planning. Thus, this framework for looking at channel alternatives is concerned with the integrated and coordinated use of channel and marketing resources to achieve specific objectives (Michman, 1983).

In considering the six basis channel alternatives, the marketing manager should consider these five analysis frameworks in making decisions to focus on four basic tactical considerations that must be made. These four are (1) an evaluation of the relative power of the various channel members, (2) an organization of channel commitments as well as a formulation of channel procedures (3) accurate measurement of channel performance, and finally, (4) evaluation of change potential within the channel and management of the change when appropriate (Bowersox et al., 1980).

One alternative channel decision that the business marketing manager can make is the selection of a direct channel of distribution. Direct channels involve “direct selling” (that is, no external intermediary involved) to the industrial user, with or without the use of sales branches. A direct sale would include both generalists and specialists (Sutton, 1986). Some manufacturers have set up their own retail outlets to sell their goods directly to consumers. This way they bypass the cost of both wholesalers and independent retailers. This strategy is feasible, however, only if it manufacturers can perform the wholesalers and retailers functions more economically. When IBM began introducing personal computers in 1980, it established two channels, large computer retailers such as Computer land and its own retail stores, called Product Centers. But the Product Centers were soon plagued with inefficient inventory control and high overhead, prompting IBM to conclude that it was more efficient to distribute through intermediaries rather than direct to consumers (High Tech Marketing, 1986-A).

Compaq’s use of the manufacturers-to-retailer channel system has helped it establish a competitive advantage in the personal computer market by offering retailers a margin of 36 percent of sales, about 10 percent higher than average. It is also responsive to retailers,
adding product features and adjusting inventory levels based on their feedback. As a result, Compaq has won the loyalty of computer retailers and is the only company other than IBM and Apple to win substantial shelf space in computer stores (Fortune, 1985).

Wholesalers began to be used by retailers in selling computer software because they could evaluate and screen the many offerings from software manufacturers, both large and small. Few computer retailers had the time or expertise to do so (Business, 1985).

Manufacturers also use brokers to distribute items. When Mr. Coffee, the first electric-drip coffeemaker, was introduced the company used manufacturer’s agents to sell both the coffeemaker and filters to appliance and department stores. It soon became apparent, however, that Mr. Coffee users found it inconvenience to go to appliance and department stores to buy the filters; it was much easier to buy the filters in the same food stores where coffee was sold. The company did not have the resources to sell to the 165,000 retail food stores in the United States, so it hired a number of food brokers (brokers who sell a food manufacturer’s products on a permanent basis for a commission) to sell the filters to supermarkets and food stores (Advertising Age, 1982).

Industrial goods require different types of distribution systems than consumer goods. One producer of factory automation equipment summarizes the problems of distributing through intermediaries: “You have lots of very fine equipment, lots of industries that can use the equipment, and just about no middlemen who understand how to implement the equipment to the particular needs of customers” (High Tech Marketing, 1986).

Business products distributors are intermediaries who buy and take title to business products, who usually keep inventories of their products, and who sell and service these products. As mentioned in Industrial Distribution (1987), they are the most important single force in distribution channels, numbering approximately twelve thousand and accounting for approximately $50 billion in sales volume.

Another method of integrating distributive functions is through contractual systems. Franchise systems are the most important types of contractual arrangements. The franchisor may assist the retailer in establishing the store, promoting it, and training personnel and usually establishes strict guidelines as to how the store is to be laid out and operated. Almost one-fourth of all retail establishments in the United States are franchised, accounting for about one-third of all retail sales (Franchising in the U.S. Economy, 1984).
In fact, as Cespedes & Corey (1990) said that Channel management is supposed to be a cooperative marketing strategy where manufacturers augment their direct sales channels with indirect channels of distribution to reach different segments more efficiently and effectively. Also, as per Hardy & Magrath (1988), manufacturers most occasionally modify their channels of distribution to keep their products available in broadening and maturing markets. Effective channel management involves classifying the role of a product line within the corporation’s product portfolio and managing the implications of interrelationships among product policy, product lines, and channel strategy (Cespede, 1988).

According to Zurier, (1991) a manufacturer’s representative, often called a manufacturers agent, is a firm selling part of the output of one or more manufacturers whose products are related but noncompetitive. Manufacturers representative are getting more respect today from both distributors and manufacturers. Kotler (1991) said, they know each manufacturer’s product line and use their wide contacts to sell the manufacturer’s products.

**Use of Multi Channel**

Today, intense global competition is pushing companies to go to market using a multichannel strategy in which they sell their products through two or more channels of distribution (Webb and Hogan, 2002). The popularity of the multichannel strategy can be witnessed through the increasing number of companies adopting it for different reasons; to increase market share, to cut costs down, to cover different marketing segments, or to meet difference in consumer behaviors (Sa Vinhas & Anderson, 2005). In their attempt to do so, however, decision makers are trapped in a dilemma. From one side, they are obliged to introduce new channels or new channel members that meet new trends in consumer buying behaviors and, from the other side, they are faced with ‘channel conflict’ generated as a result of adding of these new channels, especially from old traditional distributors. Adopting a multichannel strategy has become a must-be for companies to have different advantages that include: increased reach, maximized profits, increased customers' exposure and access to a marketer's offerings, increased sales volume and increased market presence (Sharma & Mehrotra, 2007).

Sharma & Mehrotra (2007) proposed a model for “Choosing an optimal channel mix in multi-channel environments”. They proposed a multi-channel strategy process of six steps: (1) Develop strategic multi-channel objectives. (2) Understand customer and channel touch
points to leverage advantage. (3) Undertake a review of industry structure and channel options. (4) Undertake channel usage pattern. (5) Review channel economy. (6) Develop an integrated channel management strategy.

**Channel Selection / Design**

Unfortunately, too many reports of problems indicate the lack of sufficient attention to channel selection. (Hayes et al., 1996) The selection and resultant performance of a specific partner or partners are, of course, the ultimate determinants of the success or failure of a marketing channel (Stern & El-Ansary, 1992). Clearly, Companies need to select their channels members carefully. To customers, the channel members are the company.

A theoretical framework is proposed by Irani et al. (2011) based on the most important tasks of intermediary and the criteria to measure them. It is possible to apply the theoretical framework to select the intermediary for any industry or country. However, there might be possible location-specific or industry-specific limitations. Moreover, the framework has proved to be useful in improving the selection of the intermediary in marketing channel.

Use of the term "design" as it applies to the marketing channel varies widely. Therefore, before proceeding further we will define more precisely what we mean by design as it applies to the marketing channel: Channel design refers to those decisions involving the development of new marketing channels where none had existed before, or to the modification of existing channels. Selection decisions may or may not be the result of channel design decisions. One common reason for selection, independent of channel design decisions, is to replace channel members that have left the channel - either voluntarily or otherwise (Rosenbloom, 2004).

There are some models in designing the marketing channel but there are few methods specially designed for selection of intermediary in marketing channel.

The first use of operation research models in selection of intermediary was in 1986. Rangan et al., (1986) postulated a model for intermediary selection under the assumption that the firm's distribution channel structure remains unaltered. The optimal intermediary network selected by the model was compared to an intuitive network recommended by sales management, (Rangan et al., 1986). Neves et al. (2001) proposed a model that has 4 phases - understanding, objectives/goals, implementation, monitoring and revision- and 11 steps. In implementation phase, In the 9th step – channel selection – Once the objective is set, the
company can select the channel structure and channel members, if it has the flexibility to do so, which depends on the availability of agents in the channel, the kind of relationship that will be build and several other factors analyzed in the preceding steps (Neves et al., 2001). Rosenbloom (2004) developed a model for designing the channel that can be broken down into seven phase or steps: (1) Recognizing the need for a channel design decision, (2) Setting and coordinating distribution objectives, (3) Specifying the distribution tasks, (4) Developing possible alternative channel structure, (5) Evaluating the variables affecting channel structure, (6) Choosing the “best” channel structure, (7) Selecting the channel members. The actual selection of firms that will become marketing channel members is the last phases of channel design model (Rosenbloom, 2004). Rix (2005) proposed a model consisted of 4 steps: first, decide the task of distribution within the marketing mix, second, select the type of distribution channel, third, determine appropriate intensity of distribution and finally, choose specific channel members. In the final step, the firm select intermediary of marketing channel. Finally, Kotler developed a model including 4 steps, analyzing consumer’s needs, setting channel objectives, identifying major alternative and evaluating them (Kotler and Armstrong, 2006; Kotler and Keller, 2006). In the final step like Rix model, the firm select intermediary of marketing channel. There are few articles specially designed for selection of intermediary in marketing channels that include some applying selection criteria. In 1951, in the first attempt to specify a set of selection criteria for choosing channel members, Brendel developed a list of 20 key questions for industrial firms to ask their prospective channel members (Brendel, 1951). The most comprehensive and definitive list of channel member selection criteria, however, is still what offered by Pegram in 1965 (Pegram, 1965). Pegram's list is empirically based and Pegram used more than 200 American and Canadian manufacturers. Pegram divided the criteria into a number of categories. Another set of criteria, proposed by Hlavacek and Mcquistion (1983), augments Brendel's list with some additional criteria. They argued that for the technical products sold in the industrial market, manufacturers should select distributors who carry a small rather than large array of products. They also suggested that the potential channel member's market coverage should be specified as a criterion not merely in terms of geographical coverage but also in terms of market segment coverage.
Shipley (1984) provided another set of selection criteria based on a study of manufacturers in the United States and the United Kingdom (Shipley, 1984). The study reported on 12 criteria grouped under three basic categories: (1) sales and market factors, (2) product and service factors, and (3) risk and uncertainty factors. Based on the careful review of the international marketing literature relevant to selecting foreign distributors, Yeoh & Calantone (1995) identified six major categories of selection criteria: (1) commitment level, (2) financial strength, (3) marketing skills, (4) product-related factors, (5) planning abilities, (6) facilitating factors (Yeoh & Calantone, 1995). They referred to these six factors as the "core competencies" that distributors must possess for effective representation in foreign markets.

Modern, well-managed merchant wholesalers are especially well suited for performing the following types of distribution tasks for producers and manufacturers. The types are: market coverage, sales contact, inventory holding, order processing, market information and customer support (Rosenbloom, 2004).

Once a distribution network has been chosen and the type and numbers of intermediaries needed has been determined what is expected from channel members and what they can expect in return should be considered as per ‘Marketing Guide: Distribution’ (1991). The establishment of electronic information interchange linkages (among other tools) between channel members offers significant potential for the transformation of their relationship, with significant benefits for all participants (O’Callaghan et al., 1992).

**Motivating the Channel Members**

Higher commission rates have diminishing returns in terms of motivating agents to devote more time to a principal (Heggde & Kumar, 2011).

Personal contacts in the form of visits by the principal have a significant positive effect on motivation (Anderson et al., 1987). Resellers often complain that their suppliers don’t provide enough training and support (Cespedes, 1988). Delegation has no impact on channel profit (Couglan, 1989). Selection criteria and recruitment tools such as thoroughness, Importance, and success are used by the Channel Managers, thoroughness and performance may be improved by according greater importance to managing distribution activities (Coviello, 1989). Manufacturer support programs are related positively, though weakly to distribution intensity, when a manufacturer provides many support programs, retailers may
have some incentive to join and remain in the channel system. Manufacturer coordination efforts are related inversely though weakly to distribution intensity, when close coordination is needed manufacturers are likely to limit distribution to reduce potential difficulties in channel operations and foster a supportive atmosphere in their exchange relationships. Retailer investment significantly weakens the inverse relationship between manufacturer coordination efforts and distribution intensity. Retailers making heavy investments are signaling to the manufacturers their willingness to sell and service it effectively (Frazier & Sheth, 1985). Manufacturers in heterogeneous market must ensure that the retailer interests are properly aligned. In markets with price and service competition there can be channel conflict over the nature of retail competition itself (Iyer, 1998). Quantity discounts provide an improvement over simple contracts which include fixed conditions. By linking the contract to performance such as quantity ordered for promotional spending, the incentive to achieve coordination can be created without the rigidity of fixed requirements. Marketing channels are frequently organized on the basis of negotiated transaction. Marketers must carefully check the characteristics of middleman’s marketing behavior in order to avoid the risk of linking up incapable distributors (Luk, 1998). Usually the first transaction between the supplier and retailer encompasses only small quantities of goods, if these first exchanges are performed to mutual satisfaction, the number of decision variables in the internal role relations increases. The room for bargaining about the supplier’s sales price will increase when the retailer’s and the supplier’s transaction cost is reduced (Skytte, 1992). Sales personnel most frequently named the manufacturer, owner/manager, chain management, and sales personnel as channel influencers (Speh & Bonfield, 1978). While there are channel influencers, there are also influence strategies by which the source firm controls the actions of the target firm. Bandyopadhyay (2004) in his study on Indian channels elaborates that the Indian market place cannot be regarded as a seller’s market anymore and therefore indirect influence strategies are used to gain compliance Indirect strategies attempt to change the perception of the target in order to get the desired behavior. Examples of such are as follows: 

1) Information exchange where the manufacturer tries to alter perception of source by discussing business interests and functioning of the supply chain without setting targets for the channel partner.
2) Recommendation is when the source sets increased targets for the channel partner by asking him to change certain behavior and operations.

If manufacturers and retailers are allowed to define their own pricing decision variable then 1) Manufacturers are indifferent about choosing among absolute prices and absolute margins and percentage margins but 2) the retailers chooses percentage margins (Tyagi, 2005). Boundary personnel (salespeople) had a significant positive effect on relative dealer satisfaction with the relationship. This link is a key factor in effective communication (Gassenheimer et al., 1996). Help the sales representative develop skills in working with middlemen to improve distribution management (Hardy & Magrath, 1988).

**Role of Channel Managers in Channel Management**

Channel management research and practice have now recognized the importance of managing relationships between the channel managers and firms performing distribution functions. They are anyone in the firm or organization who is involved in distribution channel decision making, though in practice few firms or organizations actually have a single designated executive position called the channel manager (Jackson & Walker, 1998), (Walker et al., 1995) depending on the type of firm or organization, a variety of different executives are involved in making channel decisions. Often, they are the sales managers who are in constant touch with the channel partners. Channel managers play a crucial role in improving relationship with channel partners for effective functioning. They assess the channel partner’s need and align goals and objectives, they motivate these resellers to attain the agreed-upon goals and provide appropriate support. Channel managers also evaluate goal alignment and reseller performance so that corrective action can be taken if necessary (Gorchels et al., 2004). Distribution managers would appear to favor a climate of communication ease, whereas subordinates in the distribution function would prefer a climate of cooperation. Communication and cooperation will promote sales and distribution effectiveness (Kahn et al., 2004).

Sales managers are entrenched in managing their firm’s distribution channels. Sales managers are more likely than their industrial counterparts to perform the following channel management tasks: formulating channel strategies, designing marketing channels, motivating channel members, and managing conflict. However the type of product manufactured does
not appear to influence the extent to which sales managers are involved in selecting channel members, coordinating channel strategy, or evaluating channel member performance. In examining the impact of firm size, Sales managers in large firms report a higher level of involvement in coordinating channel strategy and evaluating channel member performance than their counterparts in small firms (Mehta et al., 2000). Strategic alliances are cooperative arrangement that transcend organizational boundaries to achieve channel goals. Central to such alliances is an understanding by all channel members of channel goals, roles of particular players, sharing of information, cross-organization functional shifting, and a long term commitment to the alliance. Managers at all levels in the channel have a wealth of information. This diffusion of information technology into channels is having a profound effect on how managers look at the problem of managing the channels and the resultant channel relations (Mentzer, 1993).

In recent years there has been a surge of interest in the study of relationships between buyers and sellers and indeed relationship marketing has emerged as a new field of study (Sheth & Parvatiyar, 2000; Palmatier et al., 2006). Business markets in particular have been characterized by long-term relationships between organizations, especially in supply chains and marketing channels (e.g., Keep et al., 1998; Cannon & Perreault, 1999). Marketing channels are sets of “interdependent organizations involved in the process of making a product or service available for use or consumption” (Coughlan et al., 2006). In marketing channel relationships, “one of the parties eventually will engage in an action that another channel member considers potentially destructive for the relationship” (Hibbard et al., 2001). Conversely, a channel member may consider another channel member’s action as potentially constructive for the relationship.

Channel Conflict and Conflict Resolution

When a business-to-business firm is not able to achieve cooperation among its various channel members, channel conflict arises. Intermediaries have been assumed also to want control of the channel to avoid being bound by manufacturer-determined strategies (Butaney & Wortzel, 1988). The stage is set for conflict! With respect to conflict versus cooperation in marketing channels, Gattorna (1978) has identified some critical factors underlying possible conflicts between channel members as follows:
1. Communications, structures, and decision-making processes.
2. Manipulation of channel members by other members of the same channel.
3. Introduction of new innovations (including new technology) that are resisted by barriers to change.
4. Denial legitimate claims for reallocation of power and functions.
5. Differences between channel members in primary business philosophy.
6. The exchange act itself, specifically in terms of reaching agreement on terms of trade.

Conflict in marketing channels has been defined as “a situation in which one channel member perceives another channel member to be engaged in behavior that is preventing or impeding him from achieving his goals” (Stern & El-Ansary, 1977). If a channel member’s actions are viewed as impeding another channel member’s goals, conflict will increase. On the other hand, if a channel member’s actions are seen to facilitate the achievement of another member’s goals, conflict will decrease. A channel member’s perceptions of conflict will influence changes in the relational norms that characterize its relationship with other channel members. Depending on how the relational norms change, the conflict resolution strategies of the members will vary. The strategies used by the parties to resolve conflict will either improve or reduce the quality of the relationship among channel members. Goal incompatibility, Domain Dissensus, and differing perception of reality are the three different types of channel conflict (Coughlan et al, 2001).

**Conflict Perceptions**

In a seminal article on conflict, Pondy (1967) identifies five stages of a conflict episode: latent, perceived, felt, manifest, and aftermath. According to Gaski (1984), these stages represent a perceptual and a behavioral dimension of conflict. A channel member’s perceptions of another member’s actions will be based on normative, rational/instrumental, and emotional reasoning (Thomas, 1992). We develop variables to measure conflict perceptions based on each of these three modes.

Perceptions of conflict based on normative reasoning consider “the goodness of the act itself – that is, its normative acceptability” (Thomas, 1992). If a channel member perceives the action of another channel member to be fair, they will perceive it positively. If, however, the
channel member perceives the action as unfair, they will perceive it negatively. A variable, Fairness, is introduced to measure the conflict.

Rational/instrumental reasoning “considers the desirability of the likely outcomes of a course of action. A course of action is considered desirable (and its choice is considered rational) if and only if it is seen as instrumental in producing a desired outcome” (Thomas, 1992). If a channel member perceives the action of another member as beneficial to them, they will perceive it positively. But if it perceives the action as detrimental to their interests, they will perceive it negatively. A variable, Benefits, is introduced to measure the perceived benefits of the action.

Conflict perceptions based on emotional reasoning considers the emotions generated during a conflict episode as well as emotions left over from other events (Thomas, 1992).

Singh (2006) has modeled the channel conflict-efficiency relationship, for three different types of conflict resolution methods—problem solving, bargaining and politics, in the context of asymmetric power relationships. The managerial implications of these conceptual models lie in making organizations (channel captains), dealing with their channel partners, foresee the possible impacts of their adopted conflict resolution strategies, on their channel efficiency and accordingly maximize returns on the channel investments.

Conflict has been studied from a variety of perspectives drawn from different disciplines including psychology, sociology, economics, political science, management, and marketing (Lewicki et al., 1992). Research in marketing channels has a tradition of focusing on conflict and power as key constructs influencing distribution decisions and channel structure (Mallen, 1963; Assael, 1968; Stern, 1969; Rosenberg and Stern, 1970; 1971; Etgar, 1976; Lusch, 1976; Brown and Day, 1981; Gaski, 1984; Dant and Schul, 1992; Kumar, Scheer, and Steenkamp, 1995; Hibbard et al., 2001; Vosgerau et al., 2008).

However, only in recent years has the importance of norms like trust and commitment that characterize the relationship between organizations been recognized (Morgan & Hunt, 1994). But little attention has been given to how these norms are affected by conflict and in turn affect conflict. The relationship among channel members has to be considered triadic rather than dyadic as it involves not just the members of the marketing channel but also the buyer and the members engage in relational rather than transactional exchange (Narayandas et al., 2002). Despite recognition that the interests of each member are best served by focusing on a
third party, the buyer, members often focus on individual goals at the expense of the channel as an inter-organizational system. Inter-organizational relationships are prone to conflict because they are characterized by interdependence between members, perception by at least one member that there is some opposition or incompatibility among the goals of the members, and some form of interaction (Thomas, 1992).

Conflicts are inevitable whether their results are functional or dysfunctional. From the organizational perspective, Katz (1964) has provided 3 bases of conflicts—between different subsystems of the organizations and between units of similar functions—both of these sources deal with horizontal power equations. The third base of conflict is based on the hierarchy and arises between different groups over the sharing of rewards and status. (Hall, 2002). The nature of conflict and their sources may be varied and may arise from perceived or real divergence of interests (Morgan, 1986).

Marketing channels have been treated as inter-organizational systems and the channel has been conceptualized as a “super organization”, implying thereby that channels behave like complex social organizations or a social action system (Aldrich, 1979; Van de ven, 1976; Weick, 1965). Hence channel can be treated as a social system which exhibits the same behavioral process characteristics as that of all social systems, with conflict as one such process (Stern & Brown, 1969). All the constituents of the distribution channel along with the manufacturing organization may be seen as a behavioral system. The different actors behave as goal seeking, role-defining, power exercising and information exchanging entities (Rosenberg & Stern, 1970).

So the conflict in channel is all pervasive and characterized by behavioral interdependence for mutual goal seeking. Literature is replete with conceptualizations of channel as a system which needs to be administered for effecting desired behavior and in order to maintain its operating efficiency.

Bucklin’s (1966) conceptualization of a ‘commercial channel’ excludes the customers but includes in the administrative context all actors involved in the movement of products from point of production to point of consumption. Goldman (1966) has viewed conflict in channels as, ‘a social relationship between two parties in which at least one of the parties perceives the other an adversary engaging in behaviors designed to destroy, injure, thwart or gain scarce resources at the expense of the perceiver ’. According to Raven & Kruglanski (1970),
conflict is a “tension between two or more social entities that arises from the incompatibility of actual and desired responses.” Boulding (1965) has given the concept of a threshold level of hostility above which conflict processes are ‘malign’ and below which they are ‘benign’. This has been conceptualized as the threshold level of conflict delimiting functional and dysfunctional conflicts. According to Eugene & Lydia (1962) even a complete absence of conflict would be dysfunctional and Stern & Heskett (1966) say without conflict there would be no innovation. We extend this line of reasoning to state that the mere presence of conflict alone is not the only predictor of outcomes, instead it is the conflict resolution process.

The functional-dysfunctional nature of conflict can be conceptualized as being its outcome on channel effectiveness. The influence of conflict on the channel effectiveness can be treated similar to Organizational effectiveness as, “the extent to which an organization, given certain resources and means, achieves its objectives… without placing undue strain on its members” (Georopoulos & Tannenbaum, 1957). Rosenberg & Stern (1970) have hypothesized that below the threshold conflict there would be positive correlation between ‘level of conflict’ and the ‘outcome’- taken as financial performance (though other outcomes can also be taken) and similarly above the threshold conflict there would be a negative correlation between ‘financial performance’ and ‘level of conflict’.

According to Rosenbloom (1973) channel efficiency is, “degree to which the total investment in the various inputs necessary to effect a given channel decision can be optimized in terms of outputs.” Hence it implies the efficiency of resource utilization in the channel for a given channel decision. The conceptual model provided by Rosenbloom categorizes 3 effects of channel conflicts on channel efficiency—Negative effect where efficiency and conflict are negatively correlated; No effect—where channel efficiency nearly remains same in spite of an increase in conflict and the positive effect where efficiency of the channel increases with the increase in conflict due to factors such as increased motivation of one of the channel member to attain atleast one of the common goals. The four main processes of conflict resolution given by March & Simon (1958) are:

Problem Solving, Persuasion, Bargaining and Politics and has been widely supported (Butaney, 1989; Lambert, Boughton, and Banville, 1986) –as quoted by Dant & Schul (1992). These four conflict resolution strategies can be summed up as:
1. In problem solving approach, there is a priori common objective and the solution arrived at generally meets both members’ criteria of decision making.

2. In bargaining, the disagreement is acknowledged to be present by all members; the common goal may or may not be present and may even include threats, promises, positional commitments and non-concessionary behaviors (March & Simon, 1958).

3. Politics approach signals the failure of all the above internal processes of conflict resolution and the members now want to resolve their conflict through mediation or arbitration of a third party, which may be a potential alley (Dant & Schul, 1992).

4. In Persuasion, one of the channel member tries to change the perspective of the other member by calling focus on the super ordinate goal, hence a persuasive element is present here, unlike in problem solving approach.

Dant & Schul (1992) provided a framework for the choice of conflict resolution strategies in symmetric and asymmetric settings (one of the channel members is dominant). Their study broadly concludes that:

1. Politics is the most preferred approach when stakes, non-dominant member dependence and complexity are high and
2. Problem solving approach is most preferred when risk, stakes, complexity and non-dominant member dependence is low.

Several methods can be taken for conflict measurement. One such measure as provided by Stern-Heskett typology is the distance between reciprocal members’ perception of issues, which are predictors of conflict. (Several other measures can also be employed.) Hence level of conflict varies directly with disparity in channel member’s goals, lack of consensus about the domain conceptions among members and differences in their relative perceptions of reality among the two actors. Broadly, conflict has been studied in one of the following 3 states (Assael, 1968; Pruden, 1969; Rosenberg & Stern, 1971; Pearson, 1973; Hunger & Stern, 1976 and others as cited in Brown and Day, 1981):

1. **Manifest Conflict**: Frequency and Intensity of conflict is the main conflict dimension measured.
2. **Affective Conflict**: Intensity of conflict is measured.
3. **Perceived Conflict**: Intensity of conflict is measured.
Brown & Day (1981) relates to automobile dealers where they considered the 15 issues to important, some of which are: Vehicle Inventory, Number of salesmen, Number of Mechanics, Manufacturer provided management assistance, physical facility, vehicle allocation, vehicle delivery, parts inventory, dealer advertising and other issues. The findings of research by Webb & Hogen (2002) indicate that hybrid channel conflict is an important determinant of both channel performance and satisfaction. Moreover, the data support the view that the frequency of conflict, but not its intensity, has a negative effect on channel system performance.

In an editorial in the Academy of Management Review, Mannix (2003) calls for a return to theorizing on conflict and conflict resolution. She points out that the field of conflict and conflict resolution began with a strong theoretical focus and argues that returning to theory would provide scholars with a new way of thinking that sparks new insights, provide “a direction for what empirical journey to take” and draw connections across disciplines (Mannix, 2003)

Conflict resolution has received much attention from a variety of perspectives in the study of inter-organizational exchange relationships (Dant & Schul, 1992). A distinction has been drawn between structural and process approaches to conflict resolution. We focus on process approaches that involve choice of conflict resolution strategies. The variables to measure conflict resolution strategies are developed following Dant & Schul (1992). Four different conflict resolution strategies are identified based on the typology of March & Simon (1958): (1) Problem Solving, (2) Persuasion, (3) Bargaining, and (4) Politics.

Problem Solving is likely to be the preferred conflict resolution strategy when channel members share common goals and want a solution that satisfies the decision criteria of both parties. The common goals are readily apparent to both parties. Information exchange, concessionary behavior, and identification of new alternatives are likely (Pruitt, 1981).

Persuasion is likely to be the preferred conflict resolution strategy when one party attempts to alter the other party’s decision criteria so as to move the other party to a common set of goals. It is similar to problem solving with the important difference that the common goals are not readily apparent to the two parties. The aim is to reduce differences between the sub-goals of the two organizations by emphasizing the super ordinate goals of the marketing channel. Bargaining is likely to be the preferred conflict resolution strategy when common
goals are not expected and the two parties have a zero-sum orientation. One party is expected to win at the expense of the other party that in effect is considered to lose.

Politics is likely to be the preferred conflict resolution strategy when there is fixed disagreement over goals and a zero-sum orientation (like in bargaining), but also includes third-party intervention. The two parties are unable to resolve the conflict by themselves and seek the assistance of a third party to bridge their differences.

Harridge (2004) considers electronic marketing, the latest type of marketing, using the familiar framework of the seven Ps of marketing – product, price, promotion, place (distribution), process, physical evidence, and people. They concluded that electronic marketing does not yet have the potential to replace traditional marketing efforts. It should be seen as a valuable and complementary tool, and managers should embrace new technology in order to create greater value for customers.

Webb (2002) investigated the effect of introducing the Internet channel into an already complex, multichannel distribution system from the perspective of the supplier firm. He described strategies for proactively managing conflict, both externally with channel partners and internally among the subunits responsible for managing the channels. Dedicated channel management groups, documentation of channel strategies, and super ordinate goals are identified as strategies for minimizing unwanted conflict.

The choice of conflict resolution strategies is expected to depend on relational norms. The relational norms mediate the relationship between perceptions of conflict and conflict resolution behavior. The conflict resolution strategies chosen by channel members determine whether the quality of the relationship between them is improved or reduced.

Vijayasarathi & Robey (1997) explained that Channel performance was positively related to channel cooperation and negatively related to channel conflict. They suggested that EDI use improves cooperation between trading partners and leads to greater satisfaction and performance in electronically-mediated business transactions.

**Emerging Channels**

Rosenbloom (2004) highlighted the dimension of having the E-commerce as a new channel for manufacturers and the impact that it has on channel conflict. He raised a lot of issues like
whether all products of the company should be sold through the internet, and if the online channel will lower the cost.

Webb (2002) addressed the problem of channel distribution in the e-commerce age and described strategies for proactively managing conflict both externally among channel partners and internally among the subunits responsible for managing the channels. Twelve propositions were developed by which suppliers can influence the level of channel conflict, eight of which relate directly to channel mix and four focuses on channel communication and coordination.

Tata Nano is trying to ramp up its sales by exploring unconventional channels like the Big Bazaar outlets. This is the first of its kind in India where a retail chain is selling a car. Conventional marketing may become ---slow or stagnated over a period of time. Multi level marketing may be the turnaround tool in such situations.(Sreekumar, 2007) The more reputed companies in MLM in India and abroad are, Amway, Modicare, Oriflamme, Tupperware, Quantum, RMP, Goodways Placement Services etc. All these companies have web based information system where a member can monitor the growth of his down line memberships, incomes accrued etc. The visible part of the network is a distribution center (for product based MLM ) and weekly meetings of members and prospective members to explain the business plan, demonstrate products, recognize the achievers etc. (Sreekumar, 2007). Alba et al. (1997) examined the implications of electronic shopping for consumers, retailers, and manufacturers. They assume that near-term technological developments will offer consumers unparalleled opportunities to locate and compare product offerings.

Current Internet users do not seem to consider buying on the WWW to be equivalent to buying through mail order. Hence, the WWW medium may well represent the breakthrough of non-store retailing. Furthermore, the results confirm earlier findings that money-back guarantee is the most important risk reliever, followed by offering a well-known brand and a price reduction. (Poel & Leunis, 1999)

The mid- to late-1990s saw increasingly sophisticated analytical models of service (Shugan & Xie, 2000) and the first models of Internet marketing and e-service (Bakos & Brynjolfsson, 1999). Rust & Chung emphasized that the emergence of internet as a channel of distribution has affected the relationship with the customers to a great extent. In recent years, with the emergence of internet as a channel of distribution, the most important advance
has been the development of models that focus marketing expenditures on individual customers (Reinartz et al. 2004), link marketing investments to CLV and customer equity (Rust et al. 2004), and ultimately connect customer equity to the market capitalization of the firm (Gupta et al. 2004). Models have tended increasingly to emphasize customization and personalization (Ansari & Mela, 2003), and to draw on elements of the emerging technological environment, such as the Internet and information service products (Jain & Kannan, 2002). The Internet empowers consumers as it reduces the cost of searching for information. This benefit to the consumer is shown in Bakos (1997) model. In that model, a consumer’s utility is determined by the reservation price, price paid, cost of fit, and expected cost of search. Bakos (1997) shows that the lowering of search costs helps to reduce buyers’ cost of fit, thus a consumer ends up with a better suited product in a market with differentiated product offerings. The benefit of online searches, however, suffers from a diminishing marginal return effect. Ratchford et al. (2003) show that the consumers with less initial information will gain more from an online search than those who started off with more information. Wu et al. (2004) show that a firm benefits by providing free product information online. Danaher et al. (2003) show that brand share (a proxy for reputation) has a higher correlation to customer loyalty in an online environment as compared to an offline environment. The ability to manage online relationships requires the ability to model online behavior (e.g., Bucklin & Sismeiro 2003, Sismeiro & Bucklin 2004, Telang et al. 2004), taking into account such issues as the difference in consumers’ degree of brand considerations as a result of their online search behaviors (Wu & Rangaswamy 2003). As in all relationship-management efforts, a firm requires a means of measuring service quality. Parasuraman et al. (2005) demonstrate the properties of a multiple-item scale for assessing e-service quality, and demonstrate the need for a different scale for routine and non-routine online customers. In addition, information that is better presented helps reduce the likelihood of information overload (Lurie 2004), which, in turn, helps a firm to get the key selling points across to consumers. Interestingly, the technology that brings about information overload also brings with it the capacity for better information customization. For example, Ansari & Mela’s (2003) optimization model uses click stream data from web users to customize the design and content of an e-mail to increase website traffic.
Apart from improving the content of the messages, firms may also manage the length and duration of consumers’ exposure to them. Chatterjee et al. (2003) show that consumers’ responses to firms’ messages may also depend on the frequency, duration, and time lapse between message exposures. At the same time that the Internet empowers consumers with the ability to make better choices, the Internet also empowers firms to manage their customers better, and to better serve those customers’ needs.

In the area of improving customer management, Padmanabhan & Tuzhilin (2003) discuss the various electronic customer relationship management applications and the opportunities for optimizing them. On the Internet’s role in improving a firm’s ability to better serve its customers, Rust & Lemon (2001) cite three central changes in which the Internet can help firms improve their services. They include true interactivity with consumers, customer-specific and situational personalization and opportunities for real-time adjustments of the firm’s offering to customers. Internet technology offers other benefits to firms besides the ability to better serve their customers. For example, it has the potential for improving a firm’s revenue management through the use of dynamic and automated sales (Boyd & Bilegan, 2003). In addition, Xue & Harker (2002) show that through the Internet, a firm is better able to involve the consumers as co-producer of the service.

The review of literature has revealed that the consumer durables industry has witnessed a considerable change in the past couple of years. Changing lifestyle, higher disposable income coupled with greater affordability and a surge in advertising has been instrumental in bringing about a sea change in the consumer behavior pattern. The biggest threats to the industry going forward are supply-related issues pertaining to distribution and infrastructure. As a strategic marketing tool, the field of distribution channels had been taken a “back seat” of the other three areas of the marketing i.e. product, price and promotional strategies. But in recent years this relative neglect of distribution channels has been changing – in many cases to a keen interest in the area.

The review of various studies reflect that the various issues like selection of marketing channels and intermediaries, their performance appraisal, conflict among channel members and the factors motivating intermediaries for performing well are very important aspects for manufacturing companies as well as for their distributors.
Apart from this, emerging distribution channels like MLM, internet, home-shopping etc. and the customers’ perspective for these channels has also become an area of interest for researchers.