Chapter IV

REVIEW OF LITERATURE

The researcher has reviewed the literature related to distribution management functions, channel members functions and performance, channel relationships and partnership concepts approaches in channel management in six types of industries. They are Consumer electronics, paints, general health, FMCG, cement industries.

i) The reviews related to the roles and responsibilities of a distribution management in marketing the goods/services.

ii) The reviews related to the function and performance of channel members in channel management.

iii) The reviews related the need and practice of relationship management and concept of partnership implications in channel management to avoid the channel conflict.

iv) The reviews related to the changing trends of distribution management in these six industries with a focus on its future.

4.1 Reviews Related to the Roles and Responsibilities of a Distribution Management in Marketing the Goods/Services

Distribution Management-Definition

*Distribution* builds stable competitive advantages, since marketing channels are of long-range planning and implementation, and to build them needs a consistent structure and due also to the fact that they are focused on people and relationships. This sequence was elaborated based
on the revision of four existing models available in the literature of Stern et al., (1996); Rosembloon, (1999); Berman, (1996) and Kotler, (1997)

A tendency to fragment marketing into "marketing" and "distribution" compels concern for whether the full potential of either can be achieved if such separation does occur, either in theory or in fact.

4.1.1 Role of Intermediaries within Marketing Channels

Intermediaries are channel players that stand between the manufacturer and the consumer and serve to improve the efficiency of the entire process of distribution. Today, the value of time and convenience has become increasingly important to consumers. Consumers seek to fulfill their product and service needs while minimizing search, wait, storage, and other associated costs. Therefore, channel members such as manufacturers, wholesalers, and retailers serve consumer needs by performing one or more of the following four generic service outputs:

- Spatial convenience (market decentralization reduces transportation requirements and search costs)
- Lot size (intermediaries are willing to carry large lot sizes so consumers don’t have to)
- Wait or delivery time
- Product assortment

Diversified marketing continued as a unified discipline, and efforts were made, albeit not too successfully, to state general theories of marketing.
4.1.2 Description of Distribution Channels of the Industry and of the Particular Company

The purpose of this is to describe all the agents that perform functions in the channel (part of the chain) for the industry being analyzed. This allows obtaining a more accurate view, understanding the agents and performing a first analysis of the functions they perform. An analysis of the consumption data, industry numbers, main companies and other information should also be addressed, in order to facilitate and provide more information. After the aggregation level of the industry, the channels of the individual company should be described. The latter can be different from the industry channels, since some of these channels may not be in use. Sales and financial data should be provided, in order to understand which channels are the most important for the companies’ sales and profits.

Corey et al. (1989); Rosenbloom (1999), Wilson & Vlosky, 1997; Jackson & D’Amico (1989) in their interview they have elaborated by the author using the following factors should be considered as functions, and each of the flows could be built:\(^5\):

- **Product and services flow:** inventory management, product transportation, product modification and after-sale service, customizing a product for the specific needs, providing technical service, product maintenance and repair, procedure and handling of returned products, promote product availability, packaging, specific packaging requirements, evaluating new products, after-sales follow up, industrial consumer services, preserving quality, and others.
• Communication flow: (from company to final consumers) sales promotion to final consumers, information about product features, advertising, providing sales force, frequent visits/face-to-face contacts, packaging information, loyalty programs, web site participation, traceability information and others.

• Information flow (from consumer to company): sharing knowledge of local market, scanning data (access to computer data), complaints via web site/service line, order frequency, order formats consideration, arrange information about consumption and others.

• Payments and financial flows: conducting credit checks on final consumers, billing customers, caring for specific customer orders, arrange for credit provisions, price guarantees, financing and others.

The physical and negotiator functions are dealt with more separately, both from these same standpoints, and with little evident effort of integration.

Those concentrating on distribution have slowly assimilated from "marketing" elements of pricing, promotion, and customer motivation demand relevant to the flow and storage of products in the distributive systems.

Coalitions involve co-coordinating or sharing value chains with partners to broaden the effective scope of each individual firm’s value chain.
4.1.3 Possible Impacts of External Environment- Drivers

Implications Probability Impact

Environmental changes are unanticipated changes in circumstances surrounding an exchange. The bigger the uncertainties, the bigger the motivation for firms to seek governance structures that minimize transaction costs (Williamson, 1985). The purpose is to analyze some of the possible factors that could impact the industry’s channels in the future and also the company’s channels. The tool to be used here is the traditional “step” analysis, evaluating the socio-cultural, economic, technological and political institutional factors. The step is well described in the literature (Johnson & Scholes, 1997; Mintzberg, 1994). Some insights to facilitate the specific analysis of drivers and implications regarding distribution channels are provided, using factors listed in literature and contributions from interviews.

- **Possible impacts of economic environment**: income changes, education/professional level, employment, exchange rates, interest rates, economic integration, supplier concentration, buyer concentration, business life cycles, GNP trends, capital and financial availability, inflation, energy availability, natural environment input constraints (water, air), tourism expenditure and others.

- **Possible impacts of political/legal environment in the channels**: market access (protectionism), package recycling laws, antitrust policy, economic integration (commercial blocks), labeling requirement, packaging constraints, types of communication constraints, tariffs barriers, taxation policies, employment law,
government stability, subsidy policies, product and/or process certification and others.

- Possible impacts of technological environment in the channels: new technological solutions, mail sales, phone sales, internet sales, scanners, computerized stock, just-in-time deliveries, EDI (electronic data interchange), POS data (point of sales data), electronic funds transfer, automated ordering, technological transfer, ECR (efficient consumer response), cellular phones and others.

- Possible impacts of socio-cultural environment: women working, age demographics, race, time-reducing, elderly, individuality, security, convenience, leisure, social mobility, income distribution, attitudes to work, lifestyle changes, family sizes and others.

4.1.3.1 Power Analysis in the Channel:

After the analysis of the environment, it is important and complementary to make a power analysis of the channel, power sources and others. This will bring about a better strategic understanding of the business, and of what the company should expect regarding negotiations, availability of channels, private labels, and other factors. Channel power refers to the ability of a channel member to control or influence the marketing strategy of an independent channel member at another level in the channel, possibly making them change their behavior, or perform an activity that they would normally not perform. The main sources are coercive power, reward power, referent power, expertise power, persuasion power, legitimate power and information power (Lusch, 1976; Hunt & Nevin, 1974; El Ansary & Stern, 1972).
4.1.3.2 Asset Specificity Analysis

This analysis will be very important for building contracts and relationships, as it will provide insights into how to organize and coordinate the transactions in the channel. Anderson (1985) and John & Weitz (1988) state that there is a relationship between asset specificity and channel integration. The most important of these are physical-specific assets, time-specific assets, information and knowledge technology, human-specific assets, location (site) specificity and marketing/transaction specificity. The following lists of factors were elaborated based on Bello & Lohtia (1995), Klein et al. (1990), Kozak & Cohen (1997) and interviews11.

- **Physical specific investment analysis – Infrastructure and Facilities:** general factory, cold storage, special storage structure, tailored production facility, product demonstration facilities, specialized warehouses, repair and service centers and other distribution channels investments.

- **Time specificity analysis – refers to time pressure to do the transaction (flow):** shelf life (perishable), frequent/rapid deliveries, seasonality of production and consumption (inventory needs) and other time related procedures.

- **Information and knowledge technology specific asset analysis:** EDI/equipment for electronic data exchange investments, software, management process by product category, joint logistic planning process, joint quality programs, traceability programs setting, new process joint generation, stock management process and others.
- **Specific human asset analysis:** general training of distributors, joint sales training, production process knowledge, market knowledge, product brand knowledge and others.

- **Site asset specificity analysis – refers to physical locations:** proximity needs (transport costs), energy supply, water supply, disposal of materials, strategic position of inventory, location of distribution centers, location of outlets (point specificity)

- **Marketing/transaction specific investments asset analysis:** conjoint brand development, joint planning advertising, packaging development, publicity efforts and others.

Conventional channels of distribution are the most predominant and most frequently encountered distributive structures; they are composed of independent suppliers and resellers who are loosely bound together through the use of intermediary markets. Contractual channels usually include independent firms at different levels of production and distribution integrating their programs on a contractual basis for long periods of time\(^\text{12}\).

Little detail that those in position of controlling a new product desired by many customers can elect to offer or withhold their product from various middlemen and therefore exercise control.\(^\text{13}\)

E. B. Weiss (1958) proved that another important group of incentives that manufacturers can offer to their dealers in conventional channels are direct financial rewards. By manipulating margins, trade allowances, returnable policies, etc., manufacturers can secure dealers' compliance.

The importance of various financial incentives for manufacturers in securing control over their dealers has been highlighted by an exhaustive
list of such incentives that he compiled, he mentions more than 20 forms of financial remuneration including promotion allowances, label allowances, payments for window displays, and P.M.'s for store personnel.

Coughlan, A. and B. Wernherfelt (1991) stated that managerial decisions involving marketing channels' are among the most critical that an organization must make. Part of the reason for this importance is that relationships between manufacturers and their intermediaries usually involve long-term commitments that are difficult to change. On the other hand, in order to respond to the 'realities of the' market place, an organization must be ready to adapt its distribution practices-sometimes under considerable uncertainty about the long-term consequences.

Desai, P. and D. Purohit (1996) mentioned in their work assume that the manufacturer does not have direct access to the consumer market and, therefore, relies on downstream intermediaries to deliver its product to consumers. In this set-up, the manufacturer's problem is to maximize profits by choosing the optimal wholesale prices to charge the intermediaries.

Hirschman (1970) show that over time, the horizontal consolidation of product delivering process and growth of automation in marketing activities have driven the manufacturers towards a convenient approach, bypassing the distribution channels and to go for direct marketing. It has been observed that conventional distributors have responded to this situation or other destructive acts in a number of different ways. Some had shown inclination for the exit, in the belief that a better quality of service and relationship advantages could be found.
elsewhere. Others are moved by loyalty to voice complaint, protest or anger, with a view to eliciting an improvement in the quality of service\textsuperscript{17}.

(Robicheaux and Oleman, (1994) detailed that the distributors also adopt frequently the developing countervailing power through dependence-balancing actions. These actions are designed to strengthen transactional bonds that are explained through the buyer-seller relationships. Such bonds often manifest themselves in anticipation of improved channel services to customers. The effect of functional performance on relationship quality in situations characterized by high relative dependence of the distributor on the customer is largely governed by the effective channel functions. The study of buyer-seller relationships is commissioned in some well-established frameworks such as transaction cost theory, political economy theory, social exchange theory and resource dependence theory\textsuperscript{18}.

4.2 Functions and performance of channel members

4.2.1 Concept of marketing channel

A marketing channel is “a set of interdependent organizations (i.e. an orchestrated network) that creates value for end-users by generating form, possession, time and place utilities.”\textsuperscript{19}

Players that exist within effective channels collaborate to deliver their promise to target consumers, namely, providing appropriate goods at the right place, quantity, quality, and price.

The literature on channel management is vast and it suggests several techniques and management skills. Only some aspects relating to building successful partnerships and trust, something of fundamental importance, will be highlighted here. The suggestion is to use references
and tools of the relationship marketing, commitment and trust theory to help channels management (Morgan & Hunt, 1994). The physical process and logistics should also be strongly considered. Motivation of the members is an important task that the company should address, and Rosenbloom (1999) provides a list of common motivation techniques that could be used by the company. There is extensive literature on trust and trust development in transactions, and these works are useful at this step. A good starting point is the research done by Doney & Cannon (1997), which stresses several contributions of the literature. Kozak and Cohen (1997) bring a list of statements for companies to use to achieve the level of trust and commitment with suppliers, which can be adapted in this case to distributors\(^20\).

David L Wilemon, (1972). Claims that However, consumer reactions often depend on their beliefs about channel member motives for offering the promotions. Given this inherent interdependence, the effectiveness of channel promotional strategy may depend on how accurately channel members understand consumer perceptions of their promotional activity\(^21\).

Adel EL Ansary, (1975) show that the importance of understanding consumers' perceptions of retailer and manufacturer pricing strategies. These are policies that call persuasion knowledge\(^22\).

Michael Etgar (1977).proved that however, empirical research documenting the beliefs that channel members use when developing their own goals and tactics is virtually nonexistent\(^23\).

I Louis P. Bucklin (1973) indicate that the ivory tower relationship. Because both manufacturers and retailers have access to significantly more industry data than do consumers regarding the consumer\(^24\).
Etgar (1979); Lusch (1976a,b); Rosenberg and Stem (1971), reveal that the factors affecting intra-channel processes such as the level of conflict in a channel\textsuperscript{25}.

Brown and Day (1981); Frazier (1983); Guiltinan, Rejab, and Rodgers (1980); Hunt and Nevin (1974); Lusch (1976b) prove that the actual behaviors of channel members has centered on mutually exclusive relationships in which the supplier sells only to one channel member in a market and the channel member is restricted to selling only the products provided by one manufacturer\textsuperscript{26}.

Stem and El-Ansary (1982) pointed out that mutually exclusive relationships account for a small percentage of channel sales—about one-third of retail sales but almost no wholesale activity\textsuperscript{27}.

The marketing channel framework is based on the following observations on the marketing mix and its connectivity with partnership marketing\textsuperscript{28}.

There are \textbf{five promotional objectives} generally associated with relational promotions in marketing channels\textsuperscript{29}.

- Stimulating sales
- Differentiating offerings
- Sharing information
- Accentuating a market offering’s value
- Stabilizing seasonal demand
Resource allocation methods

Financial portfolio theory (Markowitz 1954) indicates that the optimal allocation of resources across a set of investment opportunities should be a function of both the short- and long-term returns from each opportunity, the uncertainty of these returns, and the co-variances between the returns from investment alternatives. The financial portfolio model provides an appealing normative framework for examining the channel member's allocation decision, because the channel member's decision to invest resources, either inventory or time, in a set of suppliers is similar to the financial manager's decision to invest in a set of financial instruments30.

Simon (1957) developed a model for resource allocation model to make allocation decisions. The resource allocation decision faced by the channel member is very complex. The channel member needs to assess accurately a response function, growth rate, uncertainty, and potential synergies for each product line sold and then combine this information to derive an optimal allocation of resources31.

(Frazier 1984; Reve and Stem 1979; Stem and El-Ansary 1982). Make known that the wide variety of variables that can affect resource allocation behavior. Some factors that have received considerable attention are the perceived power relationship, inter-organizational climate, and communications32.

Power in the Channel Management

El-Ansary and Stem (1972; Frazier(1983) have mentioned that the power typically is defined in the channels context as a channel member's ability to influence the perceptions, behavior, and/or decision making of
another channel member. Thus power is usually conceptualized as a potential for influence\textsuperscript{33}.

(Frazier 1984) shows that the amount of perceived power possessed by a channel member is a function of authority and dependence\textsuperscript{34}.

Grabner and Rosenberg (1969); Guiltinan, Rejab, and Rodgers (1980) shows that the communication among the channel will increase the frequency and quality of information exchange may be a significant factor in determining the degree to which the parties understand each other's goals and coordinate their efforts to achieve those goals. Two specific aspects of communications particularly relevant to achieving goal compatibility and mutual trust are feedback and mutual participation in goal setting. Through participation, channel members internalize goals for performance and thus are more strongly motivated to achieve those goals. Feedback, both positive and negative, provides information to the channel member about the supplier's perception of the channel member's performance\textsuperscript{35}.

4.2.2 Channel conflict

Hunt, Ray and Wood (1985) in their review of the marketing channel literature suggested that the following concepts were most representative of the work in the behavioural aspects of marketing channels: bargaining, conflict, cooperation, power, performance, member roles, member satisfaction and political economy\textsuperscript{36}.

Conflict is a fact of life in the marketing channel, as it is in any social system, and one with which managers inevitably struggle on a
regular basis. Stern and Gorman (1969) summed up the conflict dimension in the following way:

"When a channel of distribution is viewed as a social system, the members of such a channel are, by definition, caught up in a web of interdependency. The actions of behaviour of any one member have consequences for the level of output (measured in terms of individual goals) achieved by the others. This dependency relationship represents the roots of conflict in channels of distribution."

The conceptual definitions of conflict summarised above were developed within the disciplines of sociology, organisational behaviour and psychology. Conflict within the marketing channel required its own definition, and one of the first of these was established by Stern and Gorman (1969). Their view was that conflict was a process of system changes:

"... a change occurs in the task environment or within a channel member's organized or that eventually has implications for the channel members ... when the other affected members perceive the change as being potentially frustrating to their goals and attempt to remove the cause of frustration, a conflict situation emerges."

Etgar (1979) agreed with the Stern and Gorman (1969) typology that conflict was traditionally defined as existing in a channel when:

"... a component (channel member) perceives the behaviour of another to be impeding the attainment of its goal or the effective performance of its instrumental behaviour patterns."

(Chang et.al., 1999) has been found that the market orientation is positively associated with measures of channel performance such as
service quality and overall customer relationship level. Market orientation also has a positive influence on measures of cost efficiency, such as productivity and sales per employee. In addition, profitability measures were highly associated with operating effectiveness and cost efficiency40.

4.3 Need and Practice of Relationship and Partnership concepts in Channel Management

4.3.1 Concept of relationship and Partnership Marketing

Stern and Reve, 1980; Stern et al., (1996) indicate that the high degree of interdependence between the different aspects of such relationships and, thus, due to the great influence that the contractual structure can have on the other characteristics of these relationships41.

Scherer, 1980; Sass and Gisser, (1989); Li and Dant, (1997) detail that an exclusive dealing agreement may be used as an incentive for distributors to increase their efforts in obtaining the sale of a manufacturer’s products42.

Marvel, (1982) proved that channel motivation may avoid the distributors appropriating the rents generated by the manufacturer’s promotional activities or product design43.

Steuer, (1983); Chard, (1986); Besanko and Perry, (1993) have proved that channel relationship will protect manufacturer’s investments in the distributor’s training, financing and equipping in such a way that the latter could not take advantage of them for sale of competing brands44.

L Geyskens et at / Intern. J. of Reseason and Mattson, 1985). However, such exclusive relationships also increase the firm's
vulnerability to opportunism by partners. Trust is therefore considered an essential ingredient for such relationships to realize their full potential\textsuperscript{45}.

The identification of channel relationships goes back more than 20 years to the concept of vertical marketing systems Morgan, R. M. & Hunt, (1994) which distinguished between corporate, administered and contractual systems\textsuperscript{46}.

Anderson, E. & Weitz, B. A.(1992) presented a more recent discussion of administered systems, the channel system most akin to today's evolving model of strategic alliance or partnering\textsuperscript{47}.

Wilson, E. J. & Vlosky, R. P(1997). Alternatively, behavioral explanations have concentrated primarily on the quality of relationships in ongoing arrangements and perceived satisfaction\textsuperscript{48}.

Aaker, D. A. & Day, G. S (1982) suggested the view that such economic and behavioral perspectives failed to adequately capture the realities of evolving "domesticated" markets, that is, the trend toward long term, integrated relationships which include aspirations towards stable pricing and sales through joint promotion and extensive information sharing. These agreements, he concludes, must result from some interactions among external and internal factors which are not yet well understood\textsuperscript{49}.

Kozak, R. A. & Cohen, D. H (1997) explained that "partnering" arrangements have become popular in the past decade, gaining an understanding of the dynamics of partnership building and the impact of relationship style choice on distributive systems seems appropriate. Despite the growth in partnering, not enough has been done to systematically identify the factors which lead to neither the choice of a
particular relational style nor the effects of those factors on the quality and extent of the relational arrangements undertaken\textsuperscript{50}.

The concepts of uncertainty, specificity of assets, and frequency of transactions have been examined for their effect in the development or retardation of partnering agreements. Uncertainty, in particular, has been a focus of interest as perceived risk is seen as a determinant of particular systemic outcomes of the study by Anderson, E. & Weitz(1992)\textsuperscript{51}.

Phillips, L. W\textsuperscript{(1982)} indicate that partnerships, a form of administered systems may be structures designed to reduce intra channel market uncertainty through the development of inter firm trust and asset sharing as responses to greater external market risk and instability\textsuperscript{52}.

External factors affecting choice of relationship style focus mainly on customer characteristics. Varying customer attributes help explain actual choice behavior. Adapted from organization buying (Hutt and Speh, 1989; Eckles, 1990), these can be summarized as\textsuperscript{53}:

1. Multiple customer types: each type with different needs.

2. Multiple situations: extreme differences in purchase time quality desired, convenience, desired service levels, etc.

3. Multiple uses of same materials/components: this may crease or lessen dependence on particular lines or manufacturers and affect the degree to which partnering is feasible

4. Changes in the choice problem: the possible alternate sources of supply, changes in tastes and habits, change constraints (technological, financial, time, competition)lead to a greater or lesser advantage from more integrated distribution arrangements.
This step involves the design of written or other types of contracts (e.g. oral agreements) with the partners in the channels, or selling in market transactions or other forms, depending on the suggested coordination forms from the previous steps. Other aspects include contractual safeguards against opportunism in the channel, means of enforcement, adaptations to changed circumstances, building exit barriers, incentive design and monitoring. When building contracts, participants must consider the possible conflict sources, establish ways to minimize these sources, and plan actions to be taken in case conflicts arise. If the company chooses a franchise format, it can find models of contracts in the marketing channels books referenced above. If the company decides to enter a strategic alliance (joint-venture) or other kind of relationship. Lynch (1993), Gattorna & Walters (1996)\textsuperscript{54}.

The relationship marketing concept delivers exchange value by addressing simultaneously the needs of each link in the marketing channel\textsuperscript{55}.

All convey the notion of the route, path, or conduit through which goods, products or things of value flow as they move from the producer to the ultimate user of the product\textsuperscript{56}.

\textbf{“Partnership”} is something that benefits both entities looking to find new revenue sources and business opportunities. Often, companies forget that once you find a partner, you need to nurture the relationship and cultivate opportunities so that you both can reap the rewards\textsuperscript{57}.
4.3.2 The Main Effects of Conflict, Trust and Commitment on the Performance

Raven and Kruglanski (1970) define the conflict “a tension between two or more social entities that arises from the incompatibility of actual and desired response”\textsuperscript{58}.

Stern and El- Ansary (1988) have explained the channel of conflict as in the context of channels of distribution, “channel conflict is a situation in which one channel member perceives another channel member to be engaged in behaviour that is preventing or impeding him from achieving his goals”\textsuperscript{59}.

Cummins and Van Derhei, (1979).The transactional relationship can be broadly referred to two major marketing channels for both goods and services - the independent and the exclusive agency systems.

Independent agents place business with several companies, while exclusive agents function for only one company. Some of the studies found that the independent agency system is less efficient than the exclusive agency system with a view to develop buyer seller relationship\textsuperscript{60}.

4.3.2 Channel Member Trust

Anderson and Narus, (1990) defined the trust as the firm’s belief that another company will perform actions that will result in positive actions for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm\textsuperscript{61}. 
Hunt (1994); Garbarino and Johnson (1999); Geyskens, Steenkamp, and Kumar (1998) have explained the trust as it is widely recognized as an essential dimension of relationship quality.62

Smith, Van Bruggen and Wierenga, (2002) stated that the supplier information sharing helps to develop higher quality supplier relationships. Interestingly, even if the initial level of trust in the retailer is low, the relationship quality substantially improves. In a more competitive situation the suppliers respond more favorably to the retailer’s information sharing initiative63.

4.3.3 Punitive Action in Channel Conflict

Buchanan (1992); Gundlach and Cadotte (1994); Heide (1994) have proved that the characteristics of channel relationships that incite or inhibit punitive actions, we examine three elements. First, interdependence affects the partners' likelihood of engaging in various behaviors64.

Scheer and Stern (1992) have explained that the firm can affect its partner's outcomes negatively, either contingently, through an associated explicit influence attempt, or non-contingently, through a direct power exercise65.

Buchanan (1992); Gundlach and Cadotte (1994) state that bilateral deterrence theory, we posit that as the partner's power based in the firm's dependence increases, the firm's fear of retaliation increases, and the partner's expectation of attack decreases. Thus, as the firm and its partner share greater interdependence, each increasingly fears undermining the relationship and expects that the other shares this view. Various benefits
have been associated with higher levels of channel interdependence, including fewer punitive tactics.\textsuperscript{66}

According to Lawler, Ford, and Blegen (1988) the conflict spiral theory, as a firm's punitive capability increases, the firm's temptation to use its power grows, thereby increasing its partner's expectation of attack.\textsuperscript{67}

### 4.3.4 Competitive Channel Design Strategy

The channel design process is similar to the steps followed in developing a competitive strategy. The difference is that the channel supports the overall strategy: its prime requirement is to enhance effective delivery of the customer value proposition. In this support role, the channel must meet the requirements of:

1. **Effectiveness** - How closely does the channel design address customers' stated and unstated requirements?

2. **Coverage** - Can the customer find and appreciate the value in a firm's offering?

3. **Cost-efficiency** - Can the company use a tradeoff in cost-efficiency to gain greater strategic effectiveness and coverage because of the multiplier effect that distribution has on increasing the impact of the other marketing variables?

4. **Long-run adaptability** - Can the channel design handle possible new products and services and incorporate emergent channel forms?

B.A. Weitz and S.D. Jap (1995) have hypothesized the channel design as the first step in channel design is to identify the threats, opportunities, strengths, and weaknesses that will influence channel
performance and viability. A company should analyze competitor, shares of existing channels, the relative profitability of each channel, coverage of the market served, and the cost of each channel function. A company must consider likely changes in buying patterns, potential competitive entrants, and new technologies such as the Internet or multimedia retail kiosks.

Kim & Mauborgne (1999) stated that the innovation is also at the core of dynamic organizational capabilities (Teece, Pisano & Shuen 1997; Durand 1997), and, thus, innovators not only focus on rivals and their own competitive position within the marketing channel, but they also look across substitute channels.

Durand (1997); Sudharshan & Sanchez (1998); Rigby & Zook (2002) a careful examination of the literature on innovation reveals, implicitly, that marketing channel is simply an antecedent or a phase of a value delivering process that could be labelled channel driven innovation.

Stern, El-Ansary & Coughlan (1996); Sethi, Smith & Park (2001) detailed that the collaboration and closeness to the channel partners capitalize on the notion of marketing channels as vertical value-adding chains that create innovations and competitive advantage.

Frazier & Antia (1995) have mentioned in their channel management literature, however, these issues are like a ‘black box’, and channel members’ strategic postures have been traditionally considered through a surrogate B-to-C (consumer products) vs B-to-B (business products) taxonomy.