CHAPTER 4

BEHAVIORAL PROCESSES IN MARKETING CHANNELS

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The Marketing Channel as a Social System

A **social system** can be defined as:
The system generated by any process of interaction on sociocultural level, between two or more actors.
The actor is either a concrete human individual (a person) or a collectivity.
• When individuals or collectivities (firms/agencies) interact as members of marketing channel, an interorganizational social system exists.

• The channel can be affected not only by economic variables, but also the fundamental behavioral dimensions present in all social system such as conflict, power, role, and communication processes.
Conflict in the Marketing Channel

• Conflict

• Conflict exists when a member of the marketing channel perceives that another member’s actions impede (obstruct) the attainment of his/her goals.
• These auto manufacturers are linked with independent dealers to form the marketing channels (and therefore social systems) for distribution of U.S. automobiles.

• They record revenues and profits upon delivery of cars to the dealers.
Conflict versus Competition

- **Competition**: behavior that is object-centered, indirect, and impersonal.

- **Conflict**: direct, personal, and opponent-centered behavior.
Supermarket retailers and manufacturers

- **Competition:** the battle of private vs. national brands

  - The attempts by manufacturers and supermarket retailers to gain wider acceptance of their respective brands is usually impersonal and market-centered *(not engaged in direct blocking activities aimed at impeding each other’s goals of increased consumer acceptance of their brands)*
• **Conflict:** the practice of supermarkets’ encouraging misredemption by consumers

  ➢ “Coupon war”, some of the stores were accepting any number of coupons regardless of what products were purchased. Some people cashed in coupons worth several hundred dollars. The manufacturers viewed this behavior by the supermarkets as an attempt to make a mockery (insulting) of their intended objectives in the use of coupons.
Causes of Channel Conflict

Seven categories of underlying causes of channel conflict:

✓ Role incongruities
✓ Resource scarcities
✓ Perceptual differences
✓ Expectational differences
✓ Decision domain disagreements
✓ Goal incompatibilities
✓ Communication difficulties
Causes of Channel Conflict

✔ **Role incongruities**

• **Role**: a set of prescriptions defining what the behavior of position members (i.e. channel member) should be.

• **Example**: Franchisees are expected to operate in strict accordance with the franchisor’s standard operating procedures. If the franchisee deviates from the given role by deciding to institute some of his/her own policies, a conflict situation may result.
Causes of Channel Conflict

✓ Resource scarcities

• Sometimes conflict stems from a disagreement between channel members over the allocation of resources needed to achieve their respective goals.

• **Example:** the retailers are viewed by both the manufacturer and the wholesaler as valuable resources necessary to achieve their distribution objectives.

• Frequently, the **manufacturer** will decide to keep some of the higher volume retailers as house accounts (stores that the manufacturer will sell direct). This leads to objections by the **wholesaler** over what is considered to be unfavorable allocation of this resource (the retailer).
Causes of Channel Conflict

Perceptual differences

• Perception: the way an individual selects and interprets environmental stimuli. The way such stimuli are perceived, however, is often quite different from objective reality.

• Example: the use of point-of-purchase (POP) displays, the manufacturer who provides these usually perceives POP as a valuable promotional tool needed to move products off a retailer’s shelves. The retailer, on the other hand, perceives POP material as useless junk that serves only to take up valuable floor space.
Causes of Channel Conflict

✓ **Expectational differences**

- Various channel members have expectations about the behavior of other channel members which sometimes, in reality, they do not behave like what they are expected.

- **Example: Aamco**, the U.S. largest transmission repair business.

  Extended warranties offered by auto manufacturers were expected to significantly reduce business for Aamco’s franchisees. This led many **franchisees** to push for a reduction of franchise royalty fees from 9% to 5% while the **parent Aamco** arguing that it needed the higher rates to advertise/promote more aggressively.
Causes of Channel Conflict

 ✓ Decision domain disagreements

• Example: many manufacturers feel that pricing decisions are in their decision-making domain. The manufacturer makes it known to the retailer that if he/she doesn’t abide by the manufacturer’s pricing “recommendations” the retailer will lose the product line. Retailers who need price flexibility in highly competitive markets often feel that by attempting to dictate pricing, the manufacturer is encroaching (gradually move) on the retailer’s domain.
Causes of Channel Conflict

✓ Goal incompatibilities between channel members

- **Example:** amazon.com
  
The goal of the *publishers and manufacturers of new books, CDs, DVDs, and consumer electronics products* that sell their products through amazon.com is to sell as much of their products as possible through Amazon. *Amazon’s* goal, on the other hand, is to sell as much merchandise as possible from whatever sources provide the most revenue and profits which includes used merchandise.
Causes of Channel Conflict

✓ Communication difficulties

- Example: AlphaGraphics, a franchiser of printing services faced communication difficulties when the franchisees felt a lack of adequate support from franchisor. Franchisees would send their royalty program payments to franchisor and then receive no information about how their money was being spent to help improve their businesses.
Channel Conflict and Channel Efficiency

- **Channel efficiency**
- The degree to which the total investment in the various inputs necessary to achieve a given distribution objective can be optimized in terms of outputs.
Channel Conflict and Channel Efficiency

Effect of conflict on channel efficiency

- **Negative effect**—reduced efficiency (extra inputs i.e. time and effort of salespeople)
- **No effect**—efficiency remains constant
- **Positive effect**—efficiency increased (2 parties reconsider the reason of conflict and reallocation of inputs based on the comparative advantages of each channel member for performing the distribution tasks necessary to achieve their distribution objectives.)
Managing Channel Conflict

1. Detecting channel conflict
2. Appraising the effect of conflict
3. Resolving conflict
Managing Channel Conflict

1. Detecting channel conflict

By surveying other channel members’ perceptions of his/her performance to identify areas of conflict or its potential before it develops (can be conducted by independent research firms or outside parties such as trade associations/trade magazine publishers).

The marketing channel audit or distributors’ advisory councils/ channel members’ committees can also be used as an approach to detect channel conflict.
2. **Appraising the effect of conflict**

By applying methods to measure conflict and its effects on channel efficiency.

For the present, most attempts to measure conflict and appraise its effects on channel efficiency will still be made at a conceptual level that relies on the manager’s subjective judgment.
3. **Resolving conflict**

- **A channelwide committee** might be established for periodic evaluations of emerging problems related to conflict. Some committee members could be appointed as representatives by manufacturer, while distributors and retailers could elect their own representatives to the committee.

- **Joint goal setting** by the committee which take into account the goals and special capacities of the various channel members, the need of consumers, and environmental constraints.

- **A distribution executive position** might be created for each major firm in the channel to explore the firm’s distribution-related problems.
Power in the Marketing Channel

Bases of power for channel control:

- Reward power
- Coercive power
- Legitimate power
- Referent power
- Expert power
Reward power

• These rewards are usually perceived or actual financial gains that channel members experience as a result of conforming to the wishes of another channel member.
Coercive power

• A channel member’s power over another is based on the expectation that the former will be able to punish the latter upon failure to conform the former’s influence attempts.

- **Gallo Wine Company** forces independent wine distributors to carry more than 40 different brands of its wine (included the slow-moving and some of poor quality wines) otherwise, they can’t get the Gallo’s fast-moving and highly profitable wines to sell in their stores.
Legitimate power

- This power base stems from internalized norms in one channel member which dictate that another channel member has a legitimate right to influence the first, and that an obligation exists to accept that influence.

  - Among the channel members, there’s no definite superior-subordinate relationship as same as the intraorganizational system, the channel manager generally operating a loosely aligned channel can’t rely on this power base to influence other channel members.

  - Some of the strongest legitimate power bases are held by franchisor since there is the franchise contract agreement with its franchisees.
Referent power

• When one channel member perceives his/her goals to be closely related to/congruent with those of another member, a referent power base is likely to exist.

  JCPenney, a large retailer, attempted to upgrade its fashion image. Penney wanted to sell Levi jeans in its stores. To do so, Penney had to beg Levi Strauss and Penney executives had to promise Levi Strauss & Company to dramatically change its stores to reflect more upscale, fashion-oriented image that would be congruent with Levi jeans.
Expert power

• This base of power is derived from knowledge that one channel member attributes to another in some given area (superior expertise).

➢ Procter & Gamble’s (P&G) Efficient Assortment Program helps retailers selling P&G products to carry the right assortment of P&G products to meet the particular needs of consumers in different markets with a minimum of excess inventory.

➢ Franchisor and franchisees
Using Power in Marketing Channel

1. Identifying the available power bases
2. Selecting and using appropriate power bases

The important findings from the research are the power effectiveness in the marketing channel appears to be situation-specific, that the use of power can affect the degree of cooperation and conflict in the channel and levels of channel member satisfaction, and the use of coercive power appears to foster conflict and promote dissatisfaction to a greater degree than other power bases.
Role in Marketing Channel

**Role**: a set of prescriptions defining what the behavior of position member should be.

- **For example**: manufacturer roles are to maximize the product sales, compete with other manufacturers, promote the brand.
  
  - It provides the channel manager with the basis for describing what part he/she expects each channel member to play and what role the firm is expected to play in the marketing channel.
  
  - By developing more congruent roles among the channel members, the channel manager is more likely to achieve a more effective and efficient marketing channel.
Communication Processes in Marketing Channel

**Communication** is “the glue that holds together a channel of distribution.”

- It provides the basis for sending and receiving information among the channel members and between the channel and its environment.
- It creates a flow of information within the channel and leads to an efficient flow of products/services through the channel.
Behavioral Problems in Channel Communication

- **Differing goals among channel members** (large firms vs. small firms)
- **Language difficulties** (terminology/jargon used by professional corp. management in large firms: profit, promotion)
- **Perceptual differences** (reasonable delivery time)
- **Secretive behavior** (manufacturer not disclose the promotional plan → fail to get potentially valuable feedback from中间men)
- **Inadequate frequency of communication** (may leave channel members feeling left out of the loop and lack of necessary info.)
• The channel manager should try to **detect** any behavioral problems that tend to inhibit the effective flow of information through the channel and **resolve** those problems before the communications process in the channel becomes seriously distorted.
END OF CHAPTER FOUR