ALIGNING CHANNEL COMMITMENT WITH BUSINESS PERFORMANCE
IN CONSUMER GOODS SECTOR

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ABSTRACT

Augmenting Customer Services is the success mantra for every company involved in manufacturing and distributing / servicing its products. The potential to create/reinvent value cannot be under estimated at operational or strategic level of Channel Management. The level of influence the channel member holds over the process can be evaluated from the demonstrated commitment to business. Their orientation to business in lieu of well defined standard operating procedures is discussed in the area of business and physical infrastructure, exclusivity, perception and communication level and involvement. The research paper concludes with the assessment of channel members with variables that defines the Outcome and behaviour bases assessment for achieving business goals.

Keywords: Channel Management, Commitment, Business Infrastructure, Physical Infrastructure, Behaviour Orientation, Outcome, Results, Channel Perception

Introduction:

Distribution has a miniature emphasis on marketing plans while the prime concern focuses on the physical aspects. Distribution, however, embraces a much broader concept than just the delivery of goods. It takes into account the strategic importance of distribution channel and the potential value created by the channel intermediaries. “Customer Service” is kept in the forefront as compared to the deliberation on marketing policies with distributors. Distributor planning works at operational level & strategic level. Operational Planning is concerned with such issues as vehicle scheduling, lead time, inventory approach on replenishments and warehouse utilization. Strategic distribution planning is concerned with long term allocation of resources and adopts a time frame where all resources are variable. The number and location of depots change in transport mode and new channels of distribution are the types of decision that impact planning. The strategic role of distribution is often neglected and yet the ability to respond to market and environmental changes is just as necessary in distribution as it is elsewhere in business.

The Challenge:

Retailers are influenced by Channel Partners In a dealer / stockiest dominated channel system. The effect of channel management behavior on their commitment to follow up the process with proper market orientation and overall business performance is examined in the context of durable and non durable good companies. The outcome of channel management responsiveness by measuring principals commitment, orientation towards business and physical infrastructure, exclusivity, perception and
communication are relevant factors that need assessment to drive business outcomes & consistent performance.

The Research:

Respondents are asked to fill in their perception-based score which stated that only 35% of the respondents achieved the benchmark norms of 70%. Ideally this benchmark norm could have been higher as existing dealer had appreciative length of experience. However, evaluating dealers as new dealers provided measures to set dealer selection Index for identifying distributors’ performance gaps. Companies dictate exclusivity but dealer’s workout arrangements for trading other products, directly or indirectly. Consumer durable goods dealers prefer to display range to suit customer choices. Space for Dealer is a constraint but not space for brands that connect with varied segments. A customer makes his final choice amidst clutter of brands. There was not major difference in terms of business by being exclusive by dealers motivated companies to open own outlets.

The stockiest of non-durable goods connected with multiple products and multiple companies that were not in direct competition with the product with which they have the stockiest arrangement. Stockiest business acumen is well appreciated as they look for products, which can be marketed by similar channel. A Stockiest Sales Man (SSR) could take orders of other products along with his regular products during his visit to the market. Hence, negotiating with the stockiest for separate business infrastructure is important. Regional heads of select non-durable goods companies realized that these problems become more severe as they cross the city limits. 80% of the existing dealer/stockiest did not achieve the minimum norm of 70% in the area of physical infrastructure. The stock and stacking norms were not followed by the dealer/stockiest. The space arrangements are studied to arrive at the minimum stocking and stacking norms. Most of the goods in the non-durable good segment are stacked by using a honey comb stacking norm. The stock should be kept half an inch away from the wall and one foot between stacking. There should be minimum two feet walking distance between the rows and possibility of stacking maximum ten cases for any product. Should there be soft liquid bottles they should not be kept under heavy weight items. The damage goods need to be kept separately, to avoid contamination to other products. The conditions of the warehouse in terms of hygiene were not up to the standard as dictated in company’s manual. Dealer / stockiest should make use of wooden pallets to avoid moisture on the floor. It recommends atleast 200 sq ft of physical infrastructure, which includes office, storage, walking area, damage segregation, space for point of sale material etc. However, in a city of Mumbai this may cost around Rupees twenty to thirty lacs. The biggest question here to answer is “Is it possible to enhance and help Stockiest & Dealers to understand the Extended P of Marketing in terms of Services and the physical Processes?” The new norms set by this research paper should be adhered by FMCG/Consumer Durable Companies in relation to the potential of the dealer or stockiest.

As far as business infrastructure is concerned researcher observed that almost 40% of the dealer/stockiest achieve this norm. But it is essential that the business infrastructure includes:

1) Dealer Salesmen
2) Delivery Vans
3) Driver
4) Helper

Quantum of business infrastructure will have relevance with the potential of the trading area. The Companies field force needs negotiation skills while discussing physical or business infrastructure with dealer or stockiest. Preparation Is the key to success for such meetings. The dealer/stockiest are interested in knowing what would be the incremental sales from additional salesman or an additional van. What are the additional expenses on delivery to be incurred by the dealer/stockiest that would improve their service level towards the end users. Researcher noticed that dealer/stockiest are basically interested in knowing what would be the additional gain if the proposal of the principals’ salesman is accepted. Only 35% of the dealer / stockiest had track records of successful business & access to capital or a committed backup. This not only blocks the principals’ primary sales channel but also the dealers / stockiest interest in further investment if need be. Low ratings are witness to low commitment levels towards financial infrastructure by dealer / stockiest. An action plan holds relevance to help stockiest / dealer understand how can he profitability be improved or maintained. The other variables which are used to develop the dealer selection index like Commercial enterprise, Commercial vision, Leadership & Business principles are subjective evaluation. Priori research by Tung-Zong Chang, Su-Jane Chen, Pia Polsa, (2003) analysis shows that both dealer management leadership and market orientation are linked to various perceptual, productivity, volume, and profits performance measures. The results offer important managerial implications and future research directions and would automatically get initiated once the dealer finds his finances invested in physical and business infrastructure are in order and delivering the expected returns. The principal field force can drive growth and channelize resource of their dealer or stockiest toward optimum utilization.

The below figure 1.2 summarizes and highlights the importance of how many dealers can fulfill performance / selection criteria of stringent parameters. The objective of the questionnaire was to build up a Dealer / Stockiest Selection Index (DSI / SS1) for new and existing dealer. This index would help existing select companies to identify gaps and work out a focused action plan for such dealer stockiest.

Figure No: 1.2

A commitment audit is must for every company & thereby tests their involvement in business and the kind of relationship dealer / stockiest enjoys with the principals or
vice versa. It is important to explain the concept of power before we research on the commitment scores. Power Measurement in the Distribution Channel as stated by Adel I. El-Ansary and Louis W. Stern “The power is defined as the ability of a channel member to control the decision variables in the marketing strategy”. Traditionally it was seen that manufacturer holds dealer / stockiest enjoys with the principals or vice versa. It is important to explain the concept of power before we research on the commitment scores. Power Measurement in the the centre of power as a channel leader. Currently this assumption is less valid. It is experienced that the power shift has come to focus with trade off with larger volumes through centralized strategic sourcing plans. More and more range of products introduced by the marketer, struggle for shelf space & merchandising at distributor’s point; the balance of power seems to be shifted from marketer to intermediaries. Marketers really have less choice but to accede to the demands of the intermediaries. This trend demands that every marketer besides cooperation keeps on checking the level of involvement & commitment of their intermediaries so as to achieve the objectives set. This is described in the figure herein:

The commitment in channel relationship is stability and growth of variables highlighted in the figure 1.3. The need to demonstrate growth would come by adoption of long term orientation towards relationship, a willingness to show commitment for realizing long term benefits of growth. Channel member’s commitment is based on perceived commitment of others. Our model herein represents that parties in stable channel relationship have similar level of commitments to the relationship. Asymmetric in commitment probably results in unsatisfactory relationships.

In order to test the above variables, data was collected to assess both sides i.e. Marketer and Distributors. The relationship at branch office in Mumbai was used as the unit of analysis, as field interviews indicated that policies relevant to our research objective are evaluated and redesigned for effective implementation. Branch level relationship varied considerably within and across firms. Multiple items were developed to assess each construct. Field interviews were used to pretest and refine wording of the items. Exploratory factor analysis and an examination of item inter-correlation, means and standard deviations were used to purify sales.

**Commitment and Perceived Commitment:**

Ten items were developed to assess commitments and perceived commitments by the manufacturer and distributor. Respondents responded on a 7-point scale by strongly disagree and strongly agree. It connects the multiple facets of commitment incorporated in our definition, including a strong sense of loyalty, expectation of continuity in the relationship, willingness to invest in the relationship and make short term sacrifices for long term benefits. In addition, items tapping behavior that our field interviews had shown to be compatible with commitment were also included, such as defending the other party against criticism and being patient when other party makes a mistake. This set of 10 items reflected the behavior, attitudes and intention corresponding to a close;
long term well coordinated relationship that goes beyond positive effect and business as usual. The mean for the distributor commitment worked out to 5.96 with a standard deviation of 1.02. The mean for the principal commitment worked out to 5.48 with a standard deviation of 0.89.

Commitment to business and physical infrastructure:
These investments are very specific to channel relationships. For e.g. training or dedicating exclusive manpower for companies products, adopting a common order processing system, building specialized facilities to handle a specific manufacturer’s product line and linking marketer and distributor in customer minds through promotions. The degree of investment can vary based on the kind of products/markets and the profit margins etc. Switching cost for the marketers are involved if the distributors have high level of business and physical investments. This is because by creating and investing in such infrastructure a channel member demonstrates high level of commitment. Marketers that link its identity to a specific distributor might find it difficult to switch a customer to a new distributor, if the relationship ends. Conversely, a distributor that trains its salespeople to sell a specific manufacturer product may have to make additional re-training investments, if the relationship ends. The manufacturers and distributors were assessed with eleven and ten items, respectively. These items assessed the level of investment in the relationship by the distributor and manufacturer and degree to which these investments are not re-deployable to other relationships. The mean for the distributor commitment worked out to 4.69 with a standard deviation of 0.96. The mean for the principal commitment worked out to 4.10 with a standard deviation of 0.89.

Measure of Exclusivity:
Commitment from a distributor also comes from the contractual terms, the ones, which establish territorial exclusivity, and limits termination situation in which minimum performance goals are not achieved. Distributors of select companies are multi product and multi range distributors. These contractual terms do provide commitment to both channel members a convincing signal. Exclusivity was assessed by two items which included a question about the number of competing lines carried and competing distributors used. The mean for the distributor commitment to exclusivity worked out to – 0.09 with a standard deviation of 0.79. The mean for the principal’s commitment to exclusivity worked out to – 0.05 with a standard deviation of 0.86

Measure of perception on two-way communications:
Stanley E. Fawcett, Paul Osterhaus, Gregory M. Magnan, James C. Brau, Matthew W. McCarter, (2007) researched that ‘Two way Information sharing – connectivity and willingness are found to impact operational performance and are critical to the development of a real information sharing capability’. Six variables were used to assess the principals and distributors perception of the degree to which the relationship are characterized by open communication and sharing of information. Communication helps to foster relationships by sharing information. This helps in continuity and reduces dysfunctional channel conflict. Hence the model herein presented by the researcher suggests that channel member’s are motivated to commit to a relationship characterized by open sharing of information. When such open sharing and exchange of ideas take place researcher feels that the chances of realizing the benefits from the relationships are greater. The mean for the measure of distributor’s perception of the level of two-way communication in relationship is worked out to 4.96 with a standard deviation of 1.18. The mean for the measures of principal’s perception of the two-way communication in relationship is worked out to 5.02 with a standard deviation of 1.20.

History:
A strong emotional bonding between channel partner and principals is quintessential for committed working relationships. This enhances Customer Satisfaction. Patrik Jonsson, Mosad Zineldin, (2003) states “A good reputation, close relationship and positive relationship benefits are key variables for the achievement of high satisfaction in a “high-trust and commitment relationship”. The companies and channel members have conflicting relationships; it would signal that channel members are not committed to the relationship. Conflict may make it difficult to place confidence in other party’s long term orientation and willingness to make sacrifices to build relationship. The principals and distributors’ perception of the history of their relationships were assessed with six items that specifically elicited the degree to which the problems with the relationship resulted between Channel partner and principals considering other alternatives. The mean for the distributor perception of the history of conflict in the relationship measures worked out to 3.34 with a standard deviation of 1.45. The mean for the principal’s perception of the history of conflict in the relationship measures worked out to 3.64 with a standard deviation of 1.39

Direct Selling:
Direct Selling holds true for industrial marketing for which even durable/ non-durable goods companies have a separate channel. Many a time company’s direct involvement in selling can provoke substantial negative reactions by channel partners. This reduces the confidence of the intermediaries in presence of dual channel. The manufacturer’s use of direct selling was correlated to percentage of direct sales in the territory. As in case of contractual terms it was experienced that principals did not wanted their intermediaries to respond to these questions. It is observed 52% correlation among
distributors commitment to business and physical infrastructure with his commitment to relationship with principals. Distributor respect the amount of time and marketing efforts invested in the territory they look after. Most of the distributors fear the redeployment of sales manpower in other products, as there is a switching cost involved. This is mainly because of more or less a well-trained sales force at distributor’s point. Researcher also observed the amount of money invested in information system to adopt a proper sales management and reporting system. This definitely proves the point in terms of seriousness of relationship. This is linked to principal’s expectation of having a long term alliance with their distributors. Interestingly both the parties demonstrate a high level of commitment in their two-way communication. This pertains to keep the distributor/principal well informed on various areas pertaining to business. Communication according to both parties; act as lubricants in dealing with business problems or getting involvement of distributors in marketing and planning efforts. Distributors also felt that their weaknesses and principals’ weakness and strength were well taken by distributors and both parties were ready to work towards it. Similarly with reference to principal two-way communication, they have also demonstrated a strong level of commitment in terms of use of present level of distributor arrangement, coverage, long term alliance and their investment level with a correlation of 71% & 61% respectively. Channel partners exclusive dealing in the manufacture’s product class with channel investment (Business & Physical) has a correlation of 32% though lower but still has hope for improvement. This could be little in contrast with the level of involvement of a channel partner has shown of 52% with his commitment. Its recommended that companies will have to work out a plan of action, as there is a residual of more than 50% for channel partners commitment & his investment. On the other hand distributor’s perception of the level of communication in relationship with reference to his investment has a correlation of 42%. This also could improve if communication is positive and linked to business growth.

The perception gap when worked on a cross-section data of principals and Channel partners was having a correlation of 31%. On the other hand when compared with channel’s exclusive dealings with principals’ product class there was only a correlation of 41%. To substantiate this it is observed that 39% correlation between principals’ investment (Business & Physical) & principals’ perception of the level of communication in relationship. This is a concern for the researcher wherein manufactures need to work on the relationship towards getting distributors’ commitment and motivating them for being exclusive by providing growth and better profitability of their business. Distributors’ perception of the history of conflict in the relationship when compared with manufactures perceptions of the history of conflict in the relationship, researcher observed a low correlation of 31%. This shows the need for manufacturer to solve issues resulting in conflict like territory handling, settlement of warranties and claims, not overloading distributors with stock etc. Distributor needs to work on the commitment to business and physical infrastructure, which could lead to resultant growth in territory as expected.

A low degree of correlation exists between principal’s commitment and channel’s commitment to investments, exclusivity, and communication & conflict management. Commitment to mutual goal is a must. This is because for both Channel and principals, commitment in the form of making investment in business and physical infrastructure with other party is associated with strong commitment to relationship. Channel partner who makes such investments in a relationship exhibit greater commitment to the principals. Similarly, principals who make such investments in their relationships have stronger commitments to their channel members. It is the exit barrier that gives them incentive to make the relationship as fruitful as possible. Investments are considered as powerful signal wherein each party strongly conditions its perceptions about the other on its observation of investments by the other. Put differently, Channel Members believe principals are committed when they make visible channel specific investments. The same is true for those principals who place more confidence in distributors that they see investing non-re-deployable resources in the relationship. They are associated with stronger commitment on the part of the recipient. Perhaps distributors and principal’s perception of exclusivity differ substantially. Yet given that such clauses are concrete and readily observable, one would expect high perceptual convergence about them between two parties. A forceful argument could be that formal contracts do not play a substantial role in most relationship. Rather the set of understandings that have grown up over time is more influential. The role of exclusivity is intriguing, as it is not symmetric for the two sides of channel. Thus channel granting exclusivity to the company (i.e. reducing or eliminating its coverage of competing brands) has mix effects. Channel who refrains from promoting competing brands thereby increases their dependence on the principals; do not appear to be more dedicated to their relationship. Yet principals who see channel granting them exclusivity are much more confident of the strengths of their channels commitment to them. Hence the channel granting of exclusivity does appear to have signaling properties to the principal. The principal’s side operates very differently. For principals, granting exclusivity to their channel means giving them protection from local competition by withholding product from other resellers. Channel who feel so protected by their principals do appear to process that information as a signal and believe that their principals are more committed towards them. Hence for both principals and channel observe the granting of exclusivity by the other side is processed, as a signal of commitment. However, principals who grant exclusivity to their distributors appear to feel
less committed than the principals who distribute more intensely. Researcher observed that principals resist granting exclusivity, as it reduces their territorial coverage and increases their dependence on their area reseller. This is because principals do not hold positive feelings of trust and loyalty about such distributors and hesitate to make sacrifices that will commit them to future business with such partners. Thus researcher would like to state that exclusivity from either side does not have self-commitment enhancing properties. Yet each side takes the other side’s exclusivity as a signal of commitment.

Two-way communications raises the commitment level of both the principal and the distributor. Communication commonly reduces conflict and increases trust and improves coordination. Our results suggest that the time, efforts and occasional frustration involved while exchanging information serve to move a business arrangement closer to the level of a strategic business alliance. Channel attributes greater commitment to principal’s that are committed and principal’s do like wise. Thus it is: Each part behaves in a way consistent with their dedication towards the relationship That behavior is sensed by the counterpart and is incorporated into counterpart’s estimate. In short distributors and principals signal their perception, sentiments and intentions with certain level of accuracy and those signals are picked up and incorporated by their channel counterparts. However, it is also noteworthy that those estimates are conditioned on much more than the other side’s actual commitment, which suggests that commitment, is signaled imperfectly.

After having an understanding of measurement of commitment levels of the dealer/distributors and principals researcher wanted to enhance his understanding of outcome and behavior based coordination efforts. Personal interaction (both formal and informal) with principals was considered. The outcome based coordination efforts reflects the extent to which companies personnel emphasize bottom line results, e.g. sales growth, market share in personal communication with the distributor personnel. Sole reliance on this approach would reflect an exclusive concern with the bottom line, irrespective of the manner in which the distributor achieves the results. In contrast to behavior based coordination, reflect the extent to which personal communication of company personnel with distributor personnel emphasize tasks and activities e.g. educating customers on use of the product or its applications. Such coordination audit has to be performed and would help to ensure distributors support to the principals’ products line. Connecting channel experience with exposure to the principals’ products line and target market are unlikely to grasp the connections between their efforts and sales performance of the principal’s lines. Consequently, a heavy emphasis on outcome with inexperienced channel may result in an excessive transfer of risk to them, leading to a reduction in their motivation to support the company’s product line. Experienced channel members are expected to be more receptive to behavior based efforts by company personnel. Information offered during such personal communication may enhance their understanding of cause and effect relationships with the principal’s product line. In contrast experienced distributor will have a better grasp of effective selling and marketing behavior, so supplier should have less need to use behavior based efforts with them. Indeed researcher observed that experienced distributor may even resent behavior based efforts, viewing it as intrusive.

The measures developed were guided by conceptual definition coupled with feedback received during the pre-study stage. On basis of the pre-study feedback, researcher developed the measures on a seven-point scale. The final outcome was a result of close examination of outcome and behaviors based coordination in a multiple variable model. Researcher observed that out of the twelve measures of which three measures were outcome based coordination efforts. After regressing these variable based on the responses received from 20 distributor / stockiest, researcher found that both the beta coefficients (Beta2 = 64.29 & Beta 3 = 113.53) were found to be statistically significant at 5% level of significance. 93% of the variation in Y (Sales) was explained by Market Share performance (X2) and sales Growth (X3). The overall model was also significant at 5% level of significance wherein the f calculated value was greater than the table value. Hence there is a strong relationship between the three variable studied in the outcome based coordination efforts.

The balance measure out of the twelve measures was related to behavior based coordination efforts. After regressing variable Selling Techniques (Y) , with the explanatory variable X2 & X3 titled as distributor promotional efforts and customer education & support activities based on the responses received from 20 distributor / stockiest; researcher found that both the beta coefficients (Beta 2 = 0.3644 & Beta 3 = 0.4493) were found to be statistically significant at 10% level of significance. 65% of the variation in Y (Sales) was explained by Distributor Promotional efforts (X2) and Distributors Customer Education & support activities (X3). The overall model was also significant at 05% level of significance wherein the f calculated value was greater than the table value. Hence there is a strong relationship between the three variable studied in the behavior based coordination efforts.

Researcher also regressed Distributor Service Capability (Y) with distributor promotional efforts (X2) and customer education & support activities (X3) which were related to behavior based coordination efforts. This was based on the responses received from 20 distributor / stockiest; researcher found that both the beta coefficients (Beta2 = -0.1482 & Beta 3 = 0.5343) were found to be statistically significant at 05% level of significance. Researcher has observed a low correlation (36%) i.e. explained variation with Y (Sales) Distributor Promotional effort (X2) and Distributors Customer Education & support activities (X3). The overall model was significant at 05% level of significance.
significance wherein the f calculated value was greater than the table value. The relationship between the three variable studied in the behavior based coordination efforts. Researcher used Karl Pearson correlation coefficients and noticed that there is 43% correlation between distributor service capability and distributor’s customer education & support activities, however, when distributor customer education & support activities are compared with distributor promotional efforts researcher observed a high correlation of 70% between these two variables. This statement stands true wherein researcher has highlighted it in the benefits package analysis model. The importance of customer education stands first before selling and linking it to the promotional efforts.

Environmental uncertainty was reviewed by asking distributors to describe the predictability of the market for the principal’s product line. Out of total 8 semantic differentials items, 3 correlated poorly and the rest were dropped. The resulting 5 items scale beta of 0.85. Principal product market familiarity, the principal knowledge of the distributor markets where principal products are sold, was measured that has beta of 0.89.

Environmental uncertainty may add to inaccurate prediction about the future. When uncertainty is high because of volatile demand; buyer preferences and competition achieved sales results may not provide much meaningful information to supplier on the extent of competition achieved sales results may not provide much because of volatile demand; buyer preferences and prediction about the future. When uncertainty is high.

The field force personnel as respondents gave a theoretical weightage to behavior based coordination efforts. If this holds true it is only because of environmental uncertainty. This would reduce the channel cause and effect ambiguity and perceived risk of its efforts. This could perhaps lead to greater distributor support for the supplier’s product lines. When channel would perform certain value added function, an emphasis on its behavior from principal personnel could increase payoffs to both channel and other intermediaries. However researcher strongly feels the need of complete access to business and physical resources of the dealer/stockiest to make use of behavior based efforts. However, should the principal be working in an environment of resource constraint, it would be seen that only these variable can be supported by outcome based coordination of efforts.

The principals familiarity with channel markets and it value added activities is related to the use of outcome based efforts. The principals rely too much on outcome based efforts when coordinating relationship with dealer/stockiest. The principals’ sales persons are pressured to produce sales results in their territories because their superiors are pressured to do so. The principals’ are forced to use a combination of performance appraisals system and compensation plans. Moreover sales performance data on distributor is readily available and the field force personnel view outcome based coordination efforts are easier to implement than behavior based efforts.

References:


