Managing Routes to Market: a glimpse into the future

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Abstract

The importance of managing the B2B channel relationship is increasingly being recognised by suppliers. For example, Carlo Fiorini, CEO of Hewlett Packard, pointed to poor channel relationships as a root cause for poor business performance. Gary Frazier[1] stated "As the world economy evolves, more and more companies are highlighting channel management as among their very top priorities. The opportunities for channel researchers to contribute to knowledge creation in the marketing discipline and, at the same time, affect business practice are almost endless". Research was conducted via nineteen in-depth interviews of senior channel managers from a range of organisations and sectors to identify key issues that are likely to influence their channel strategies in the future. The subsequent interviews were analysed and a number of key strategic issues were identified as future challenges for channel managers. Also, over twenty 'trends' emerged from the interviews, which would undoubtedly influence the way channels would be managed in the future.

The purpose of the paper is to report on these key strategic findings and to link them to channel literature where appropriate.

[1] Frazier, G.L. (1999), "Organizing and Managing Channels of Distribution", *Journal of the Academy of Marketing Science*, 27:2, p.237.

Introduction

The design and management of an organisation's routes to market or channels is of strategic importance. Carlo Fiorini, CEO of Hewlett Packard, pointed to poor channel relationship as a root cause of poor business performance. Channel change can be difficult to achieve, given its capacity to affect a broad range of functional areas and the time that it can take to establish and/or terminate channel relationships (Cespedes 1988; Takeuchi 1991). Channel decision making also has important implications for organisational efficiency and effectiveness (Doyle 1994). In many industries, a significant proportion of the final price of goods and services is accounted for by distribution costs. Bucklin et al. (1996), for example, quote research conducted by the Economist Intelligence Unit (EUI), which indicates that distribution channels can account for anywhere between 15 per cent and 41 per cent of the final price of goods and services. Thus, relatively small changes in marketing channel costs can significantly affect supplier profits (Lynn 1992). At the same time, a company's delivery channels are also likely to form an important and integral part of their overall customer value proposition (Mitchell 1995a). There is clear evidence that channel decisions are increasing in importance on corporate agendas (Mitchell 1995b).

In recent years, with the advent of the Internet and increased competition from direct marketers, companies are beginning to question the validity of their long-established channel structures and routes to market models. Furthermore, the distinction between communication and distribution channels is becoming increasingly blurred. Companies are recognising that delivery channels are also a conduit for acquiring knowledge about end-user needs and preferences. The need to gain access to this end-user information and use this as a basis for Customer Relationship Management (CRM) programmes has become a key issue (Mitchell 1995b). Thus, the nature of the relationships forged between suppliers and distributors is key for both parties in achieving their business objectives and this topic has become an increasingly important one in the marketing area.

In a recent article by Gary Frazier (1997), he sums it up thus: “As the world economy evolves, more and more companies are highlighting channel management as among their top priorities. The opportunities for channel researchers to contribute to knowledge creating in the marketing discipline and, at the same time, affect business practice, are almost endless.” The research reported below attempts to contribute to this key marketing area and is part of a wider channel study, whose overall purpose was to gather information from senior channel management personnel within leading European/global organisations to identify current and future trends in routes to markets thinking. Whilst this paper will not deal with all the objectives of the study, it is useful to identify the key ones used in the study. They were:

1) To identify relevant themes from the channel management literature to inform the research.
2) To identify the views of senior channel managers in relation to current and future issues affecting their routes to market strategies.
3) To identify how channel managers’ views may vary between different business sectors.
4) To identify channel managers’ views in relation to current and future issues of strategic channel management (e.g. channel mix and integration).

5) To identify channel managers' views of relevant personal skills and competencies required within the channel management function.

6) To identify channel managers' views on the major barriers to implementing current and future channel management strategies within their organisations.

The research reported in this paper focuses on objectives 2) and 4) and links the findings with appropriate literature (objective 1).

Before turning to the results of the research and the identified trends arising from the analysis of the interviews, the methodology used for the study is explained. The results are discussed in terms of 'drivers for channel change' as this was felt to represent the expressed views of the channel managers interviewed. Let us now turn to explain the data collection process used in the study.

Methodology

The methodology chosen to achieve the objectives involved two stages. Firstly, a review of relevant literature was carried out, both to inform the second stage as well as to provide links back during the analysis phase. Secondly, semi-structured, semi-depth, qualitative interviews were carried out with key informants responsible for channel management within a range of companies. Qualitative methods were chosen in order to provide a richer understanding of the issues faced by channel managers and to allow specific topics to be probed in depth (Easterby-Smith et al. 1991). They were also chosen in order to provide a level of 'local grounding', i.e. they provided the researchers with a means of developing a better understanding of the realities of channel management in different produce-market settings and a basis to challenge existing theory surrounding the channel management process (Miles and Huberman 1994).

A total of nineteen interviews were carried out with the respondents coming from a variety of sectors and organisations. Table 1 shows a profile of the respondents by business sector.

Table 1: Profile of interviewees by business sector

Business Sector	Number of Interviews
Financial Services	4
Software	3
Computer Hardware Manufacturing	4
Other Manufacturing	7
Other Services	1

The companies and respective interviewees operated at a European level, with some companies operating globally. They included Canon, Compaq, Hewlett Packard, Xerox Microsoft, Xircom Europe, Zeneca and Zurich. The general topic guide is produced in Figure 1.

Figure 1:Channel management research topic guide

- Company, interviewee role and responsibilities.
- Market characteristics, evolution and dynamics.
- Channel strategy: past, present and future (2-5 years)
- Major challenges in achieving channel strategies
  - i) Internal
  - ii) External
- Impact of technology and IT on channel strategy
  - i) New routes to market
  - ii) Interaction with current channel members
- Skills required within the channel management function

All the interviews were taped and transcribed. For the purposes of triangulation, the transcripts were analysed separately by two researchers. This was followed by a series of meetings to compare results and identify common themes. The transcripts themselves were analysed within the context of the research objectives. However, the themes were allowed to emerge in an 'inductive' manner (Straus and Corbin 1990). These were then compared and synthesised with themes arising out of the literature review. It will be apparent that such an approach will generate both rich and fairly diverse findings and that a complete report of these is not possible in this paper. Therefore, as noted earlier, this paper focuses on some of the key issues that channel managers felt both drove their decisions and would be significant challenges for those responsible for making channel decisions in the future. Where possible, links will be made with the literature; however, the strength of the paper lies in reporting the trends that will confront European channel managers in the future.

Results: drivers for channel change

The research identified a number of factors prompting firms to review their routes to market strategies. Whilst some of these are specific to particular product-markets or company situations, others are of a more general nature. They provide a view of some of the pressures that face channel managers in this ever-changing business environment. No doubt, even with this list, further ones may be identified by using a different sample of respondents. Critically, these channel drivers have a key role to play in pointing out the emerging channel trends and give rise to our 'glimpse into the future'. Relevant literature has been integrated, although this does not claim to be exhaustive.

(i) Changes in customer behaviour, expertise and sophistication

In the computer hardware sector, for example, the success of companies, such as Gateway and Dell, suggest that segments of the market are becoming increasingly comfortable with purchasing PCs via ‘lower value-added’ direct marketing channels: that is over the telephone and the net. The result is that many customers need much less handholding and support and, therefore, these segments need to be catered for in routes to market strategies.

(ii) Product commoditisation

Organisations in a variety of sectors indicated that their product offerings had become, or were becoming, commodities (Mathur and Kenyon 1997). For example, the scope of PC manufacturers to differentiate their offerings has been eroded over time by factors such as ‘plug and play’ design principles, product standardisation and increased levels of buyer education and expertise. Companies are responding by seeking out lower cost/lower value-added routes to market, such as direct marketing channels and/or searching for new ways to utilise and add value through their indirect channels (Li and Dant 1999; Simpson et al. 2001).

(iii) Service competition

Against this background of declining product differentiation, companies in a number of sectors are increasingly having to look at the way they deal with their end-customers. This has important implications for the way in which companies are going to market and the role and function of their intermediaries (Weber 2001).

(iv) Developments in IT, production technology and logistics

In some sectors, production technologies (e.g. flexible manufacturing systems) are enabling companies to cater for increasingly wider variations in customer demand, even to the extent of 'mass customising' products and services (Wikstrom 1996). At the same time, shorter production cycles and smaller batch production, coupled with fast logistics allow companies to reduce inventory levels throughout the supply chain. Both of these developments have important implications for the role and skills of intermediaries.

(v) Technological convergence

The convergence of printer, copier and fax technology is expected to bring about a gradual convergence in the activities of office equipment dealers and computer equipment suppliers. However, it was felt that this may be slowed down through the demarcation of the responsibility within buying organisations for specifying and purchasing IT equipment and office equipment!

(vi) New product development/modification

Issues were raised in relation to motivating and recruiting channels to take on and support new business models and new/modified product offerings (Rangan et al. 1992; Wilson and Woodside 1992). Several companies, notably in the software and financial services sectors, were examining the potential for delivering their products and services via the Internet. Because of the difficulties it had experience in trying to convince its existing channels to adopt this new mode of operation, one particular software company was in the process of setting up an entirely new indirect channel. The company's existing channels were reluctant to make the necessary investment due to an apparent lack of trust in the supplier and a fear that electronic fulfilment was simply a precursor to disintermediation.

(vii) Competitive pressures

Companies in all sectors were concerned about the potential impact of competitive factors. For example, those in the life and pensions sector were concerned about the potential for further cost and margin pressures brought about by consolidation among intermediaries and the emergence of new players, such as low cost direct marketing operations.

(viii) Regulatory pressures

In the life and pensions sector, the UK government is reviewing the current polarised system of distribution, whereby distributors are forced to declare themselves as either tied agents (representing one supplier) or as independent financial advisors (who are required to scan the whole market to match a customer's needs). Other actions by the UK government such as league tables and 'stakeholder' pension legislation, places further pressure on margins.

(ix) Opportunities for market expansion and development

A manufacturer of innovative communications equipment is attempting to make the transition from niche product markets to a more mass-market appeal. The challenge for this company is to simplify the product and open up new channels of distribution.

(x) Product/market maturity

A company's routes to market strategy needs to be adapted to take into account the evolution of its products and markets (Miland 1992; Corey 1991). For example, the PC market shows clear signs of maturity with intense levels of competition and increasingly knowledgeably and price-conscious customers moving toward lower value-added channels, such as supermarkets and direct.

(xi) Increasing rates of technological change (i.e. shortening plc)

One of the implications of shortening product life cycles is that firms have less time to adapt their channel strategies to accommodate changes in buyer behaviour (Anderson et al. 1997). Furthermore, in more volatile product market environments, it is often difficult to predict precisely how buying behaviour will change over time (Anderson et al. 1997). To cope with these uncertainties, it may be necessary for firms to invest in a portfolio of routes to market options.

(xii) Historical proliferation of channels

Several companies indicated that their routes to market had been introduced incrementally as a result of opportunistic expansion and the desire to maximise product availability rather than as a result of careful planning and design. The inherent danger of such an approach is that channels are allowed to proliferate to such an extent that members lose motivation, conflict arises, activities are duplicated and mixed messages are delivered to the market place. This problem is likely to become particularly acute as markets mature. Faced with such a legacy, a number of companies were attempting to re-segment their channels according to their capabilities and sales growth potential and carrying out 'tailored' partnership programmes to further develop them. Those left out had to be managed appropriately and with care.

(xiii) Changes in balance of power among channel members

Concerns were expressed about the increasing power of intermediaries in the financial services sector, also, computer companies were relatively inexperienced in dealing with the large retail multiples. New skills and strategies were required in dealing with these routes to market.

(xiv) Improving the efficiency and effectiveness of channel systems

A number of initiatives are being pursued, which can vary by sector. These include (a) co-operating with distributors in order to re-engineer distribution processes, such as order processing and stock replenishment (Buzzell and Ortmeyer 1995); (b) establishing electronic links to improve the two-way flow of information regarding order status and end-user demand (Buzzer and Ortmeyer 1995); (c) removing layers of distribution, such as the ‘master distributor’ (Anderson et al. 1997); (d) redefining the respective roles and functions performed by themselves and their indirect channels; and (e) allied to the previous points, restructuring channel remuneration.

Thus it can be seen that a number of factors influence channel strategy and design, including technology, in a variety of supply and demand ways: competitive pressure; legislation/regulation; market maturity; historical context and previous strategies; fragmentation of suppliers and/or channel members and changing customer behaviour. All recognisable as elements to evaluate in the preparation of any good business planning process.

As a result of analysing the data provided by the interviewees and secondary literature sources, a number of trends emerged which contribute to current thinking around the channel management area. These trends provide a ‘glimpse into the future’ and will no doubt help to shape the channel strategy of many organisations operating on a nationwide, European or global level. Some supporting literature for the trends is identified, however, this was not possible for all the derived trends which suggests some support from this research for the comment made by Frazier (1997), namely: “The opportunities for channel researchers to contribute to knowledge creation in the marketing discipline and, at the same time, affect business practice are almost endless”.

Emerging channel trends

A number of trends have been identified and these are presented below, they are not in any particular order of importance. It would, however, be useful to try and evaluate their importance via further research with the sample group, although they are likely to vary by market and company situation.

From hierarchies	⇨	To networks

In many markets, traditional hierarchical channel configurations have given way to networks of companies, assembled around the task of creating and delivering end-user/consumer solutions (Achrol 1997)

From contractual governance	⇨	To networks facilitation

Traditional governance mechanisms are giving way to network facilitation and management processes (Frazier 1999)

From channel adversaries	⟹	To channel ‘value-added’ partners

In many markets, traditional hierarchical channel configurations have given way to networks of companies, assembled around the task of creating and delivering end-user/consumer solutions (Achrol 1997)

From in-house provision	⟹	To outsourcing

Companies need to look at their core competencies and consider seriously which value chain activities should be performed internally and which would be best performed by external intermediaries.

From disintermediation	⟹	To ‘reintermediation’

The Internet is forcing companies to reconsider the role and structure of their routes to market. In addition to bringing about the potential for disintermediation, the Internet is also resulting in the emergence of new or modified forms of intermediary (‘reintermediation’) (Giaglis et al. 1999).

From product-based competition	⟹	To service-based provision

Produces now require a substantial service element to be competitive in the market place.

From ‘low velocity’ channel management	⟹	To ‘high velocity’ channel management

Companies need to look at their core competencies and consider seriously which value chain activities should be performed internally and which would be best performed by external intermediaries.

From customer buying	⟹	To customer hiring/renting

Companies must consider creating new vehicles to facilitate the development of customer/end-user relationships.

From measuring satisfaction	⟹	To measuring relationship quality

Standard channel monitoring processes may not be adequate in the new relationship marketing paradigm where the quality of the relationship is key.

From human interaction to human-computer interaction	⟹	To computer interaction

The means of providing service to, and creating relationships with, channels and end-users/customers is changing and will have important implications for process design and organisation.

From high-tech ‘value-add’	⟹	To perceived low-tech ‘value-add’

As the cost of technology falls dramatically, this will affect prices and customer perceptions, which will in turn affect channel strategy.

From without the Internet ⇒ To with the Internet

It's here, so organisations are going to have to manage its integration.

From channel-centric organisation ⇒ To customer-centric organisation

The channel is NOT the customer, but a possible route to acquiring, satisfying and retaining the customer.

From commodities ⇒ To brands

Branding is an important means of differentiating an organisation's offering. Watch out for the 'price comparison road to extinction'.

From a sales culture ⇒ To a channel management culture

Selling to the channel is not sufficient; companies must also work with the channel in order to develop their capability to satisfy end-customer needs.

From multiple channels ⇒ To 'hybrid channel' systems

Companies must consider carefully the transition from 'vertical' to 'horizontal' allocation of channel tasks and functions (Moriarty & Moran 1990; Hanmer-Lloyd & Mitchell 1997).

From customer consumption ⇒ To customer 'prosumption'

IT enables consumers to take a much more proactive role in the specification and delivery of products and services. They are also able to control to a much greater extent the timing of their interactions with companies (Wilkstrom 1996).

From local/national player ⇒ To global/international player

The Internet provides companies with access to global markets, but at the same time makes strategies (i.e. pricing) increasingly transparent across geographical boundaries.

From 'speculation' ⇒ To 'postponement'

Developments in production technology and logistics enable firms to move away from a 'make for stock' model and closer to a 'make for order' model, which impacts upon the role of intermediaries.

From managing channels ⇒ To managing change

As channel complexity increases, firms need to recognise that channel management involves managing internal change as well as managing the various supplier-channel interfaces.

From intuition	⇨	To information

Companies can no longer rely so much on intuition; they need to become more knowledge-based.

From tactical channel management	⇨	To strategic channel management

Channel decision making at a product level needs to be viewed as part of a broader strategic decision making process, which takes into account a company's entire portfolio of products and channels, its objectives, skills and resource constraints (Cespedes 1998).

From shareholder responsibility	⇨	To social responsibility

Companies need to design their channels and products to take into account the entire process of manufacture, consumption and disposal (Wilkstrom 1996).

Conclusions

The importance of an organisation's routes to market and the way these alternative channels are managed is critical to their overall long-term success. Numerous studies have examined a number of issues in this relationship, including power, trust, communication, commitment, etc. However, the research reported here focused on the elements that would shape the future of channel strategy and management using data gathered from practising senior channel managers. Through analysis of the rich data generated, a number of trends were identified which provide important insights into the key area of effective management of channels. Drivers leading to these trends were identified and presented.

A number of conclusions can be drawn which can usefully be presented based on the trends identified. Readers will surely add their own taken from their own perspective.

Technology changes impact at a variety of levels from creating new routes to market through managing the relationship to providing two-way communication paths from national to global level.

- Delivering added-value products and services involved re-thinking channel structures where networks become key as well as changing attitudes within suppliers to think of their channels as partners in this process.
- Managers need to recognise the fluidity of channel structures, not just because of changes in technology, and adjust their policies to cope with ‘high velocity’ market structures. This requires new skills for channel managers as well as the ability of suppliers to manage change.
- The availability of more information will allow for better attempts at evaluation of channel performance. However, it will also demand a clear view of what it is important to measure with both ‘soft’ and ‘hard’ measures becoming important.
- In an age of environmental consciousness, the co-operation of the channel in achieving environmental objectives is paramount. How the supplier-channel relationship manages this adaptation process is of key strategic importance (Canning and Hanmer-Lloyd 2001).

It is hoped that this ‘overview’ paper on trends within managing routes to market will provide food for thought for both academics and practitioners. Finally, it is also hoped that a number of the areas highlighted will also create research topics in their own right. The authors are currently exploring, in greater depth, the impact of aspects of technology on managing the supplier-channel relationship.

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