# THE FUNCTIONS AND ACTIVITIES OF AGENTS

# IN DISTRIBUTION NETWORKS

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**Abstract**

The middleman hasn't vanished despite the changes in distribution structures. Middlemen are still around and they fulfill important functions. There is however still little research performed from the middleman's perspective in these structures and also on specific types of middlemen and what they do. This paper focus on the functions and activities of agents and the purpose of this paper is to develop a partial framework covering these two areas. Knowing what agents of today does in terms of functions fulfilled and activities carried out is the foundation to understand there role and position in the distribution network and how they add value to principals, customers and the distribution network as a whole.

**Keywords:** agents, functions, activities, distribution networks

**Introduction**

In many industries the decrease of middlemen like agents and merchants has been an important issue to reduce costs. The technological development of e-business has also in way changed the conditions for middlemen and opened up for ways to by-pass them. Disintermediation meaning replacing middlemen with Internet-based selling has also become a commonly used concept. Manufacturers and customers could now easily establish and maintain a direct contact with the help of e.g. web sites. This development has also revolutionized the management of customer relationships and it was likely for the middleman to vanish out of the distribution channel according to Mudambi and Aggarwal (2003), but they are still around. Gadde and Snehota (2001) also note that despite the changes and restructuring of distribution, the middleman have survived and still fulfill important functions. To add to the picture, some rather interesting new aspects on the role of agents in international distribution channels were uncovered in a study within the wood processing industry in Sweden. The predominant view of agents that was dominating in this industry was that they were considered unneeded and expensive. However, it was shown that agents were still of use even if the sawmill was working directly with customers and also shown to be the least costly type of middlemen in the study (both in terms of money and loss of information). The major question emerging from this study was not whether middlemen like agents were needed or not. Rather there seemed to be a need to rethink the roles in the distribution structure as the major issue that emerged was *why* they should be used. There is a number of activities that has to be carried out between the producer (e.g. the sawmill) and its customers, but which actor is best suited to perform them? Those middlemen who just add costs will undoubtedly disappear, and those who add value that customers are willing to pay for will remain.

**The problem and the purpose of this paper**

The study on agents described above within the sawed timber industry indicates that there are changes to what the agents do and that to some extent, practice and concepts deviate. Gadde and Snehota (2001) argue that this problem stems from the varying roles of the middlemen rather then the concept of middleman. Realizing the many different activities necessary to close the gap between producer and customer and the different roles of a middleman there is a need to try to find out more about them. There has been a lot of research performed within distribution channels during the last 50 years but Frazier (1999) notes that little is known about the specification of channel roles and their required functions, as well as which functions are best shared between channel members and in what context. Frazier (1999) also asks for research out of the intermediaries' perspective as most research is either manufacturer or retailer oriented. This concern is also evident in Gadde and Snehota (2001) as they argue that middlemen often are studied one-sided out of the manufacturer's perspective or as in-between two other actors. Furthermore, trying to grasp all kinds of middlemen in one concept is due to the heterogeneity not feasible and Gadde and Snehota (2001) ask for differentiation of the concept middleman to create more accurate analytical tools.

Altogether there seems to be relatively little known in general about middlemen and agents especially. The traditional vertical distribution channel has more or less disappeared in recent channel research instead they are viewed like dynamic webs or networks (see e.g. Anderson, Day & Rangan 1997). The network perspective has a broad support according to Gadde (2004) when it comes to studying distribution

structures. Based on a comparison of traditional channels and the evolving networks in distribution he also concludes that the network model seems to be useful conceptual tool for understanding the changes that has faced distribution. Agents fulfill important functions and carries out a number of activities every day. These functions and activities shape the role and also determine the position of the agent in the network and also in what way the agent add value to the principal or customer or the network as a whole. The focus of this paper is therefore on the agents of today; what functions do they fulfill, what activities do they perform, and how is this commonly described in literature? Furthermore, the purpose of this paper is to develop a partial framework for the functions and activities of agents. This will serve as a first part of the author's own dissertation project.

*The outline of the rest of this paper consists of three parts, first a review of literature that starts with what an agent is. This is followed by the functions or flows that can be ascribed to agents and finally a review of distribution activity types. The second part is a short summary and presentation of a partial framework covering functions and activities of agents. The paper ends with some concluding comments and a preliminary outline of a framework for the larger, dissertation project as well as some thoughts on where to perform a study like this.*

**Theoretical point of departure – defining agents**

Middlemen are foremost used in direct export and Root (1994) presents two main alternatives for direct export, the use of a foreign agent/distributor or the use of a foreign branch/subsidiary. The major difference between the two main alternatives is whether or not they are independent actors, i.e. owned and controlled by the

manufacturer. Being independent as an intermediary also means that the goals and interests seldom match other independent companies such as the exporter who uses them, as noted by Rosson and Ford (1982). Both agents and distributors are independent actors but they differ in terms of taking title to goods. An agent according to Root (1994) does not take title to the goods and most often works on commission, a distributor on the other hand does take title to the goods (and thus the risk of the goods not being sold) and works on a profit margin as a reseller. This distinction is also used by among others, Bello and Williamson (1985) and Cateora and Graham (2002) when they discuss the export intermediary out of whether they take title (act as agent) or not (act as merchant). Webster (1991) looks at agents as one out of five types of industrial resellers separated by the number of and specialization of functions that they perform, but he also point at taking title as the major distinction when classifying channel members.

Beside the core characteristic of not taking title there is also a number of different types of agents separated by type of duties and whether they are domestic or foreign based. Cateora and Graham (2002) bring up nine different middlemen that act (or can act) as agent, five domestic and four foreign-country based. The domestic types of agents are: Export Management Companies (EMCs), Manufacturer's Export Agents (MEAs), Brokers, Buying Offices, and Selling Groups, and the four foreign-country based agents are: Brokers, Manufacturer's Representatives, Managing Agents, and Compradors (a type of managing agents). There is a substantial spread among them in terms of what activities and functions they provide to their principals or customers. (For a full, detailed presentation see e.g. Cateora and Graham (2002), chapter 14.)

In the functionalist paradigm (see e.g. Dixon & Wilkinson, 1989:66) the firm, or in this study the agent is a "unit flow channel" that convert market transactions into flows or outputs. Actors in network theory (see e.g. Hakansson and Johanson, 1992) do not limit itself to the firm; the actor could be one individual or even a group of firms depending on the organizational level. The actor could be described with five attributes: performance and control of activities, development of relations with other actors, controlling resources, goal orientation, and having differential knowledge about the network context itself. This means that the agent as well as the principal that buys the competence of the agent and the industrial customer that the agent links to are actors in the same network.

**Functions and Flows**

Stern and EL-Ansary (1988) makes an important note on functions in distribution channels as they state that the functions cannot be eliminated but the middleman can be either substituted or eliminated. This emphasizes the notion of that agents need to add value to the network or else vanish. This is also the logic behind "functional spin-off" among members in the distribution structures as presented by Mallen (1973) and the reason to why marketing functions are dynamic and not static. The consequence of this is that functions are not independent, they are interrelated (Mallen 1973). Functions becomes interesting also from another point of view, which functions is best shared between channel members and in what context as this is one of the issues pointed out by as Frazier (1999) as still known little about. Behind this issue of sharing is the concept of substitutability that Bucklin (1965) mention as one underlying concept to determine the structure of distribution channels. Substitutability means that one function's workload to be shifted (or shrunk) to someone else in the

same firm or someone else in the channel. Connected to this concept is also the notion that this interchange of activities or division of work, is done to minimize the total cost of the channel rather than minimize the cost at one point of it.

Stern and EL-Ansary (1988) states that function and flow are identical concepts but that they prefer the latter as it provides a more descriptive meaning of movement. Another view of function and flow is given by Tamilia, Senecal, and Corriveau (2002) as they mean that flows are generated when functions are performed, thus performance of a function will lead to flows. Flows in their turn indicate the direction and movements of activities between different members in the distribution structure. In this paper functions and flows will be treated as identical and the term used by the stated source will be the one presented in the text. The same procedure will be given to the terms activities and tasks that also will be treated as identical in this paper.

Already in the mid 1950s Alderson (1967) discussed what forces that shaped channels and what functions middlemen or actors fulfills to close the different gaps between producers and consumers, the distance in time and space but also the discrepancy between producer stock and consumer assortment. He also brings up the concept of "sorting" and uses it as an umbrella for four different processes or forms of sorting that was performed within channels. Sorting out is the most basic and refers to the creation of relative homogeneous separate stocks from an originally heterogeneous supply. Another form is accumulation when the similar stocks are brought together to form a larger homogenous supply. These two first steps are mostly connected to the production process. The two following forms are more connected to the distribution of finished goods and therefore closer to the functions of the agent. Sorting as allocation

or breaking bulk, is when a homogenous supply is broken down into smaller more convenient lots and finally the form of sorting that Alderson (1967) calls assortment that creates an assortment of different goods that are connected by their use. Especially the last form of sorting is relevant as the agent often represents a number of manufacturers of related products and is also in line with McVey's (1960) notion on the middleman as creator of an independent market within the channel.

According to Webster (1991) classical marketing theory pinpoint ten functions performed by middlemen in the distribution channel and the channel itself is design as to get these functions executed as efficient and effective as possible. These functions are: buying, selling, assorting, financing, storage, sorting (breaking bulk), grading (e.g. quality assessment), transportation (logistics), providing market information, and finally risk-taking. The ten functions just presented can be compared to the flows that Stern and El-Ansary (1988) brings up: physical possession/product flows, ownership/title flows, promotion, negotiation, financing, risking, information flow, ordering, and payment. The latter list of functions seems to be more useful to the study of agents as it separates the physical possession/product flow from the ownership/title flow.

The functions that Webster (1991) ascribes agents are dominated by the selling function, but they might also provide marketing information, keep small supplies on consignment basis and at times finance the transaction –especially if the agent is a manufacturers' representative. There is often also a geographical boundary to the functions performed determined by the contractual agreement between the manufacturer and the agent. Going back to the definition of agents the only flow or

function that cannot be handled by this type of middleman is the ownership/title flow, the rest of what is brought up by Stern and El-Ansary (1988) is more or less open to the agent to perform. Missing is however the process of creating an assortment, the last of the four sub-processes including in Alderson's (1967) sorting concept, as the agent often provides a group of related products to customers.

**Activities**

The firm produces activities and the input to an activity is often the work of one or more individuals or employees according to Dixon and Wilkinson (1989). Thus an activity is what happens, i.e. resources used in combination, developments, exchanges, or creations by one or several actors (Hakansson & Johanson, 1992). Each of the functions or flows mentioned above includes a number of activities or tasks that have to be carried out job tasks as Mallen (1973) labels them that have to be carried out. Information flow for instance might include activities like design of a customer satisfaction survey, collection of market information, provision of product information and oral presentations. According to Johnson & Umesh (2002) all the numerous activities that take place in a channel are subtasks that could be derived from the functions or flows mentioned previously. In their opinion functions and flows represent tasks at a macro level and that the division into macro level tasks and subtasks is the foundation of task allocation in the channel. In the following only the term activities will be used to cover this lower conceptual level.

In network theory (see e.g. Hakansson & Johanson 1992) an activity is only a part of the whole, the network of activities are related to both the network of actors and the network of resources as pictured in the ARA-model (actors-resources-activities). The

model is fore-most used to analyze industry dynamics or the role of actors or group of actors in ongoing processes. Still, activities are performed by at least one individual and include some kind of resources and thus the model provides the setting for the activities performed. The focus in this study is however on the network of activities and how this relates to one actor, the agent. There are according to network thinking mainly two kinds of activities, transformation activities that changes resources into something new and transfer activities that links different transformation activities with each other. In the transfer activity the direct control over the resources is shifted between different actors. The latter activity type is the one mostly associated with agents.

According to Richardson (1972) these activities also have to be carried out by someone that is capable to do so. He divides activities into similar and complementary, the former is the kind of activities that requires the same kind of capability and the latter represent different phases that more or less has to be coordinated. Further, coordination has to include both qualitative and quantitative aspects. Coordination can be achieved in different ways, within the organization (by direction), as a result of an agreement between organizations (by cooperation), and as a result of spontaneity (through market transactions). In other words the activity of dealing with a customer that an agent undertake is similar to the activity that the manufacturer could have done, but complementary to the activity of arrange shipping of the goods. This also ties back to the concept of substitutability and what functions and activities that in the end can be shared and in what context. The increasing collaboration and ongoing developments in distribution structure that Gadde (2004)

brings up adds to the picture and also supports the view that agents might perform or share functions and activities in new and untraditional ways.

**Framework to capture the functions and activities of the agent**

So far the agent can be defined as a type of middleman that's independent and don't take title to the products handled. The agent can be localized either in the home country or in the foreign market. The functions the agent fulfills also varies a lot in a range from those that only buy or sell on commission (brokers) to those that fulfill a number of them to its principals or customers (manufacturer's representatives or managing agents). An agent can in other words fulfill any of the traditional intermediary functions except taking title.

Based on the functions or flows presented in Stern and El-Ansary (1988) together with one of Alderson's (1967) four sub-processes of sorting, there is nine traditional functions identified that can be performed by an agent. These nine functions are listed in the left column in figure 1. Furthermore, the activities that the agent perform to fulfill the function/-s can be classified as transfer activities according to Hakansson and Johanson (1992). To this can be added Richardson's (1972) division of activities as either similar or complementary depending on what comparison that is made between the agent and the actors within the distribution network. The latter division is also important to understand who else could perform the activity and also the direction of the flow of complementary activities. In figure 1 this is illustrated as the rightward row. Together functions and activities form a table that illustrates what the agent does in the distribution network.

Also, to illustrate that the agent fulfill functions and carry out activities for both principals and customers these are also included in the figure. To avoid the linear structure of a channel when seeing distribution structure as a network, the use of the term principal is used regardless of the counterpart is a manufacturer (upstream) or an industrial customer (downstream) when they approach the agent to either sell or buy on their behalf. The same goes for customer as the agent based on principal will seek out a suitable counterpart. This also emphasizes the notion of the agent as middleman and someone in between other actors. This partial framework will provide a base for an understanding of how the agent adds value as well as the role and position of the agent in the distribution network.
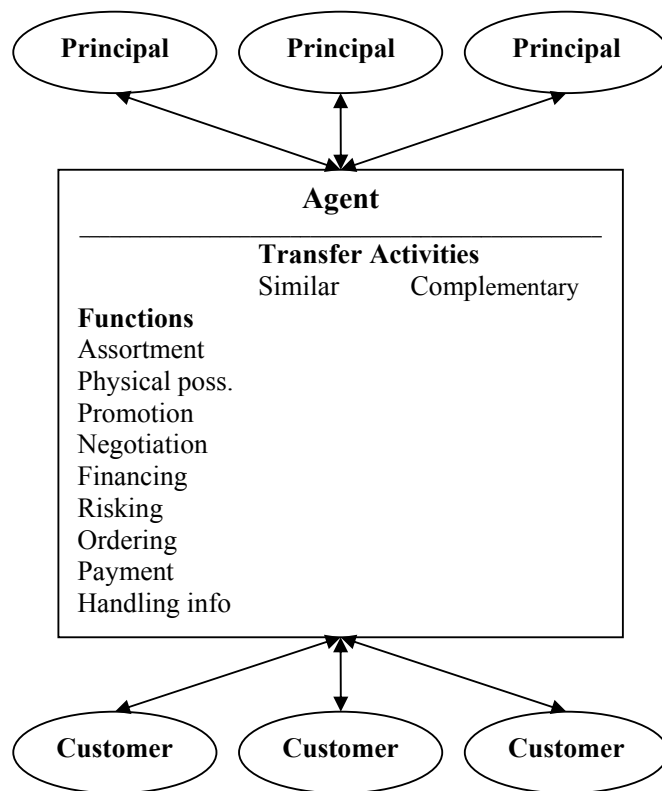


*Figure 1: The Functions and Activities of Agents*

**Concluding Comments**

The findings regarding agents of today in the Swedish wood and processing industry gives reason to revise the picture of the agent outlined in literature and as a result a partial framework to cover functions and activities of agents was suggested. This will also serve as the starting point for the author's own dissertation project. The aim of this project is to update the picture of what agents does, what role and position they have in the distribution network, and how they can add value to other actors and the distribution network as a whole. The preliminary outline for how the functions and activities are related to the two other main aspects in the dissertation project is outlined in figure 2.
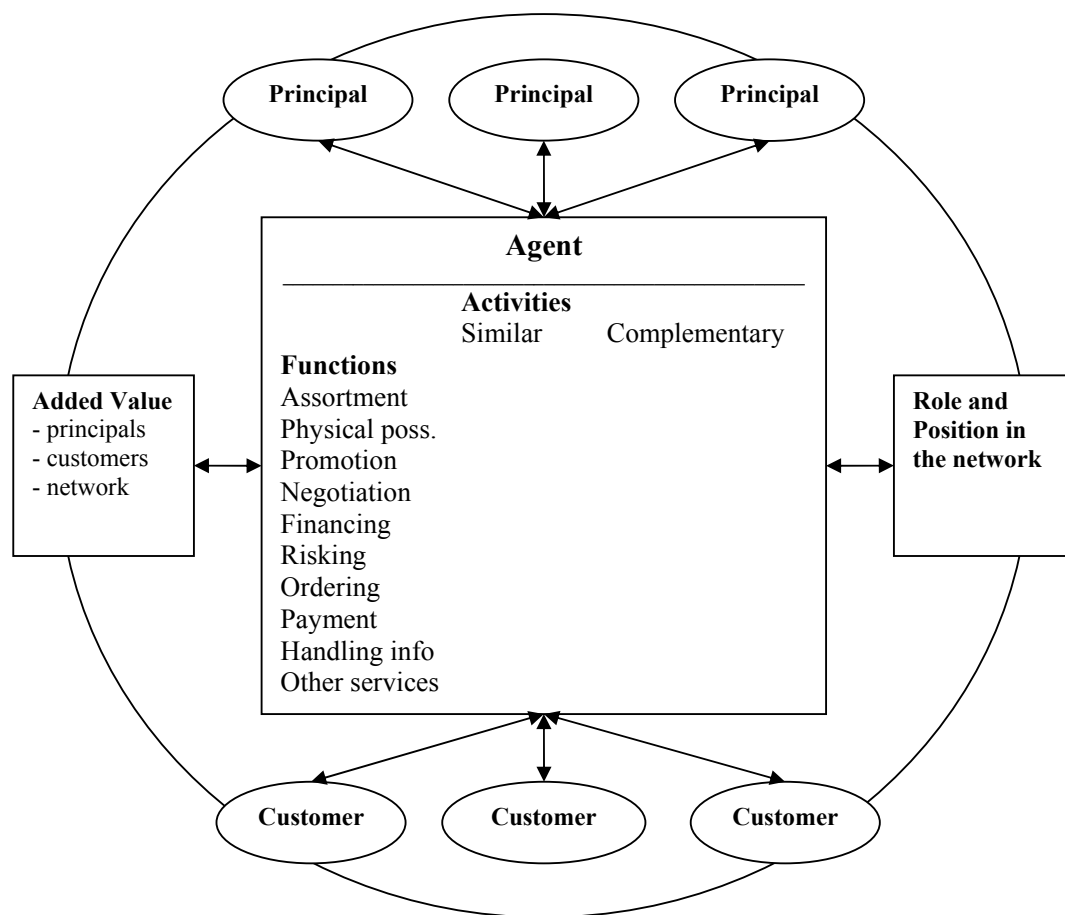
Principal    Principal    Principal

**Agent**

**Activities**
Similar          Complementary

**Functions**
Assortment
Physical poss.
Promotion
Negotiation
Financing
Risking
Ordering
Payment
Handling info
Other services

**Added Value**
- principals
- customers
- network

**Role and Position in the network**

Customer    Customer    Customer

*Figure 2: The Functions and Activities of Agents in the Dissertation*

The study of agents will start in the Swedish wood and processing industry. The previous study made in this industry revealed that agents are only used in export activities but did not go beyond general attitudes and functions towards agents and other middlemen used. Still, this serves as a starting point into this line of industry as it reveals interesting openings for further research. One way of studying agents is to let those actors having a relationship with them define their functions and activities in line with an advice given by Ford (2002) as how to best understand a company in a network context. The question of adding another line of industry or choose another geographical cluster within the same industry is still to be decided, as well as if all types of agents should be included in the study (domestic/foreign, buying/selling).

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