Identifying barriers to managing channel relationships successfully: A perspective from the UK life and pensions industry

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Abstract

This paper reports on a qualitative study that examined the barriers to managing independent intermediary relationships in the UK life and pensions industry. In recent years the focus of channels research has shifted away from a narrow pre-occupation with the sources and consequences of channel power, towards the factors involved in developing and sustaining long-term channel relationships. Within this emerging literature, constructs such as trust, co-operation and commitment have taken centre stage (see Andersson *et al*. 1996 for a review). However, as authors such as Weitz and Jap (1995) have observed, much more research is needed to understand what firms in the real world are doing to manage their channel relationships effectively, the problems they encounter and how these are overcome. Rather than explore success factors, this study examines the difficulties that firms face in attempting to manage their channel relationships successfully. In so doing, it brings a new perspective to our understanding of the factors contributing to successful channel management. The study employed a series of semi-structured, qualitative interviews to investigate the insurer's perspective on these channel relationship management barriers. Amongst the emergent themes were the difficulties associated with managing a consolidating channel and internal organizational constraints. The paper highlights some of the preliminary findings and identifies as among the emergent themes the difficulties associated with managing a consolidating channel and internal organizational constraints.

Introduction and Literature Review

Marketing channels research has offered some useful insights into the ways in which channel relationships might be managed successfully. Early research especially, placed a significant emphasis on the role of power and functional and dysfunctional consequences of its use, particularly in relation to channel member satisfaction and perceived conflict (e.g. El-Ansary and Stern 1972, Hunt and Nevin 1974, Lusch 1976, Etgar 1976). Despite persistent concerns about the operationalization of power and generalisability of early studies, results do at least provide some confirmation of the common sense view that coercive power use leads to increased conflict and reduced satisfaction. Conflict has also received significant attention in its own right, with studies focusing on the potential sources of conflict as well strategies for conflict management (e.g. Rosenberg and Stern 1970, 1971, Magrath and Hardy 1989).

In recent years, however, fuelled by the emergence of the relationship marketing paradigm, there has been a discernible shift away from this pre-occupation with power and conflict towards studies examining the factors contributing to close, long-term relationships and especially the roles of trust, commitment and co-operation (Andersson *et al.* 1996). Discussion of channel communication has expanded beyond its narrow historical emphasis on the application of power through various influence tactics to encompass issues such as modality, frequency and direction as well the content of intra-channel communications and the conditions favoring collaborative as opposed command communications (Mohr and Nevin 1990, Mohr et al. 1996). Some have gone as far as to dismiss power altogether, claiming that it is relevant only to the examination of "sick" as opposed to "healthy" relationships (Young and Wilkinson 1989, Morgan and Hunt, 1994, Weitz and Jap 1995). This view is not universally accepted (Frazier and Antia 1995, Frazier 1999).

In some of the more practitioner orientated literature, marketers have been urged to move away from playing the "power game", towards developing relationships based on trust with their channel counterparts (Kumar 1996). Similarly, Kotler (1994) suggests that firms need to adopt a more sophisticated approach to channel management and that rather than resort to a crude 'carrot and stick" approach they should attempt to form long-term partnerships with their channel counterparts based on, amongst other things, a thorough understanding of their support requirements. The literature is replete with potted histories and mini case studies of firms that have reportedly benefited from a partnership approach (e.g. Buzzell and Ortmeyer 1995, Frites 1996, Johnston and Lawrence 1988). Equally, there are many articles offering managerial guidelines for partnership success (e.g. Narus and Anderson 1986, 1987, Magrath and Hardy 1987). Research, however, has suggested that partners do not always agree about the benefits of partnership arrangements (Spekman *et al*. 1998). Authors have also argued that channel partnerships are a far from universal phenomena (Frazier 1999, Frazier and Antia 1995, Nevin 1995). As well suggesting various typologies of channel relationships ranging from discrete to more collaborative exchanges, these authors suggest that more work needs to be done to identify conditions favoring their formation.

Despite these valuable contributions, there have been strong calls for more qualitative research to develop an understanding of what firms in the real world are doing to manage their channel relationships effectively (e.g. Weitz and Jap 1995, Frazier and Antia 1995). Although, some studies have emerged the majority have focused on success factors (e.g. McQuiston 2001). Few, if any, have sought to identify the barriers or difficulties that channel members need to overcome in order to build and maintain successful channel relationships. This paper reports on a qualitative study that addresses this gap. The research was conducted in the context of the provider-intermediary relationships in the life insurance sector.

Methodology

Before discussing the research design and method of data collection, it is appropriate to outline the setting for the research as this has important implications for the research findings.

Research Context

The research was carried out in the UK life and pensions industry and focused on the relationship between insurance companies and Independent Financial Advisers (IFAs). IFAs are the dominant channel for life and pensions products in the UK, accounting for over 60% of the sales revenue (Datamonitor 2006). Recent estimates suggest that there are some 36,000 registered IFAs in the UK working for 11,500 organizations (Financial Services Authority 2002, Datamonitor 2006). IFAs differ from other forms of distribution such as tied advisers in that they are required to act as the consumer's buying agent rather than as an agent for the seller (Laing 1995). Under the UK regulatory framework IFAs are expected to offer advice based upon the full range of solutions on the market, although for reasons of practicality and cost efficiency IFAs are permitted to operate recommended product lists or panels, provided these are regularly updated to reflect market developments (Bridgeman 1999). In making their recommendations, IFAs are expected to take into account not only whether products are suited to their clients' needs, but also factors such as the insurer's financial strength and, where appropriate, past investment performance (Laing 1995).

The regulatory framework has important implications for manner in which insurers manage their relationships with IFAs. The fact that IFAs are legally independent precludes the use of formal contractual agreements and the application of legal legitimate forms of power. It also limits the types of reward that insurers can deliver to the channel. The regulations, for example, expressly prohibit the use of any kind of reward that might be perceived as a selling inducement (Bridgeman 1999). Sales contests, overseas conventions, free computer equipment or anything of that nature would therefore be hard to justify. However insurers are allowed to offer training and business development support, the only stipulation being that this should be made available to all IFAs. Many insurers augment their product offerings by providing a variety of “value-added services”. Typically, these can include training to help develop IFAs’ business skills, help with professional exams and seminar programs to keep IFAs up to date with product and industry developments. Some also offer direct and database marketing support to IFAs, although joint promotional activities tend to be restricted to certain classes of product (e.g. so called “execution only” products, where there is no need for consumer advice).

Research design and data collection

This paper is based on research carried a part of a doctoral thesis, which examined insurers’ management of independent channels of distribution. A qualitative research methodology was adopted reflecting the desire for exploration and theory generation as opposed to theory testing. Qualitative approaches are particularly suited to inquiries of this nature (Robson 2002). The data presented in this paper was gathered from a series of semi-structured interviews conducted with senior sales and marketing representatives from 18 UK insurers. Sampling was purposive, with companies chosen to reflect a range of different sizes of organization and product specialisms. Some companies selected were large, multi-product, general insurers and thus illustrative of what is increasing becoming the norm within the insurance industry. Others were single product companies (protection specialists) or smaller generalist firms, who are finding increasingly difficult to operate in a highly competitive market. Traditional mutual insurers were also included in the sample. This strategy resulted in the selection wide variety of cases and is consistent with what Patton (2002) terms maximal variation sampling. The sample profile is shown in Figure 1, below.

Company	Type of Insurer	Location of Interview
Insurer 1	Large general insurer	South West
Insurer 2	Large life and pensions firm	Scotland
Insurer 3	Large mutual insurer	South West
Insurer 4	Large general insurer	Scotland
Insurer 5	Large life and pensions firm	London
Insurer 6	Small mutual life insurer	Scotland
Insurer 7	Large life and pensions firm	Scotland
Insurer 8	Large life insurance specialist	Scotland
Insurer 9	Medium sized general insurer	North West
Insurer 10	Medium sized general insurer	South Wales
Insurer 11	Medium sized life and pensions firm	South West
Insurer 12	Small life insurance specialist	South West
Insurer 13	Large life and pensions firm	South East
Insurer 14	Small mutual life and pensions firm	South East
Insurer 15	Large general insurer	North West
Insurer 16	Large life and pensions form	Scotland
Insurer 17	Large mutual insurer	Scotland
Insurer 18	Large general insurer	South West

Table 1: Profile of firms participating in the study.

Company names, respondent job titles have been removed to preserve commercial confidentiality. The location of firms interviewed is a reflection of the geographical spread of UK insurers and is not indicative of any particular geographical bias.

The interview protocol was designed to explore interview participants’ views and experiences of the process of developing, maintaining and managing their relationships with IFAs and the difficulties and challenges they faced in attempting to do so. All interviews were transcribed prior to analysis and then subjected to content analysis to reveal key patterns, themes and relationships.

Results

Table 2, below, highlights some of the preliminary findings.

	Factor	Explanation/Examples
Factors internal to the insurer firm	*Unsupportive organizational culture and climate*:	Sales staff who are very product/technically and sales focused rather customer and relationally orientated; Staff in support departments who are production–orientated (rather customer and relationally orientated: e.g. focus on how to efficiently process policy payouts rather than ways to extend the relationship.
	Staffing issues	Staff changes, mishandled hand-overs.
	Misaligned organizational processes	The results suggest that development of good quality relations may be inhibited where products, internal processes (e.g. commission payment arrangements) or servicing arrangements (telephone vs. field based) don't meet or insufficiently flexible to meet the IFA's needs/wants.
	Inter-departmental rivalries and barriers;	A sales department that jealously guards its "ownership" of IFA relationships to the exclusion of others and therefore not all relevant resources are being bought to bear on the relationship.
	Structural barriers	An organizational structure that is delineated primarily by functional responsibility and efficiency concerns rather than the around the needs of particular key accounts. A lack of cross-functional team working.
	Contact management strategy	E.g. use of call centers where face to face contact favored
	Misaligned incentive structures	Incentive systems that reward new business generation rather than relationship development and maintenance.
Factors external to the insurer firm	*IFAs don't want to engage in relationship*	An IFA which is heavily price focused and is happy to "play the market"; Someone who's not interested in insurers' services beyond the basic elements: quotes and illustrations;
	Contact patterns	Lack of personal contact/reduced opportunities for face-to-face contact.
	Insurer reputation	IFA and insurer findings indicate attempts to build IFA trust may be hampered by their reputation in the marketplace: e.g. where an insurer has had persistently poor levels of administrative performance.
	IFAs' past experiences	Allied to the above relations and trust may be difficult to build owing to the fact that an IFA has had a bad experience

	Factor	Explanation/Examples
		with an insurer in the past or a member of staff.
	Strength of an IFA's existing relationships	It may be difficult to establish relations with an IFA who is strongly "wedded" to his/her preferred providers.
	Resistance to change	Covers a multitude of issues including an insurers' perception that some IFAs' were unwilling to adopt new technologies and accept alternatives to face-to-face contact.
	Power/dependence balance within the relationship	Results indicate that insurers' attempts to develop and maintain co-operative, good quality relations with IFAs *might* be hampered by an imbalance of power-dependence. Insurer results suggest that this likely in relationships where the power/dependence is heavily weighted in the IFAs favor and those individuals or firms attempt to exploit their more powerful position by demanding price concessions.

Table 2: Preliminary findings

Discussion and conclusions

Preliminary analysis of the finding has revealed a number of themes highlighting issues both internal and external to the insurer. Further work will be carried out to identify the relative significance of these issues.

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