

Relational Effects on Electronic Channel Relationship Development: A Giftware Manufacturer-Retailer Case Study

*Mary T. Holden
Waterford Institute of Technology,
Waterford.*

*Tom O' Toole,
Waterford Institute of Technology,
Waterford,
Ireland.*

*'Phone: +353 51 302026
E-mail: totoole@wit.ie*

Abstract

The rapid integration of information and telecommunications technology is facilitating the electronic flow of information across organizational boundaries. Most inter-organizational relationships have an electronic component often referred to as an inter-organizational information system (IOS) (see Suomi, 1994). This paper concentrates on relational effects on the development of integrated electronic relationships. Specifically, we report on a case study of a branded manufacturer of giftware and one of its retail partners. The core process found to affect the evolution of the electronic relationship was that of communication which includes information exchange patterns. Our main conclusion is that while operational benefits from IOSs are deliverable in many instances further benefits only occur where a relational structure facilitates their exploitation.

Introduction

Research into the managerial implications of the impact of information technology on inter-organizational structures is extremely limited (Frazier, 1999). Moreover, within the channel literature there has been relatively little research on how information technology (IT) affects channel relationship structures. The perspective of this research is a governance one: what effects, if any, do governance structures in a relationship have on the development of inter-organisation information systems, or in this case, an electronic channel relationship (ECR)? Therefore, this research should not only enhance the current channel literature, but should also provide business managers with a practical understanding of the possible relational effects in the development of an electronic channel relationship. This should enable them to consider relationship and technology strategy side by side.

A major component of channel exchanges is based on human interaction that can be communicated verbally or non-verbally. Hence, behavioural norms are an integral part of exchange theory. There is a preponderance of academic thought and research into the principal constructs of inter-organizational relationships which influence relationship quality and intensity such as trust, commitment, cooperation, satisfaction, dependence, and longevity. These relational constructs are finger printed by the partners' pattern of communication. Communication and information exchanges in a relationship are key interaction processes. They predicate the state and stage of other interaction variables. The metaphor 'oil the

machine' might be apposite to describe the effects of them on the relationship. Furthermore, communication patterns are evident even in discrete relationships where there is some human interaction albeit minimal. Cunningham and Tynan (1993: 13) captured the importance of communication to all relationships in the following quote: "*inter-personal* relationships of one sort another underpin all business transactions". Dwyer et al (1987: 17) support communication as a fundamental relational process: "...a relationship seems unlikely to form without bilateral communication of wants, issues, inputs, and priorities". Through our analysis process, communication was identified as the central relationship process that influenced the evolution of the electronic channel relationship in this case. This paper returns to communication and information issues in its discussion of the findings.

Contextual Setting

The methodology of the case study involved interviewing most of the individuals participating in the channel relationship using a semi-structured questionnaire. It also involved a comprehensive on-site customer service study. On the retail side, the five people involved with the account were interviewed. The researcher had full access to the manufacturer who is a partner in the research. The average duration of the interview was one hour. The questionnaire covered the core relationship constructs and IT development.

The focal case is one of several case studies investigating the possible relational structural influences on the development of electronic channel relationships. The case reported here is from a manufacturer of giftware and through the cooperation of one of its top five retailers in a geographic region that accounted for 38% of its sales in 1998. IT and telecommunication integration in this channel is limited to a sole electronic data interchange (EDI) link, implemented approximately one and a half years ago, and neither the retailer nor the manufacturer have an EDI link with any other channel at the time of writing. The EDI link used is a computer-computer medium (see Cunningham and Tynan, 1993) which in this case facilitates product ordering and electronic funds transfer (EFT). Most of the communication and information exchange in the relationship is by telephone to the customer services centre with the manufacturer's representative being the second most used medium.

Much has been written in the literature on the nature of relationships with some academics aligning them along a continuum (Clemons et al, 1993; Robicheaux & Coleman, 1994). Drawing from rationale presented by O' Toole and Donalson (2000) who attempted to classify a range of structural types, and as evidenced by our research, the case relationship is classified as recurrent as the focus is more on operational issues than strategic ones even though the relationship is strong. There is a very strong bond between the partners due to longevity and dependency. The retailer's account with the manufacturer is well over twenty years old. Furthermore, relational dependency is mutual: the retailer is one of the manufacturer's largest national accounts and the manufacturer's product is the retailer's largest seller.

Transactions are continuous between the partners, and both channel members negotiate through conflicts in order to expedite stock turns between the manufacturer-retailer-consumer. Both partners believe that problems will be solved in the relationship. Furthermore, to facilitate the flow of product, cooperation and commitment are high. The manufacturer has invested in shelving and in floor sales staff for the retailer. The retailer in turn has given priority to the manufacturer's products. The commitments and assets developed specifically for the relationship appear to have been built on the basis of tradition

and are aimed at solving operational issues. It is in this scenario that IT and telecommunication integration in the channel is evolving. In general, information technology and telecommunications have become composites, hence, for the purposes of this paper, we discuss them under the umbrella term of IT.

The case takes place in the background of unprecedented demand for the manufacturer's product. Supply has been a continuing problem for at least the past three years - the manufacturer cannot meet robust demand. It was particularly bad two years ago and although better last year, supply still fell well short of demand. The retailer in question is prioritised and supply problems, while still evident, are being matched through closer co-operation in demand forecasting between the partners. To compound the supply situation, a new manufacturer's sales management team was put in place approximately two years ago - two of the main principles were new to the giftware industry, and the retailer has changed buyers twice in the same time period.

The impetus for the introduction of electronic ordering came at the insistence of the newly appointed buyer who, due to the prodigious product choice (up to two days to complete an order with the manufacturer's representative), insisted on an EDI link to which the new national account manager immediately concurred.

Discussion

Case interviews revealed that relational constructs have been negatively impacted by perceived inadequate communication processes, such as manufacturer's non-response regarding promotions, repeated requests for promotional aids, national account manager's sporadic and fleeting visits, and lack of consistent and reliable information concerning several matters such as the supply situation and the introduction of new products. The perception of weak communication effects is also held by the manufacturer who is less than happy with the buyer's response to their requests. However, ongoing communication difficulties are not perceived uniformly across those interviewed. Sales consultants consider that the lack of communication between the partners has negatively impacted their professional status as perceived by end-consumers. Also, they consider the communication paucity as a disservice to end-consumers. Furthermore, the present buyer, although hoping for 100% supply, was more disturbed by the manufacturer's communication deficiencies.

IT integration did enhance relational communication processes which, in turn, positively impacted relational norms. However, the present buyer who was appointed post-IT integration (hence her evaluation position is unaffected by a pre-IT relationship conception) perceives that both inconsistent and inadequate communication flow exhibit a lack of manufacturer interest in the retailer's account. Both retailer and manufacturer are undergoing major changes and, in this context, it appears to be the sharing of information rather than an inherent problem in the relationship that is at issue. The communication issues are all related to operational issues and have not, to date, undermined the dependence of both partners. The manufacturer's main technology objectives are: (1) to sharpen product forecasting, and (2) to provide accurate and timely information to retailers on product order/delivery status. The retailer shares these objectives yet sees technology only as another dimension to their communication processes, important, but not as important as person-to-person communication. In our case analysis, we found that, as propounded by Duncan and Moriarty, relational constructs, such as trust, commitment, satisfaction, cooperation, would appear to be

"products of communication" (1998: 3) as communication is the central relationship process that is influencing the growth of the ECR in this case.

Conclusion

The partners have taken an initial step in an ECR development: EDI integration that is facilitating the information exchange processes of ordering and electronic transfer of funds. In parallel to the business relationship, the development of the ECR appears to be dominated by operational rather than strategic issues. Yet there are non-partner elements in the ECR relationship as both partners are independently implementing new internal IT systems, which will impact the ECR, in order to fully electronicise back-office procedures and realize accurate and real-time information for strategic development.

Both partners want information exchanged through consistent and reliable communication processes: one dimension of which can be facilitated by the development of an ECR. However, the value of these interactions appears to be more important to the retailer, as indicated twofold: (1) by both partner's IT implementation plans: the retailer within the next year is implementing a highly integrated IT system incorporating their three national shops and major suppliers, whereas the manufacturer is implementing more IT integration in order to meet some of the retailer's communication needs; (2) the retailer seeks more personal contact - technology seen as only a facilitator to the personal communication processes whereas the manufacturer continues to stretch rather than enhance and coordinate limited human resources.

Communication patterns were found to be the core relational effect on electronic channel relationship development in this case. Communication appears to both mediate and have a determining effect on the development of an ECR. Communication exchanges are more than a tool to improve channel effects (Mohr et al, 1999). The preliminary stage of an electronic channel relationship, as observed by the researchers, appears to parallel the business relationship as it is - initial joint EDI implementation to facilitate communication processes; an independent development of internal systems; and possible further ECR development through web-technology - and, most importantly, sets boundaries to what can be achieved in the electronic channel context.

In the future, the partners may move to a more highly integrated ECR stage. However, the shape of this will be strongly influenced by relationship communication patterns. To realise the strategic benefits of an ECR, the partners may have to change the relationship structure. Indeed, incorporating relationship analysis into ECR development and planning should enhance the benefits to both partners.

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