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Functions of middlemen in Distribution Networks

ABSTRACT

This study deals with so called middlemen or intermediaries and the functions they perform with regard to various counterparts. There is a special interest in exploring a 'middleman's' functions with regard to its counterparts in terms of suppliers and customers, and how these functions are developed and changed over time. This is illustrated through a single case study which presents a middleman in the mobile telephone industry and how they take on very different functions towards diverse counterparts such as customers, suppliers and other partners

Keywords
Distribution, Industrial Network Approach, Functions, Middlemen

INTRODUCTION

Middlemen in retrospect

The concept of a middleman and what such an actor does has continuously changed through history. According to Alderson (1954:6) 'in a primitive culture most of the goods used within a household are produced by the members of the household'. Later on it was discovered that 'some of the needs of a household or a tribe can be met more efficiently by exchange than by production.' (ibid) This is explained by the gains that can be achieved by specialization as explained by Alderson (1954:6-7): 'One family might be more skillful that another in making pots, while the second might be more skillful in making baskets….If both families produce a surplus of the article they can make best and then they engage in exchange, both may get better quality goods at lower costs.' Shaw (1912) argues that middlemen first appeared in the Middle Ages. When handicrafts become more specialized, the producer himself took on a retailer role at town markets, selling his products to consumers directly. When the market expanded, specialization was necessary and the "merchant appears as an organizer of the market". (Shaw 1912:725). And the producer, the handicraftsman, did no longer involve himself in the actual selling to consumers. As the market widened, other levels of middlemen were added, including wholesalers, or distributors, and retailers selling to consumers. The basic idea for the inclusion of a middleman is to make the process more efficient by reducing the number of necessary exchanges among buyers and sellers of goods (Alderson 1954). They create utilities such as time, place and possession utility (Alderson 1954). This is accomplished by the performance of a number of functions performed by the middleman. According to Shaw (1912:731), these functions are: (1) sharing of risk; (2) transporting the goods; (3) financing the operations, (4) selling; (5) assembling, assorting, and re-shipping.

"These functions were at first taken over by areas, that is, each successive middleman in the series took over a part of each function." (Shaw 1912:731). According to Chandler (1977) these actors, referred to as 'grand distributors', dominated the time from the 16th century until the industrial revolution in the late 19th century. "He bought and sold all types of products and carried out all the basic commercial functions. He was an exporter, wholesaler, importer, retailer, ship-owner, banker and insurer." (ibid: 15). An increasing specialization by function appeared in the mid 19th century. Shaw refers to these new specialists as functional middlemen, e.g. insurance companies, transportation firms, and banks. Interesting to note is that Shaw (1912:732) argues that "The insurance company is in a real sense a middlemen in

distribution". And similarly, "The transportation companies and the express companies are in a true sense middlemen in distribution, though they perform but one of the functions formerly shared by the successive middlemen who took over functions by area. The physical conveyance of the goods to the consumer was formerly one of the most important functions performed by a series of middlemen" (ibid.) Furthermore, as pointed out by Chandler (1977:15) "Merchants had began to specialize in one or two lines of goods: cotton, provisions, wheat, dry goods, hardware, or drugs. They concentrated more and more on one function: retailing, wholesaling, importing or exporting." Furthermore, Bucklin (1960) argued that production should be included in the distribution functions since production costs are often hard to separate and closely related to distribution costs.

The specialization with regard to functions, or activities, seems to have slowed down as argued by Herbig and O'Hara (1994:199): "The industrial distributor is a full service intermediary who performs a broad range of marketing functions between industrial manufacturers and industrial 'end-users'. The distributor contacts customers and makes the product available by providing necessary supporting services such as delivery, credit, technical advice, repair, service, assembly, and promotion."

In recent times the setting for companies has continued to evolve in a fast pace resulting in new ways of working. Specifically, changes related to information structure, technological development, specialization and internationalization have had large impacts. Related to the information structure, the introduction of the Internet induced a need for change (Pitt et al., 1999). In this new setting manufacturers wanted an increased proximity to buyers and the customers in turn wanted access to the products and middlemen through the Internet. This put emphasize on the middlemen to change their way of working (Morris & Morris, 2002). E-commerce coupled with globalization has resulted in a consolidation of actors and also pressured intermediaries to evolve (Mudambi & Aggarwal, 2003). Moreover, technological advancement reduced the need for large intermediate inventories and instead favored an increasing use of small batch sizes (Herbig & O'Hara, 1994). As a consequence, the actors needed to adapt to a more flexible and customer specific environment. Furthermore, the increasing internationalization of actors in the network also resulted in a changing environment to relate to. (Hagberg & Andersson, 1997; Andersson, 2002; Swoboda, 2008). Companies have also increased their outsourcing and become more specialized on certain activities. These outsourcing initiatives lead to changes in the distribution structure and increased the need for coordination (Gadde, 2008). It also meant that other companies could in-source activities that had been outsourced by other actors. These changes put new demands on companies within a distribution network; it is crucial to continuously relate and adapt to change and to organize the way of working towards different counterparts in a way that fits the wider network and its dynamic nature.

The aim

As we can see there has been a development over time in the concept of what a middleman does. It has evolved from the early grand distributors performing everything to becoming more specialized actors focusing on core activities. Today we are seeing changes to the way business is organized; the clear boundaries between actors that we see in textbooks are becoming blurred. Defining actors based on one type of activities such as distributors and retailers are becoming less applicable because the activities that traditionally were solely associated with distribution or production are now often overlapping (as an example from the PC-industry see Hulthén, 2002). Furthermore, there seems to be a prevailing view on the

middlemen to be the manufacturer's extended arm that needs revising. Together, these arguments created an interest in studying further what a middleman in today's business setting actually does. And as much of the previous discussion about the workings of middlemen has revolved around the concept of functions, it seemed a natural starting point for trying to understand these type of actors in this study.

Consequently in this study, there is a special interest in exploring a middleman's functions with regard to its counterparts in terms of suppliers and customers, and how a variety of these functions are managed concurrently.

The focus of interest lies on one specific type of actor, the so called middleman. In this study this actor is defined as one that acts in between a supplier of products on the one hand and an organization buying these products, either for using them in their operations or selling them further to private or industrial users, on the other hand. Each middleman works with a number of counterparts on the supply side as well as on the customer side. The middleman will perform different functions towards different counterparts. Furthermore, the uses of these functions change over time when new opportunities emerge.

ANALYTICAL FRAMEWORK

In this section the framework that will be used in the study will be presented.

Middlemen and the functions of Distribution

The topic of distribution revolves around a central theme, which is the question of how to bridge the gap between production and consumption. In the effort of bridging this gap there are a number of various business actors involved. These are often categorized into producers, middlemen, consumers and other actors. Other actors include such firms that are either directly or indirectly influencing the other actors which could be transportation companies for example. There can be a number of middlemen situated in between the producers and the consumers. For example, a producer can sell to a wholesaler who in turn sells to a retailer who owns a physical store where the consumer can access the products. Consequently many types of actor's fall under the category of middleman but the thing that they have in common is that they are situated in between a producing context on the one hand and a using context on the other.

Alderson (1954) in his work, talked about the discrepancy of assortments and that there is a need to balance heterogeneous demand with heterogeneous supply and that between these there was an imbalance or a discrepancy in these assortments. This has to do with the difference in context of production and context of use, the assortments that a producer creates are not suitable for the users of the products. The producer tries to pool products together according to a production logic, in what combination can we utilize the machinery to greatest extent, i.e. logic of economies of scale, whereas the retailer will try to pool together products based on a use logic. For example, in a production facility a kitchen knife may be produced together with a carpet knife whereas in the retail store the kitchen knife will be pooled together with other kitchen utensils and the carpet knife will be sold in another retail store focused on home improvement. According to Alderson (1954) this 'principle of the discrepancy of assortments' explains why the marketing channel is often divided into independent actors performing different distribution functions. This is because the logic prevailing in one instance is different and requires different assortments at a different scale than in another instance. The middleman, in turn, arises because of their ability of making the

inevitable transactions between independent actors more efficient. They do this by creating time, place and possession utility. As an example, time utility can be generated by storing seasonal goods, place utility can be generated by transporting goods and possession through assimilating risk of ownership.

Jensen (2009) categorized Alderson's discussion about the economical rationale for using middlemen into four headings: reduction of business ties, scale advantages, specialization and risk redistribution. First, by introducing a middleman instead of direct transactions between numbers of actors the total number of transactions needed can be reduced. The amount of reduction is a mathematical function that increases as the number of actors in the system increases. Seeing as business relationships can be costly, due to meetings, events, order costs for example, a reduction will lead to a more cost effective system. When it comes to scale a middleman can gain advantages compared to a single actor because of their ability of aggregating several actors demand. Rather than each actor negotiating and ordering from a supplier a middleman can pool the demand together and as a single large actor negotiate with the suppliers and thereby acquire a better position. Another aspect of scale is that the activities can be performed at a more fitting scale for the specific activity. An example can be a truck load which might only be filled half way for one actor but by pooling two actor's demand, a middleman can fill the entire truck and thereby acquire a better efficiency in the distribution. Furthermore, a middleman can provide task and skill specialization by focusing on a certain type of activities e.g. warehousing. By focusing and improving the competence in those activities they can perform better than an actor involved in a multitude of activities. Finally, risk redistribution revolves around three aspects: the shifting of risk, pooling or hedging of risk and the elimination of risk through control of the operating situation (Alderson, 1954).

When talking about middlemen there are several different types usually mentioned, and they differ in terms of taking title to the goods, eg. merchant middlemen, or not eg. agent middlemen. For example wholesalers and distributors are taking title to the product but other actors such as transportation companies are also seen as middleman but in this case they are not taking title to the products, they are instead facilitating the transfer of products. In order to classify what a middleman does distribution literature mainly discusses the various types of functions that they perform. According to Mallen, (1973), "Marketing functions are the various types of job tasks which channel members undertake. These functions can be allocated in different mixes to different channel members". Shaw (1912; 731) lists a number of functions performed by the middleman. These functions are: (1) sharing of risk; (2) transporting the goods; (3) financing the operations, (4) selling; (5) assembling, assorting, and re-shipping. Depending on what functions an actor are performing, they are labeled as a certain type of middleman. Distributors for example share risk, they order and sell products, can be involved in repacking and assorting as well as financing. Third party logistics providers on the other hand are mainly focused on transportation and warehousing. In literature there are many examples of distribution functions and even though they vary there seems to be a rough general understanding on what constitutes as a distribution function. Clark (1922) for example has a similar view to Shaw (1912) with the difference that he has chosen to categorize them into three major functions: exchange functions (buying and selling), physical distribution functions (storing and transportation), and facilitating functions (financing, risk-taking, standardization and market information).

For a firm the considerations of its functions are of strategic importance since it closely relates to aspects concerning exploitation of resources and efficiency. Herbig and O'Hara

(1994:199) talks about a middleman in charge of a full range of distribution activities much in line with the view of middlemen put forth by Shaw (1912) and Clark (1922): "The industrial distributor is a full service intermediary who performs a broad range of marketing functions between industrial manufacturers and industrial 'end-users'. The distributor contacts customers and makes the product available by providing necessary supporting services such as delivery, credit, technical advice, repair, service, assembly, and promotion." Since then there has been a change to the way business is conducted and what is being seen is an increasing specialization in terms of what functions actors are performing. The introduction of the Internet has had implications for the way information is handled and also enabled increased information sharing across company borders, paving the way for an increased specialization by functions. We see examples of actors specializing in warehousing operations (see Faber et al., 2002), logistics and transportation (Carbone and Stone, 2005) and a new type of information broker (Clarke and Flaherty, 2003). This increased specialization could perhaps be explained to a certain extent by the logic of task specialization as presented by Alderson (1954) and discussed above.

The structure of distribution

Bucklin (1960) objects against the common way of defining functions in distribution, he argues that "[the literature of marketing] is replete with articles which attempt to analyze marketing work into cohesive categories. Unfortunately, there has been little agreement among the proponents of this concept as to how many functions there should be or which activities each should encompass". It is difficult to categorize business; there are always peculiarities in every situation or context. Bucklin's reasoning points to the need of something more fundamental than to define a new set of functions for each new job task that is identified. In his attempt at reaching a more generally applicable description of distribution systems in terms of marketing functions, he provides a definition of what criteria that needs to be met in order to qualify as a marketing function:

1. "The activities included in each function must be so related as to make it necessary for some firm to organize and direct the performance of either all or none of them.

2. The activities must have sufficient scope as to make it possible for the firm to specialize in them to the exclusion of all others.

3. The activities should incur substantial costs.

4. Each marketing activity must be placed in one function and in one function only. "

The requirement on the activities in Bucklin's (1960) conceptualization is that they have to be sufficient in scope and also uniquely identified with one function only. This would presumably lead to fewer but broader functions than the ones commonly used and which was described above. From this reasoning, Bucklin (1960) proposes the use of five fundamental functions that is involved in the marketing process: Transit (T), Inventory (I), Search (S), Persuasion (P) and Production (Pr). A distribution system can then be described by the use of these functions, rather than using labels such as producer, distributor or retailer. Each actor is instead represented by parentheses encapsulating various marketing functions that they are performing. The aspect of interest is how the structure in terms of the marketing functions are aligned and optimized. The actor boundary is added on top. As an example of Bucklin's proposed visualization of the structure of distribution see figure 1.

(PrITSP)→(SITSP)→(SISP)←(STIC)

Figure 1 Manufacturer, wholesaler, and retailer are symbolized using (PrITSP)→(SITSP)→(SISP) whereas (STIC) is symbolizing the consumer. (Bucklin, 1960)

In a similar way Mallen (1973) also discusses the need to refocus on the actual activities or functions being performed when studying distribution arrangements. He discusses a framework for analyzing the 'distribution' of functions amongst channel members through looking at the cost curves for individual functions. This conceptual thinking highlights the importance of analyzing business from a standpoint of the individual functions being performed rather than employing an ownership boundary focus where individual actors labeled distributors, manufacturers etc. are put in focus. In order to reach an understanding on what the optimal distribution arrangement is or why certain functions are spun off (outsourced) and others are retained, Mallen (1973) claims that there is a need to investigate the costs for each individual function and then summarize these in order to reach the total cost curve for each actor. Some functions will have a decreasing cost curve as volume increases whereas others will behave in the opposite way which is why, when looked at individually, the reason for retaining functions in-house or deciding to outsource will become clearer. Functions with similar cost curves will be more complementary to each other and gain from the same effort of either increasing or decreasing the volume. Still it is important to remember that "that functions are not independent but are interrelated. Therefore, the spin-off of one function could have repercussions, up or down, for the cost of one or more other functions." (Mallen, 1973).

Another similar view comes from Andersson, (1992) who discusses the issues of structure of marketing systems and how, in order to understand how they work there is a need to see beyond the ownership boundaries. "Put in a channel or marketing system context, the ideas of patterns of loose and tight coupling can help to describe, analyse and develop models of, for example, large global distribution systems, where tight couplings "within" and loose couplings "between" systems do not necessarily coincide with the boundaries shown in traditional theoretically developed models of "type channels" (Andersson, 1992, p. 56). Again there is an emphasis on the fact that individual systems and not ownership boundary defined actors should be the focus to understand the structure.

Furthermore, Stern & Brown (1969) brings up another interesting definition and conceptualization of distribution structure. They limit themselves to speaking of the commercial channel which ends before the consumer and starts after the producer. "Specifically, the commercial channel of distribution can be conceived as a structure of institutions and agencies accepting form utility and various resources as inputs from the environment. By the performance of the marketing functions, it converts the physical form to a "complete" product containing time, place, and possession, in addition to form, utility which the channel returns to the environment as output" (Stern & Brown, 1969). It is interesting to note that the authors state themselves that they acknowledge that there really is no boundary between the channel and the task environment but that it has been placed there arbitrarily for convenience. A decision in order to make it more user friendly one might imagine. This definition stands in stark contrast to the one put forth by Gadde & Håkansson: "The functions of a distribution channel in themselves constitute a complicated activity structure. However, this is only a minor part of the total activity structure. The activities in the distribution channel are preceded by activities in the production process and they are followed by various consuming activities. These activities cannot be viewed in isolation"

(Gadde & Håkansson, 1992). This has an effect on how you investigate or explore the structure of distribution systems. You need to consider the producing functions as well as the consuming functions in order to understand why the distributive functions are arranged the way they are. This extends the focus and requires the inclusion of the producing activities as well as those of the consumer. A point that the author's make is that in this way conceptualizing distribution structure more emphasize is given to after sales-activities concerning use and maintenance. This is an important consideration since the return logistics and environmental as well as social concerns have become increasingly important.

The view on middlemen

Actors involved in distribution have often been categorized depending on the performance of some specific activities, often referred to as marketing or distribution functions or as stated by Mallen (1973:22): "part of the definition of a middleman depends on the functions he performs". In line with this, the actors involved in distribution have been defined in terms of what 'distribution functions' they are performing, for examples distributors, resellers and retailers. In 1960 McVey pointed to the problematic side of such a categorization, arguing that 'almost any wholesaler will do some business in retail; similarly, it is not uncommon for a broker to find himself holding title to a given lot of goods, thus becoming temporarily a merchant middlemen.' (McVey 1960:61-62). Along the same line Rosenbröijer (1998) shows that middlemen are very different to their character due to diverse capabilities in terms of heterogeneous resource mixes. So, one major problem with this conceptualization is that each actor is identified with only one function, for example reseller. This consequently limits the possibilities to consider each actor as performing multiple functions. Instead it might be more beneficial to relate an actor to a set of functions. This is similar with Snehota (1990) who argues that actors instead should be described in terms of different 'role sets'.

Rosenbröijer (1998) further argues that the specialization in the actor structure has been developed much further in practice than this kind of conceptualization captures. Consequently, these "…concepts have delimited our opportunity to observe the real complexity that exists in the modern distribution channels…". Furthermore, a number of studies (e.g. Tunisini, 1997, Rosenbröijer, 1998, Hulthén 2002) show that the functions performed by actors traditionally referred to as producers, distributors, resellers, and even consumers, are often overlapping.

Another issue is that the view of middlemen very much has been dictated by its role as working on behalf of a producer. This becomes very evident in textbooks on marketing, something identified by McVey (1960:62) arguing that readers are led to conclude that '(a) middlemen of many types are available to any manufacturer in any market to which he wishes to sell, and within each type there is an ample selection of individual firms; (b) the manufacturer habitually controls the selection and operation of individual firms in his channel; and (c) middlemen respond willingly as *selling agents* for the manufacturer rather than as *purchasing agents* for a coveted group of customers to whom the middlemen sell.' Also in contemporary textbooks this picture is valid, for example concerning 'channel design' discussing how producers should design their channels of distribution by selecting different types and levels of middlemen (see e.g. Hutt and Speh 2010, Dwyer and Tanner 2009, Biemans 2010), or that middlemen "represent very different abilities to execute a manufacturer's marketing and sales program" (Gorchels et al. 2004). This leads to a view on the middleman and what they do in terms of functions that is seen from the producer's perspective. The producer decides and uses the middleman to reach its customers, see fig 1.

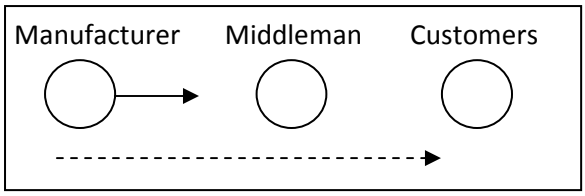

Figure 2 Traditional perspective

In contrast to this reasoning Gadde & Håkansson (1992) takes another approach to distribution functions than that previously discussed. They take their starting point from the end points of the distribution chain and identify three separate categories for producer activities and for consumer activities. 'Product realization', 'consumer influence', and 'physical transfer' are the categories related to the producer whereas 'procurement', 'regular use', and 'maintenance' are related to the consumer side. All activities in a channel can then be analyzed and described in how they in turn influence these categories. An important implication is that the demand for functions that the middleman is expected to perform will not only originate from the producing side but from the using side as well. The middleman will work as a connector of actors, both manufacturers and customers. His interest will be in providing value for all of these counterparts, see fig. 3.

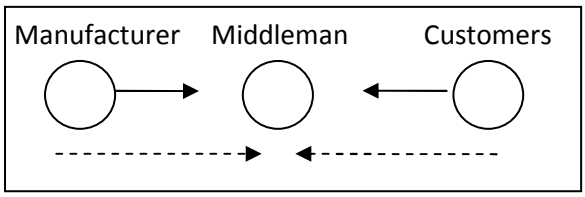

Figure 3 A revised perspective

A network perspective on the functions of middlemen

As indicated before, in today's business environment the boundaries between different business actors are not as clear as was the case 50 years ago. For example, it is common that producers outsource production to contract manufacturer and that logistics providers and distributors are taking over assembly activities. Some authors (e.g. Gadde and Ford 2008) have called for a network approach to distribution, in order to get away from a too simplistic view of distribution reality. In line with the previous discussion about the increased specialization of business actors, today's business environment is more network like consisting of interlinked specialized actors. This will lead to an increased need for coordination since the activities that were previously performed by a fewer number of actors still need to be performed but instead by a larger amount of actors. "You can eliminate the middleman but you cannot eliminate his functions" (Stern and Ansary, 1982: p.13). This increased coordination between an increasing amount of actors leads to a complex network of business firms who are linked together in various forms of relationships. These relationships are necessary to further the coordination that is needed. So rather than a number of isolated distribution channels with sharp delimitations among producer, middlemen and customers, we are seeing a complicated network of business actors.

For this reason a network perspective is applied. More specifically, the point of departure is the Industrial Network Approach (see e.g. Håkansson and Snehota 1995). It relies on three main building blocks: actors, activities and resources. Actors control resources and perform activities. Activities make use of resources for their undertaking. Business actors are

connected through relationships that in turn are connected into networks. In reality these three dimensions are not separate but in fact closely related, but it is helpful from an analytical standpoint to look at them separately. The network imposes restrictions and offers opportunities for the firm's actions (Håkansson et al., 2009). The important fact is that to understand a company and its decisions etc. there is a need to analyze the network and its position in that network. No company is able to act on their own without considering the actions of their counterparts. A central feature is the interaction that goes on between companies, "it is not what happens within companies but what happens between them that constitutes the nature of business" (Håkansson et al., 2009). In such a view an actor can be described in terms of its connections to others. A middleman can therefore be described in terms of how it is connected to other actors, both suppliers and customers, and their resources and activities. There are also several other studies that have been conducted within the field of distribution which have used the industrial network approach. As an example one can mention (Jensen, 2009; Hulthén, 2002; Andersson, (2002). By using the industrial network approach and consequently seeing the three main building blocks, will have an effect on how we view functions. If we look back at the discussion of the functions in the previous section we can see that for example a function such as "assembling" would entail the use of resources in terms of factories, tools and components. It would entail the performance of activities in actually putting the pieces together, and also actors performing the activities and using the resources. As such any function can be broken down into activities, resources and the actors performing them. These three dimensions will be elaborated on next.

The activity dimension

Any actor working in relation to other counterparts in a network has a set of activities which they can perform. For the middlemen the most obvious relates to assortment, inventory handling, transportation etc. These activities are connected to other individual activities through activity links. The activity links that are presiding within one company are considered the activity structure of that company, which in turn is a subset of the greater activity pattern in the network. All activities that are performed are connected to other activities be it within the activity structure of one actor or between actors in the greater activity pattern. The success or outcome of an activity is dependent on the performing of other activities and consequently all activities are interdependent.

There is a distinction made between three different types of interdependencies and they are serial, dyadic and joint interdependencies. Serial dependencies are illustrated by activities that need to be performed in a specific order; this is then referred to as sequentiality. Dyadic dependencies arise between activities as they are adjusted to each other. The output from one actor serves as the input for the other actor (Håkansson et al., 2009). One activity increases the need for another activity and that activity in turn makes the first activity possible to perform, this would make the two activities dyadic interdependent. Joint interdependencies occur when one activity is dependent on a second activity because they are both related to a third activity (Håkansson et al.,2009). So if the third activity is removed it will affect the ability to perform the first two activities then they are considered jointly interdependent.

When discussing interdependencies and how different activities are connected to each other the concepts of similarity and complementarity (Richardson, 1972) becomes relevant. Activities that are serially interdependent and thus needs to be performed in a stepwise fashion are considered complementary, one activity needs to be performed before the other. Similarity is a concept that relates to the efficiency of performing a single activity from an

economy of scale perspective. Two activities are considered to be similar if they require the same capability for their undertaking. Thus by making use of similarity when developing new functions a middleman can make use of existing capabilities and thereby gain efficiency. But here it is important to remember the balance between similarity and diversity. Any company will try to achieve as much similarity as possible in their activities so that they can benefit from Economies of scale. All the while they need to accommodate an increasing diversity in their customers' demand. These interdependencies in the activity dimension are important to bear in mind since it imposes challenges when trying to change the activity configurations but it can also provide explanations for why it is structured as it is. The last point becomes important for the study at hand in order to understand the current handling of the middleman's activities.

The resource dimension

In order to carry out the activities described above and to be able to intermediate between other actors, there is a need for the middleman to activate resources in the network. Every business relationship consists of activities and resources. The business network is full of resources that are linked together through interaction. An important concept within the industrial network approach is the heterogeneity of resources. The value of a resource is dependent on how it is combined with other resources (Håkansson et al., 2009). This means that the value is different if you combine it with resources from actor A than with actor B. Therefore, the resources that a middleman has will be valued differently depending on which actor, and consequently their different resources, that they interact with. Based on this heterobeneity the concept of resource combinations becomes important. In the industrial network approach they are said to be combined on three different levels. A resource can be combined in a collection of resources inside a company, they can be combined in interaction with a specific counterpart in a business relationship, and finally with sets of resources in the larger resource constellation in the network (Håkansson et al., 2009). Furthermore, a single resource will exist in these three different contexts at the same time which can result in tensions when the needs of different contexts differ. Resources are embedded in a network context where they are continually adapted to other resources in order to improve their joint performance. Resources are always used in combinations with other resources, and, importantly, one resource may be used in several combinations at the same time. Thus adapting a resource to perform better in one combination may limit its ability of performing in another combination. And in terms of an actor handling many functions at the same time in a proper manner, it becomes important to understand the interplay of resources with other resources, both within the company but also across company borders in the relations with others. Resources develop over time and in turn influence the functions that a middleman is able to perform. "The use of resources in different activities may be an initiator of change. Through better knowledge of resources, new resource dimensions can be utilized in new activities or old dimensions can be used in a more efficient way." (Gadde & Håkansson, 1992). By performing a function towards a counterpart and in so doing using certain resources the knowledge of how to work with the resources is increased to a level where the middleman is able to take on new functions.

When discussing resources it is important to keep in mind that the demands and expectations of a resource when it is used differ from when it is produced. These two different settings are referred to as the resource's context of use and context of production (Håkansson et al., 2009). For example when resources are used in production there might be a need for efficient handling, easy to assemble whereas in the context of use it needs to be stylish and durable.

These varying contexts might be in opposition with each other and the constant challenge is to balance the favorable production with the favorable use of the resource. This becomes important to deal with since the definition of a middleman in this study is one that acts in between a supplier of products on the one hand and an organization buying these products, either for using them in their operations or selling them further to private or industrial users, on the other hand. This means that one of the crucial aspects for a middleman is to balance these two very different contexts and connect the producer with the buyer.

One way of investigating the role of resources in the development of new functions would be to make use of the 4R model (Håkansson & Waluszewki, 2002). According to Gadde & Håkansson (2009:p.67) the model "encourages investigation of the interplay between resources themselves and how those resources are affected by being embedded in other resources across company boundaries". The model categorizes resources into four different types: Products, Production Facilities, Organizational units and Organizational relationships. Products are combinations of tangible resources that are produced in some way. These resources can be moved and can therefore be part of several different resource structures. Production facilities on the other hand are more permanent than products but they are still tangible combinations. Production facilities are often controlled by one organization and they serve as a foundation for future resource combinations. Organizational units are the knowledge and skills of individuals that are used to manage different resource combinations. Organizational relationships can be a combination of both tangible and intangible combinations that cross company borders and affect other combinations.

The actor dimension

The actor is the one who controls the resources and performs the activities. A middleman, actor is by definition situated "between" other actors and serves as a "connector" between these. By connecting the resources and activities of different actors an actor bond can be seen as the relationship between the actors. As an actor is not limited to only one counterpart this means that every actor has multiple actor bonds. As all these actors are connected they form an actor web. A single actor is not capable of performing changes to the resources or the activities in isolation of these other actors. Nor does an actor bond exist in isolation of other actor bonds. A relationship between a middleman and a customer is influenced by the relationship between the middleman and another customer, for a decision to invest more in a relationship with the first customer will mean a reduction in effort for the other customer. The same holds true for all the different actor bonds. Hence, the surrounding network imposes changes on the middleman at the same time a changing middleman will impose change on the surrounding network. No actor can achieve change completely on its own; the surrounding actors are constantly restricting the motion of a single actor all the while providing the opportunities for change as well. As a result the only way to develop an understanding of functions of a middleman is to understand the surrounding network. Because, what an actor can achieve is determined by how it relates to other actors (Håkansson et al. 2009).

Positions in distribution networks

Within the industrial network approach the concept of position has been elaborated on by a number of authors. Henders (1992:151) argues that it is "…the position that says that an actor is defined as much by the resources and actors that it is related to through activities as those resources within the legal circle drawn around it. It is the position that states that a focal actor is embedded in its context, whatever it might be, or was, or will be." With this view a firm's

position in a network is defined by how it is related to its network context in terms of a 'set of connections'. Further, it stresses the importance to take what is beyond the formal firm boundary in terms of ownership into consideration as well as what is 'within' this boundary. This further implies that a firm can be illustrated in terms of its position with regard to how it connects its own resources and activities to other firms' activities and resources, directly as well as indirectly. According to Gadde and Ford (2008) an analysis of a firm's position in the context of a network of relationships is required in order to understand the restrictions and opportunities facing a single firm. So network position can be used to understand the alternatives open for a company. Andersson et al (1998) argue that position can be used to understand the stable dimension in networks as it can be used to characterize network structure. However, even though position is not a dynamic concept positions are constantly changing in the network as actors exchange relationships change. The position can hence be regarded as momentary. In line with this, Andersson et al. (1998:169) state that"…it is possible to describe change by comparing an actor's position at time t0 and the time t1."

Rosenbröijer (1998) argues that each firm can be seen as having an intermediary position, which he labels a connector, and which in turn has a 'connector function'. This is in line with Snehota's (1990:154) definition of a business enterprise as a "…transaction entity; a nexus of exchange relationships." In this view the firm can be "…thought of as an entity through which resources can be accessed and made available, through which activities of different actors are linked". In a network context each firm is always related to a number of different firms and no predetermined levels are present as is the case in a conceptualized structure with both vertical and horizontal pre-defined levels such as producers, middlemen, and consumers. Consequently, all actors have a connecting function as long as the actor is connected to at least two other actors. Rosenbröijer (1998:57) argues that "…every firm has a specific and unique connector function". However, an actor is connected to a number of various counterparts, on the supply as well as on the customer side. This implies that each firm will have as many unique connector functions as it has counterparts. This in turn implies that a middleman will be performing a variety of functions towards its different counterparts, both suppliers as well as customers. To conclude, an actor's position is defined as its connections to other actors in terms of how it directly and indirectly connects its own resources and activities to others. Hence, positions describe how a focal actor is embedded in its network of other connections.

Research questions

From the discussion above the following tentative research questions that are to be investigated have been identified:

- What functions can be identified?
- How are similarity and complementarity used in order to manage a variety of functions?
- How are resources combined in order to manage a variety of functions

METHODOLOGY

In this section the methodology of the study will be presented.

Methodology - Research Approach

The approach used in this study can be said to follow an abductive logic, it is an iteration between theory and the empirical reality. The aim of the study is to contribute by developing existing theory concerning middlemen in distribution. As such there is a starting point in theory which will be developed further by studying the empirical world. As empirical facts are gathered there will be a need to go back to theory to revise the framework used in order to explain the things that are found. This process can be explained with the paper by Dubois & Gadde (2002) which label it as 'systematic combining'. This, systematic combining, means that in the process of doing research you start with a preliminary analytical framework based on "preconceptions". As the research continues this framework is continuously developed based on what you find in the empirical data as well as from what your analysis and interpretation of that data tells you. "This stems from the fact that theory cannot be understood without empirical observation and vice versa" (Dubois & Gadde, 2002. pp.555). Also, as seen in Ragin (1992), having too strong preconceptions and not being prone to change these during the research process is likely to hamper the conceptual development. By being fixed on what you are looking for you might miss interesting aspects that would have been brought up if you used a more open ended approach. This has important implications for the study at hand. The framework discussed earlier is what is thought to be relevant right now. This is most definitely subject to change as more empirical data is gathered.

Research design- method - Case study

For the choice of method it is important that it is suitable for the research objective at hand. Dubois and Araujo (2007) state that the theory used is closely coupled with the available methodological choices. Case studies are an often used method in studies that apply the Industrial Network Approach. "Because of the richness of the picture produced by case research, the approach is suitable to handle the complexity of network links among actors and can be used to trace the development of network changes over time" (Easton, 1995: 480). Furthermore, as mentioned by Voss (2009), case studies are often used for exploratory purposes in the beginning of projects to generate research themes. The same author also states that areas where cases research is particularly good are for theory building. So far in the study the nature of the project has been open and highly exploratory in order to establish an area that is interesting to pursue further. For the continuation of the project the intention is to develop theory which makes the continued use of case studies seem appropriate. For this reason this research project aims at using a case study methodology.

In case study and qualitative research case selection is the most important methodological decision (Dubois & Araujo, 2007). The case that is to be used in this research has been chosen deliberately for the variation and the picture that it is believed to provide. As of this point in the research project the case that is to be studied is from the mobile telephone industry. A middleman will be analyzed with respect to how they work in relation to their various suppliers and customers.

Data collection

The main source of data will be so called primary data (Arbnor & Bjerke, 1994) gathered from interviews with practitioners in the studied companies. Secondary data in the form of records, organization charts etc. will also be used where applicable and available. At this stage of the study only conversational interviews of an exploratory nature has been conducted. The interviews have been, semi-structured with an overarching topic of

middlemen and what they do in relation to others. So far in the study several interviews with the case company, Delta, has been conducted as well as one interview, in one case two, with representatives of that focal firm's counterparts.

The Case Company – Delta

The chosen company works within the telecom industry and because the industry is relatively new this poses an interesting backdrop for the middleman acting within this setting. Despite its youth, until recently this industry has shown structures similar to that of the traditional literature with clear cut boundaries between the different actors. This is now changing, and the consequences of these changes are of interest. Furthermore, because of its relative youth it provides a unique possibility when collecting data through the interviews due to the increased likelihood of talking with people who have been involved in the industry from the beginning and thereby acquire a better picture of the development.

The company is a global actor in the distribution of mobile telephones and related products. The company is a promising subject for the study as it exhibits a variety in its activity structure as well as a very interesting transition over the years. The company has made a journey from being a 'box-mover', to becoming more of a logistics service provider as well as taking on some aspects of an agent in the launch of new products. The variety identified so far shows activities that relate to many different functions. They are classical distributors to some customers, they are 3PLs to other customers and they act as an agent to some.

EMPIRICAL STUDY

The company Delta

The context of the firm in focus can be said to be characterized by three key aspects. First off, there is the hand set or the mobile telephone itself. This is a physical product that needs to be manufactured and delivered to the end user. Secondly, there is a subscription that entitles a user of a mobile telephone to access the existing network in order to communicate with other users. Finally, there is another physical product, the SIM-card, that is needed to tie a telephone and its functions to a specific user and that user's subscription so that the correct user is charged for their use of traffic. These three components steers the activities that need to be undertaken as well as the subsequent actors that are performing them. In general and roughly speaking, the business network of Delta can be said to consist of manufacturers in charge of producing mobile handsets, operators providing subscriptions and SIM-cards and various forms of retailers in charge of selling handsets and subscriptions to the end users.

'Delta' is a global telecom distributor focusing on mobile telephones and related products such as mobile broadband and SIM-cards. It started as a classic 'box-mover', purchasing large quantities of products, sorting and shipping the products in smaller batches. Its' service to customers was the ability of purchasing large volumes of goods and thereby reducing the cost per product making them able to offer better prices and a larger assortment than their customers were able to achieve on their own. In this setup Delta purchases products from manufacturers, stores them in their warehouse and when the retailers or operators order, they ship the products. The retailer or operator is then responsible for the contact with the end consumer, see figure 1.

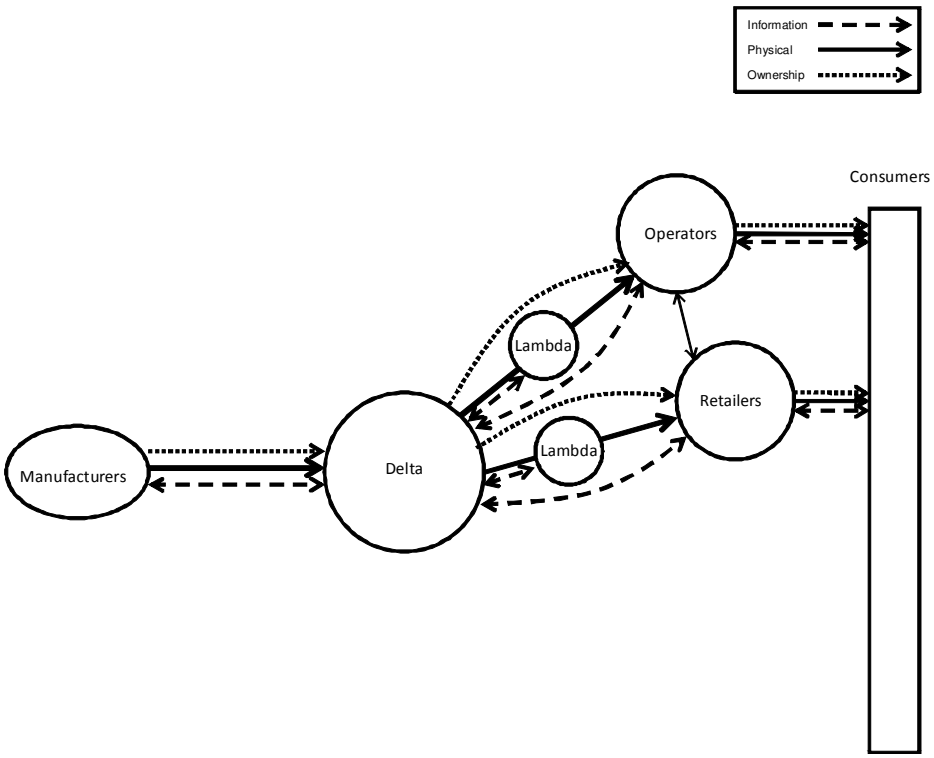

Figure 4 Delta purchasing large quantities from the manufacturers and making assortments suitable for the retailers.

This setup exemplifies one of the more typical ways of working for Delta. This is how most of their business was conducted when they started and still a large proportion of their business revolves around this 'box-moving' setup. In the above illustration there are both retailers and operators depicted. Consumers can purchase their products either from various retailers or through the different operator's stores. The "subscriptions" are delivered and handled by the operators but the consumers are able to sign up for the subscriptions both at the operator's and the retailer's stores. Consequently the operators are also connected to the retailers. The physical transports between the warehouse of Delta and the retailers are handled by an external actor here labeled Lambda. Delta's role in this setup is to gather enough volume in their purchases of products to make them an interesting counterpart for the manufacturers, and in so doing becoming an important bridge to the retailers. By purchasing large quantities they are able to provide value to the manufacturers since they in effect need to handle fewer customer contacts. By breaking up the large shipment into smaller assortments they provide value to the retailers since the retailers, through Delta, are able to attain products that they otherwise wouldn't be able to purchase.

As the 'industry' evolved and matured the increasingly large operators came to be the favored counterpart of the manufacturers. As the operators became larger it became more interesting to sell products directly to them rather than the distributors. The operators 'own' the customers and thereby have some room to influence the consumption behavior. Operators could through the use of campaigns and various other mechanisms like subsidies guarantee that the products that they purchased actually found their way in to the hands of the end consumer. This meant that by focusing sales to the operators the manufacturers could make sure that their products ended up on the 'market' rather than in a dusty old warehouse. By selling to operators the manufacturers could increase the exposure of their products to the end consumers. This meant a new setting for the distributors to relate and adapt to. A second

change that was affecting the industry was that in the initial phase of mobile telephones the products were very expensive and the only users able to afford them were companies and some more wealthy private consumers. During this initial phase the margins on the products were high which resulted in a fortune seeking market where there was a lot of easy money to be made by simply moving boxes around. And consequently lead to the appearance of many smaller actors. However, as the market penetration rose to nowadays almost 100% (in Sweden) the margins decreased. The number of companies was reduced and the remaining gained in size in order to achieve a large enough scale to counter the decreasing margins. For Delta these changes led to the decision that the traditional way of doing business, i.e. classical distribution was no longer sufficient. Operators were trying to purchase their products directly from manufacturers; the turnover and consequently the batch sizes were greatly reduced incurring a higher risk of products becoming obsolete all at the same time as the margins kept decreasing. As the CEO of Delta, Sweden stated "we can't compete with this", they needed to focus on becoming better in other aspects than simply large purchases and the assortment function.

As an effect of the increasing size of operators the relation between Delta and one operator, Alpha, evolved. The original type of relation relying on box moving was no longer needed but instead a new setup emerged. In this relation, Delta is not in charge of purchasing and selling the products, instead Alpha has taken over these activities. Alpha handles a large enough volume to warrant direct purchases from the manufacturers. However, they do not have the logistical capabilities or the interest to handle this volume on their own. Instead they have chosen to partner with Delta and utilize their handling capabilities. Delta is here used as a third party logistics provider (3PL) and is in charge of handling all the products and the logistics. All products go from manufacturers to Delta and then to the Alpha's stores where they are sold to the end consumers, see figure 2.

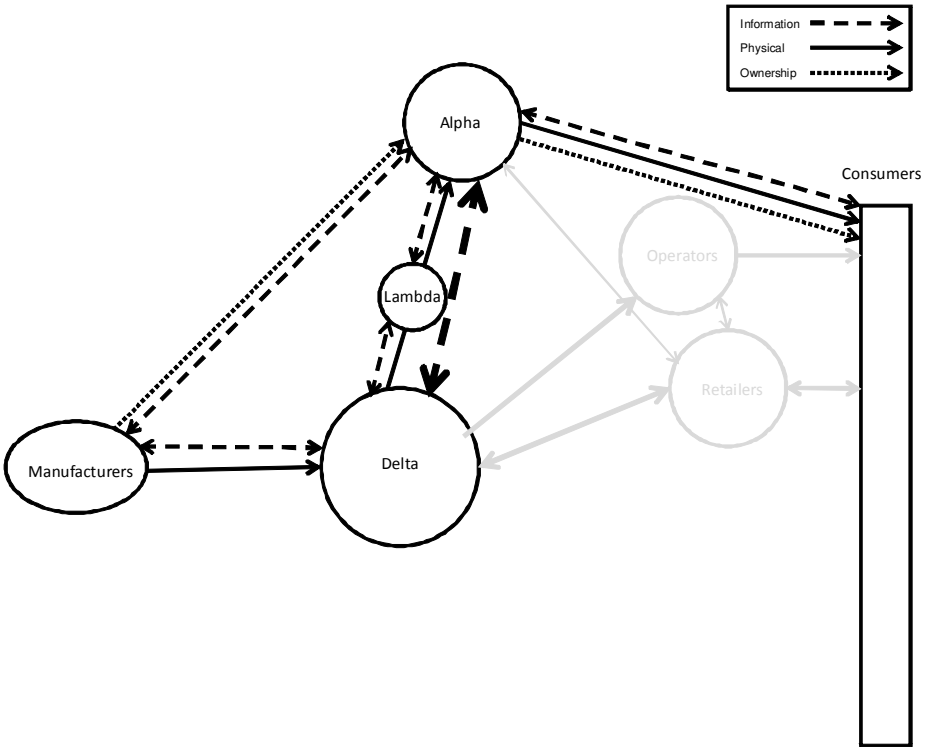

Figure 5 Alpha purchasing directly from the manufacture and closely collaborating with Delta for logistical purposes.

The figure above illustrates how Alpha has moved closer to the manufacturers. Between the manufacturer and Alpha there is an ownership transfer, since they purchase directly from the manufacturers, and there is an information exchange facilitating the ownership transfer. The physical flow however, goes via the external transport provider, Lambda, to Delta's warehouse and then to the Alpha's stores. There is still a strong connection between Delta and Alpha, in many aspects an even stronger one since they are now exclusively tied to Delta for all the physical handling of the products and in the figure this is illustrated by the large information exchange connection between the two actors.

This illustration serves as an example of a growing part of Delta's way of conducting business. As the industry has matured and the margins on the products have decreased as illustrated earlier, it became more and more important to achieve a large scale in the operations in order to remain profitable. The handling of other actor's goods increases the volume of products handled in the processes of Delta and improves the efficiency for their other relations with counterparts that are more focused on box moving like the one previously described.

As the technology developed it enabled and caused new ways of conducting business as can be seen in Delta's connection with another 'retailer', here named Beta, where the relation took a different turn. Beta was experiencing some difficulties with a very widespread and loosely coupled organization and they came to Delta searching for new ways of conducting business. Previously the relation between Beta and Delta closely resembled the first setup described, the classical box moving relation seen in figure 1. Beta made about 20% of their purchases on a steady basis from Delta whereas the remainder was sourced more sporadically from a multitude of actors. Beta wanted a new setup with Delta because they saw potential in coordinating purchases from one actor, and Delta saw a possibility in acquiring all of Beta's purchases. In the new relation all purchases from the different stores were coordinated and sourced from Delta. An important factor for achieving this coordination, which also resulted in a very important outcome of the partnering, was the development of a new web service. Due to the technological advances and the technical know-how of Delta, this web service was able to be developed and it served to connect all the different stores much more tightly to Delta. Through this service, the individual stores of Beta could get their own internet web site. Delta could customize each store's web site by making some alterations to a standardized solution primarily concerning name and layout to reflect the specific store. The website in turn was linked directly to Delta's warehouse meaning that consumers logging into the website to place orders had a direct visibility into Delta's warehouse and could easily see what was in stock and what was not. The orders that were subsequently placed went through Beta to be confirmed but the rest was handled directly by Delta. Through this development Delta acquired all of Beta as a customer, but their greatest benefit was the ability to test and try out the new web service.

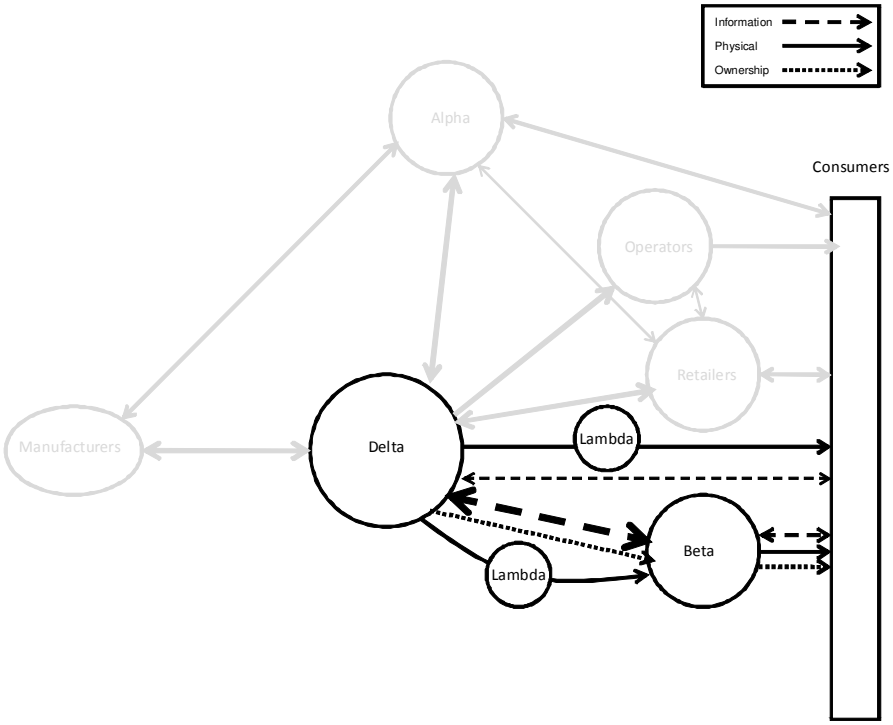

Figure 6 Delta developing a new service in close collaboration with a retailer

Figure 3 illustrates the increased connectedness between Delta and Beta due to the joint collaboration and service development, in the figure represented by the bold information exchange arrow. The line between the consumers and Delta represents the increased connectedness between these two parties due to the fact that the consumers are now 'interfacing' directly with Delta's warehouse. The main physical flow goes via Lambda to the retailer's stores before reaching the consumers. There is also a physical flow that goes via Lambda directly to the consumers which represents the relatively few cases of large customers where the shipment can be delivered directly from Delta. The transfer of ownership always goes through Beta.

A further development was achieved when the service was further adapted and offered to other customers. In essence, the partnering with Beta, previously described, served as springboard for the new service that they now offer to other customers. One of the counterparts that are using this developed service is an internet based actor selling mobile telephones to consumers, here named Kappa. In this relation Delta handles all the logistics and they are also responsible for delivering the products to the end consumer. Kappa does not have any stores or warehouses of their own. The end consumers when ordering are interfacing with Delta's warehouse directly and Kappa is focusing on receiving orders and maintaining the webpage. So when the end consumer places an order everything is taken care of by Delta in the name of Kappa, see figure 3.

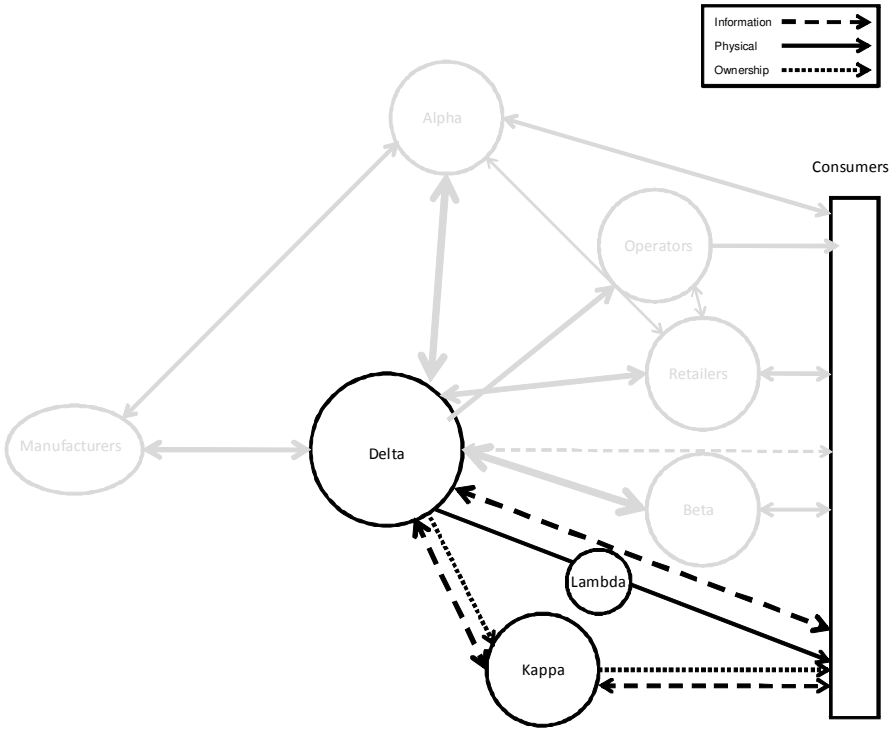

Figure 7 Internet retailer that is only involved in the exchange of information and the transfer of ownership, everything related to the physical flow is handled by Delta.

As can be seen by the illustration, the development of the service enabled a 'new' actor to establish itself. The dashed lines represent the information exchange between the two actors and the consumers that are specifically related to order handling. The dashed line between the consumers and Delta represent the consumers interfacing directly with the warehouse of Delta when they make their orders. The physical flow always goes via Lambda directly to the consumers. Kappa does not own any facilities and therefore the physical flow is taken care of by Delta and delivered directly to the consumer. By collaborating closely with Delta, Kappa is, through the use of the web service, able to provide the entire range of products that Delta is warehousing.

To continue, in the Scandinavian expansion of a Taiwanese manufacturer, here named Sigma, the role taken by Delta was again changed. Kappa, at the time, was relatively unheard of in Scandinavia. They wanted to expand to this area but they felt that their knowledge of this setting was lacking. Therefore they approached Delta and together they decided to partner in order to achieve this expansion. In this relation Delta were placed in charge of market communication of the product to the end consumers as well as selling it to retailers and warehousing it, and thereby taking on more responsibility than in their usual box-moving setup. Today there is less emphasize on this extended responsibility since Sigma has become more established and they have their own sales offices set up. The relation has evolved from a very close relation to nowadays more resembling the relations that Delta has with other manufacturers, although they are still collaborating.

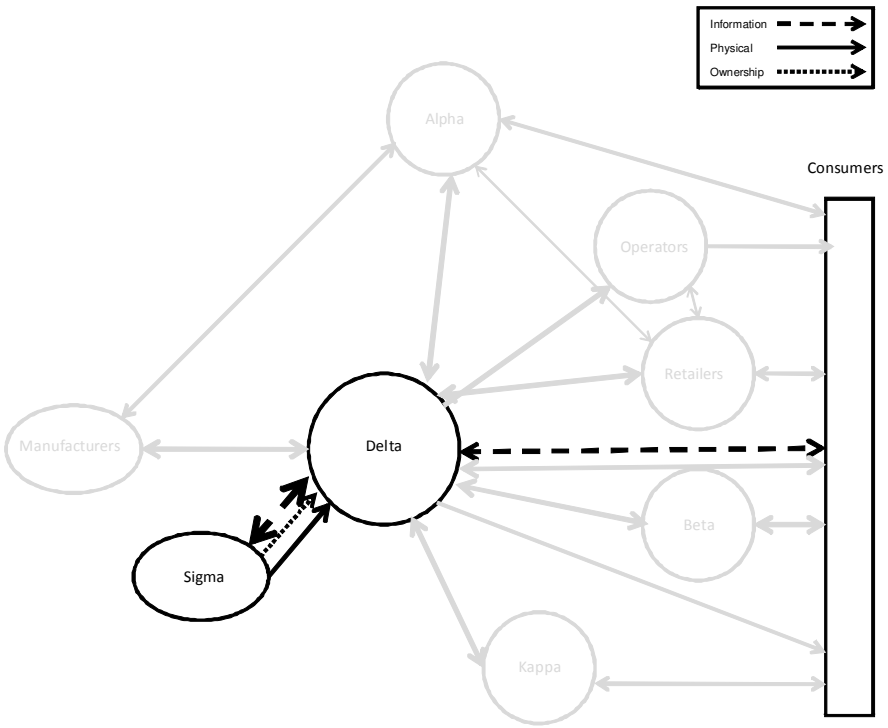

Figure 8 Delta in close collaboration with Sigma in the expansion of their operations to the Scandinavian market

In, the figure the increased collaboration between Sigma and Delta is represented by the large bold information exchange arrow, as well as the fact that they have moved closer to Delta. The responsibility of Delta also included advertising the products to the consumers and this is represented by the dashed line connecting Delta with the consumers.

During the late 1990s the prepaid refill cards appeared. With the use of these cards, customers could 'preload' their subscription with a set amount of money that they then could use for calling- In order to reach consumers effectively with these pre-paid refill cards Delta started working towards new counterparts. Their previous structures with various retailers were not enough for this new product with quite different characteristics. A pre-paid refill card is a product which the consumer needs to buy regularly and at times that are sometimes outside shops normal opening hours. This made the convenience stores with their long opening hours and them being present at many locations, an attractive counterpart for selling these products.

There was however, an increasing problem when it came to handling these prepaid cards. In essence these small cards were equivalent to money and with a very high value. This meant that each transport was similar to a money transport and storing them meant that rigorous security protocols were needed. In addition, Delta felt that the physical distribution of a code that was basically a digital product was highly unnecessary and expensive. Altogether these factors urged Delta to seek a solution to this developing problem. They knew what the problem was and what they saw as a solution but they were unable to develop the system on their own. In light of this they collaborated with another actor, Tau, where Delta provided the specifications of what the system should be able to perform and Tau in turn developed the actual system. This meant that Delta could remove the physical card and instead distribute the code digitally and be printed at the time of purchase. Hence there was no longer a need to either store the pre-paid cards physically or transport them.

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