A PARADIGM FOR THE STUDY OF MARKETING CHANNELS

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ABSTRACT

Scholarly inquiry into the subject of channels of marketing has continued unabated for some fifty years, ever since Breyer (1934) gave impetus to the institutional approach to marketing. This interest on the part of academicians has persisted in large part because of the centrality of the channel concept to the marketing discipline. That is, very many of the individual concepts that academicians hold to constitute the academic disipline of marketing find a place under the "umbrella" concept of the channel. For this reason, the subject of marketing channels should find a central place in the marketing curriculum.

INTRODUCTION

Unfortunately, given the importance of the subject area, the curricula at most schools have treated channels in a piecemeal fashion, introducing related concepts in various other courses, rather than creating a single course to deal with the subject of channels in an integrated fashion. In contrast to current practice, this paper posits that a single course dealing with the marketing channel and allied concepts can be a very useful tool in marketing education.

To provide the conceptual nucleus for such a course, it would be useful to have a conceptual framework upon which to fasten the wide variety of individual topics which relate to the operation of channels. To best serve the needs of educators, a model of the marketing channel would be based on the findings of channels research, but would be designed expressly for use in the classroom, and, given the basic position of this paper, preferably be applicable to a single course in marketing. This paper presents a paradigm for studying the marketing channel that has been designed to fill this need. The model features four basic elements: structure, behavioral characteristics, environmental influences, and performance. In the classroom, each of these elements can be expanded to present concepts that relate to the element in question, but which can be treated as a separate subject in themselves for pedagogical purposes. To provide background material for this paradigm, the paper first reviews the literature to introduce those concepts the authors deem most suitable for students to consider.

KEY CONCEPTS IN THE STUDY OF MARKETING CHANNELS

Balderston (1957) notes that many of the activities that occur in a channel can be broken down into functional classes. Many of the most important of these activities concern the establishment of contracts, the negotiation of transactions, or more generally, the generating of information leading to transaction decisions. His model examines the cost of information flows under various communication networks, such as a structure where every participant is connected to each other, or a structure where a participant is only connected to those participants on the opposite side of the market. The latter network, where there is an absence of collusion, Balderston labels the "adequate bargaining network".

Balderston then introduces middlemen into this model to demonstrate that an optimum structure of the market does exist for the performance of communication tasks, based on their costs. The same procedure could be followed by substituting other types of costs. The point remains the same, however, that given certain assumptions, an optimal channel structure does exist. Thus, a general model should recognize this fact.

Balderston then takes his model one step further to include the perceptions of the wholesaler. These perceptions include the content of the information that is necessary to participate in the transaction process, the form and content of the wholesale organization, and which suppliers and customers the wholesaler feels should be excluded from the channel. Balderston also recognizes that environmental factors outside the model can influence the structure of the channel. He states that the impact of these forces depends on whether they are slow and sustained or abrupt and perhaps transitory. Slow and sustained changes may allow time for the channel members to adapt, whereas abrupt and uncertain conditions can cause apprehension among the existing channel members and may even lead to the destruction of the channel if newly entering firms are better able to cope with the change.

Balderston's model provides a starting point for the work of Baligh and Richartz (1967). They emphasize two features that they add to Balderston's model. The first consideration is the inclusion of market imperfections. Imperfections are defined as cooperation and competition among intermediaries, rebates, variable costs of information transmittal, acceptable rates of return on fixed costs, and segmented markets. Each of these imperfections can have an effect on the optimal structure of the channel.

The work of Alderson (1957) serves to bridge the gap between a focus on the structure of a channel and a focus on its behavioral characteristics. His approach to marketing channels calls for consideration of the organized behavior system, because the functions of marketing are performed by such systems or by individuals acting within such systems. Alderson conceives of an organized behavior system as one which coordinates the activities of a group or multiple groups of human beings to provide an established pattern of behavior.

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To some extent, this conceptual scheme parallels the Baligh and Richartz idea of a structure as consisting of a pattern of relationships. In a marketing channel, groups of persons are engaged in the exploitation of joint opportunity. That is, when they are joined into a channel system, they have a mutual interest in the sale of a product. Buyers and suppliers can contribute to the attainment of this objective by securing the cooperation of other members in the execution of their marketing plan. Alderson's concept of channels as an organized behavior system recognizes the existence of a pattern of (behavioral) relationships caused by the interdependence between the members within a channel.

Recently, the behavioral approach to the study of channel decisions and relationships has received the most emphasis in scholarly inquiry (Grimm and Spalding, 1980). This new focus was popularized in a book by Stern (1969), Distribution Channels: Behavioral Dimensions, where channels are examined as a social system. The study of distribution channels from a social systems perspective recognizes that both economic and behavioral variables should be taken into account when developing a channels model (Shooshtari and Walker, 1980).

While research has for the most part focused on pairs of variables (Walker and Shooshtari 1979), some research has expanded the scope of variables considered, most notably the broad-based model proposed by Robicheaux and El-Ansary (1976). The criterion construct that this model attempts to explain is channel member performance. Performance is a function of behavioral and structural variables, although this model focuses only on the behavioral aspects. In particular, channel performance is a function of the effectiveness of channel control and level of satisfaction that channel members have with channel relationships. For example, control by one member of the channel may be tolerated by other members if they feel it is to their advantage to do so. In this case, channel members may feel satisfied with channel relationships even when one member has a disportionate share of power. When cooperation exists, performance of channel members will be improved.

Several studies suggest that power is a key concept in channel models. Power in marketing channels is often defined as the ability of one channel member to influence the decisions of another channel member (El-Ansary and Stern, 1972). The bases of its power give a member in the channel this ability to influence other members of the channel. These bases include what has been called coercion, informational power, legitimate power, referent power, and expert power (French and Raven 1959). The sources that create these bases include resources with economic, information, reputational (image) and skill components (Beier and Stern 1969). The fact that one member has the ability to influence another member does not necessarily imply that it will choose to exercise this power. However, regardless of whether it is exercised, the possibility of action remains, and this possibility alone can influence the behavior of other channel members (Koenig, Kroeten and Brown, 1984).

The issue of power in channels is closely related to that of leadership. Channel leadership behavior includes activities performed by one channel member to influence the marketing policies and strategies of other channel members for the purpose of controlling various aspects of channel operations (Schul, Pride and Little, 1983). Effective use of leadership will influence the amount of control that a channel member has over others in the channel.

Channel control should lead to better performance for that firm in control. However, it also offers the opportunity for conflict to arise. Cooperation is needed to obtain the movement of goods through the channel. But if one member is able to control the channel in a way that improves only its own performance, and it lowers the performance of other members, there will be stress and eventually conflict within the channel (Eliashberg and Michie 1984). This conflict can be considered either functional or disfunctional. If channel members are forced to reevaluate their relationships in a manner that improves the performance of the channel as a whole, channel conflict can be considered functional (Brown 1980). However, if channel conflict is carried far enough it may ultimately cause the dissolution of the channel (Stern and Gorman, 1969).

As recognized by many authors, no channel system exists in isolation. The channel is continually subject to influences from its environment. As presented in the literature, both the structural and behavioral approaches to the study of channels recognize the importance of external environmental factors. These factors include such diverse variables as consumer demand, economic conditions, competitive conditions, federal and state regulation, and technology (El-Ansary, 1982).

A PARADIGM FOR MARKETING EDUCATION

Based on the contributions of those papers presented (within space limitations) above, and others reviewed in the preparation of this paper, the paradigm, in its simplest form, features four elements: environment, structure, behavioral characteristics, and performance. Of course, each of these general elements subsumes a number of included constructs that will be stressed in this section.

Environment. The salient concepts taken from research into environmental influences on the marketing channel include; for example: (1) customer demand; (2) economic conditions; (3) competitive conditions; (4) regulation from federal and state agencies; (5) and the current and future technology.

In the case of customer demand, a course on channels could include such supporting material as the factors that lead consumer and industrial customers to demand the company's products. Because most research into the buying process has involved consumer behavior, the literature of consumer behavior could be used to explain the factors leading to demand for the offerings of a business firm. However, the industrial marketplace should not be ignored.

For the study of economic conditions, the course could include material on the factors that lead to an improvement in the position of the nation in international trade, the growth of the GNP of the economy, and the success of individual companies in particular. This segment of the course would concern the environmental factors that should be recognized and taken advantage of by a well-managed company. A case study might be appropriate here.

The study of competitive conditions might concentrate on such economic factors as: industrial organization, the factors that lead to a particular channel structure, and even the theory of games as it relates to competitive strategy for business firms.

The issue of regulation would lead the student into the legal issues that should be considered by managers as they plot the marketing strategy for their enterprise. While this subject area would necessarily be given summary treatment, the student would be made aware of the basic issues that impinge on the firm's decisions (e.g., the Robinson-Patman Act)

A treatment of technology might consider such topics as the implications of a changing world for: transportation, information processing, a firm's capability for research and development, and the evolution of the society as a whole. This segment of the course could feature excerpts from books such as Megatrends, as well as current articles from such business oriented periodicals as Business Week and from more generally oriented sources such as the local newspaper.

Structure. The structure of such industrial entities as the channel has traditionally been studied by means of the concepts provided by the field of economics. However, as shown above, recent research has shown the usefulness of concepts taken from the behavioral sciences. Thus, the study of the structure of the marketing channel would integrate such concepts as: (1) the (economic concept of) optimal channel structure; (2) the channel as an organized behavior system; (3) the social nature of channel structure; and (4) the relevance of such structural relationships as competition, cooperation, and communication networks.

The study of economic concepts would include some of the simpler contributions of work by Balderston and by Baligh and Richartz. Here, the structure of less complex theoretical networks of business entities would be introduced. A more critical analysis would examine actual data on the economic contributions of intermediaries in the channel to find a justification for their inclusion in the network of business entities.

The basic work of Wroe Alderson in adapting the biological concept of the organized behavioral system to the field of marketing is still relevant to a basic course in marketing. Some 25 years later, his conceptual schemes still provoke interest and even controversy (Lamb and Dunne 1980; Hunt and Bush 1982). His seminal contributions provide a gentle transition from the contributions of the economic sphere to those of the contemporary social sciences.

More generally, the social sciences, notably sociology, have been concerned with the nature of organizations. In its most basic form, the channel is an organization (of organizations). This segment of the course would study the (sociological) links between the business entities of the channel and the relationships among the social beings who distribute products and services. The potential contributions to the study of channels from this source appear sizeable.

Of course, the nature of such concepts as competition can be studied from several viewpoints. Competition has been treated extensively by economists, but the concept also has roots in other of the social sciences. For example, the competitiveness of one society relative to another may have a cultural explanation, as provided by anthropologists. And the results of working in a competitive environment affect the individual decision maker in a way that has been examined by psychologists. Similarly, competition is a topic that has been studied by various of the disciplines in the general area of social science. The study of the communication network that links business entities in the channel to one another and to their customers would allow the introduction of concepts from the field of communications.

Behavioral Characteristics. It appears the potential contributions of the behavioral sciences are almost without bound. Among those contributions that have gained the attention of academicians are: (1) needs of the customer; (2) leadership; (3) power; (4) satisfaction; (5) conflict; and (6) control. Again, a variety of academic disciplines can contribute material for use in the channels course.

Psychologists have described the origins of needs and drives, and have expanded their investigations into the more general area of what motivates humans to behave as they do. Because channel decisions are made by human beings, a sample of the most salient of these contributions from psychology could be introduced to help students understand what motivates customers to turn to a particular supplier for the products and services needed to fulfill their needs.

Again, leadership has occupied the attention of psychologists. Their work has largely concerned behavior at the level of the individual. But the broader implications of their findings can be translated to the study of leader-follower relations in the channel. In this vein, the implications of economic factors can be introduced to account for the emergence of leaders in the channel.

Power is a concept that has been widely investigated. Sociologists have studied the concept in a variety of contexts; for example, in the political relationships that exist in the government of a small town. Anthropologists have used the concept of power to explain the rise and fall of civilizations. And, of course, economists have stated that power comes from the ownership of resources by participants in the struggle for economic rewards.

Satisfaction has been thoroughly investigated by organizational psychologists concerned with the construct they call need satisfaction. But satisfaction has recently risen to prominence within the field of marketing. For almost a decade, marketing academicians have convened annually to examine the results of research into the satisfaction and dissatisfaction gained by consumers from their dealings in the marketplace (Day and Hunt 1983). These latter findings should be easily transferable to the study of the affective attitudes formed by business participants who enter into channels with unique expectations and find them confirmed to varying degrees.

Conflict has also been investigated by scholars working in the area of organizational behavior. Their findings on organizational conflict have direct relevance to the channels course, because both the business firm and the channel itself are organizations. The means suggested for reducing conflict, perhaps studied in conjunction with the concept of one's role in the organization, could add considerable insight into the nature of the proper role for each intermediary in the channel organization.

Control could similarly be examined from a variety of viewpoints. Perhaps the most educationally broadening approach for students would be to introduce concepts from political science. This segment of the course would study vignettes of politicians (both dictators such as Hitler and democratic figures such as Roosevelt). The message here would involve the methods used to rise from obscurity to the position where they could control the destiny of those whose performance they deemed essential to their own political (and other) ends.

Performance. In the field of business, performance has been evaluated at many levels, from the success of individuals in completing the tasks which they have been assigned to the ability of a huge corporation (or even an economy) to dominate its markets. In the marketing channel, performance may be usefully seen at the two levels of the firm and the channel.

For the business firm, accountants define the difference between revenues and costs as profits. In the short run, the firm may feel motivated to achieve the highest possible level of profits. In a normative sense, this search for profits will lead the firm to enter into inter-firm relationships predicated on the expectation that its performance will lead to the highest (or most satisfactory) returns that can be achieved. On this basis, the firm will join a channel because the expected excess of rewards over contributions will be greater than what may be gained from any other alternative course of action. This segment of the course would include concepts from both economics and financial accounting, as well as distribution cost analysis.

But the larger, long-term view might lead the firm to take a different course of action. As shown by Ballou (1973), the channel behavior that appears best from a limited, short-term view may not serve the broader, long-term interests of the firm. Thus, firms in a channel might be advised to cooperate to achieve the greatest gain for their channel, which is in competition with other channels seeking to serve a given market. This broader approach may provide greater long-term gain than the action dictated by the narrower focus. This and related issues would take the students into the area of strategic planning and would provide a forum for the consideration of the current work being done by academicians concerned with marketing strategy.

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(Additional references are available from the authors).