
EDINBURGH
BUSINESS SCHOOL
HERIOT-WATT UNIVERSITY

Marketing Channels

A Relationship Management
Approach

Lou E. Pelton

David Strutton

James R. Lumpkin

This course text is part of the learning content for this Edinburgh Business School course.

In addition to this printed course text, you should also have access to the course website in this subject, which will provide you with more learning content, the Profiler software and past examination questions and answers.

The content of this course text is updated from time to time, and all changes are reflected in the version of the text that appears on the accompanying website at <http://coursewebsites.ebsglobal.net/>.

Most updates are minor, and examination questions will avoid any new or significantly altered material for two years following publication of the relevant material on the website.

You can check the version of the course text via the version release number to be found on the front page of the text, and compare this to the version number of the latest PDF version of the text on the website.

If you are studying this course as part of a tutored programme, you should contact your Centre for further information on any changes.

Full terms and conditions that apply to students on any of the Edinburgh Business School courses are available on the website www.ebsglobal.net, and should have been notified to you either by Edinburgh Business School or by the centre or regional partner through whom you purchased your course. If this is not the case, please contact Edinburgh Business School at the address below:

Edinburgh Business School
Heriot-Watt University
Edinburgh
EH14 4AS
United Kingdom

Tel + 44 (0) 131 451 3090

Fax + 44 (0) 131 451 3002

Email enquiries@ebs.hw.ac.uk

Website www.ebsglobal.net

The courses are updated on a regular basis to take account of errors, omissions and recent developments. If you'd like to suggest a change to this course, please contact us: comments@ebs.hw.ac.uk.

Marketing Channels

Dr Lou E. Pelton is an award-winning teacher and researcher in the College of Business Administration at The University of North Texas. Dr Pelton's principal research interests include marketing channels, relationship marketing and international distribution. Dr Pelton currently serves as coordinator of two American Marketing Association special interest groups and track chairperson for the Academy of Marketing Science's World Marketing Congress. He has served as officer in a number of national and regional marketing associations as well. Dr Pelton has headlined many professional education and training seminars in the US and abroad. He currently manages a global electronic bulletin board addressing relationship marketing theory and practice.

Dr David Strutton is the Acadiana Bottling and J. Wesley Steen Regents Professor in Business Administration at the University of Southwestern Louisiana. Dr Strutton's principal research interests include business-to-business marketing, personal selling and sales management. Dr Strutton is treasurer of the Southwestern Marketing Association and an active member of the Academy of Marketing Science and the American Marketing Association.

Dr James R. Lumpkin is the Dean of the Foster College of Business Administration, Bradley University. Dr Lumpkin is a past president of the Academy of Marketing Science and was named 'Distinguished Fellow' of the Academy in 1992. He is a past marketing editor of the *Journal of Business Research*. Dr Lumpkin's primary research interests include retail patronage theory, health-care marketing and research methodology. His recent research has focused on the elderly consumer. He has received a number of research grants to study the marketplace behaviour and long-term health-care decisions for the elderly consumer. Before entering academe, Dr Lumpkin worked as a chemist and in marketing research for Phillips Petroleum Company. In addition to his corporate experience, he has directed two consumer research panels.

First Published in Great Britain in 2001.

© Pelton, Strutton and Lumpkin 2001

The rights of Lou E. Pelton, David Strutton and James R. Lumpkin to be identified as Authors of this Work have been asserted in accordance with the Copyright, Designs and Patents Act 1988.

Adapted under license from *Marketing Channels: a Relationship Management Approach*, 2nd Edition (Pelton-Strutton-Lumpkin). Original edition copyright 2002 The McGraw-Hill Companies, Inc.

All rights reserved; no part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without the prior written permission of the Publishers. This book may not be lent, resold, hired out or otherwise disposed of by way of trade in any form of binding or cover other than that in which it is published, without the prior consent of the Publishers.

With love and respect to my Mom and Dad, Beverly and Sam Pelton, and their three daughters.
Lou E. Pelton

With love to my wife Dita and my daughter Ariadne, my parents Jack and Becky Strutton, my mother-in-law Spyros Kavyas.
David Strutton

With love to my wife Linda, and daughters Kristi and Kelli.
James R. Lumpkin

Contents

Introduction		xiii
	Instructions on Using Study Programme Materials	xiii
	Conclusion	xiv
Preface		xv
	A Course for Exploring the Nature and Scope of Exchange Relationships in Marketing Channel Settings	xv
	A Model-Driven Approach, the CRM Provides Direction for the Entire Course	xv
Acknowledgments		xvii
PART I	MARKETING CHANNELS FRAMEWORK	
Module 1	Where Mission Meets Market	1/1
	1.1 The Elements of Successful Marketing Channels	1/1
	1.2 What Is a Marketing Channel?	1/4
	1.3 Evolution of Marketing Channels	1/5
	1.4 Channel Intermediaries: The Customer Value Mediators	1/9
	1.5 Channel Relationship Model (CRM)	1/15
	1.6 The CRM: Compass Points	1/18
	1.7 Key Terms	1/19
	Learning Summary	1/19
	Review Questions	1/20
Module 2	Channel Roles in a Dynamic Marketplace	2/1
	2.1 Channel Behaviours in Competitive Environments	2/2
	2.2 Channel Roles in the Exchange System	2/5
	2.3 Supplier Relationships	2/7
	2.4 Customer Relationships	2/11
	2.5 Lateral Relationships	2/14
	2.6 Establishing Channel Role Identities	2/15
	2.7 Key Terms	2/18
	Learning Summary	2/18
	Review Questions	2/19

Module 3	Conventional Marketing Systems	3/1
	3.1 Conventional Marketing Channels as Organisational Teams	3/2
	3.2 Conventional Marketing Channels: Issues and Answers	3/2
	3.3 Making the Channel Design Decision	3/7
	3.4 Selecting the Best Channel Design	3/15
	3.5 Evaluating Channel Structure Performance	3/19
	3.6 Modifying Existing Channels	3/19
	3.7 Designing Channels to Capture Channel Positions	3/23
	3.8 Real-World Channel Design	3/25
	3.9 Key Terms	3/25
	Learning Summary	3/25
	Review Questions	3/27
Module 4	Marketing Mix and Relationship Marketing	4/1
	4.1 The Marketing Mix	4/1
	4.2 The <i>Product</i> Ingredient	4/2
	4.3 The <i>Pricing</i> Ingredient	4/7
	4.4 The <i>Promotions</i> Ingredient	4/13
	4.5 The <i>Place</i> Ingredient	4/20
	4.6 Strategy Formulation: Role of the Marketing Concept	4/22
	4.7 Key Terms	4/24
	Learning Summary	4/24
	Review Questions	4/26
PART 2	EXTERNAL CHANNEL ENVIRONMENT	
Module 5	Environmental Scanning: Managing Uncertainty	5/1
	5.1 Entropy and Environmental Scanning	5/2
	5.2 Decision Support Systems	5/8
	5.3 The External Channel Environment	5/10
	5.4 Internal and External Political Economies: An Environmental Framework	5/19
	5.5 Key Terms	5/20
	Learning Summary	5/20
	Review Questions	5/22
Module 6	Legal Developments in Marketing Channels	6/1
	6.1 A Historical Overview of Federal Legislation Affecting Channel Practices	6/2
	6.2 Traditional Legal Issues in Channel Relationships	6/6
	6.3 Emerging Legal Issues in Channel Relationships	6/14

6.4	Moving Beyond Legality: Toward Ethical Channel Management	6/19
6.5	Key Terms	6/22
	Learning Summary	6/22
	Review Questions	6/23
Module 7	Ethical Issues in Relationship Marketing	7/1
7.1	Personal Conviction and Exchange Conviction	7/2
7.2	Social Tact and Relationship Ethics	7/5
7.3	The Ethics Continuum	7/6
7.4	Ethical Dilemmas in Relationship Management	7/11
7.5	Moral Codes in Channel Relationships	7/14
7.6	Model of Relationship Ethics	7/17
7.7	The Components of an Ethical Exchange Process	7/21
7.8	Key Terms	7/22
	Learning Summary	7/23
	Review Questions	7/24
Module 8	Global Challenges and Opportunities	8/1
8.1	Reasons for International Exchange Relationships	8/2
8.2	Typology of International Exchange Relationships	8/4
8.3	Direct and Indirect International Marketing Channels	8/9
8.4	Interface between International Marketing Channels and the Environment	8/11
8.5	Selecting International Exchange Partners	8/18
8.6	International Exchange Relationships: Successes and Failures	8/21
8.7	International versus Domestic Channel Relationships: Some Perspective	8/21
8.8	Key Terms	8/22
	Learning Summary	8/22
	Review Questions	8/24
PART 3	INTERNAL CHANNEL ENVIRONMENT	
Module 9	Channel Climate	9/1
9.1	Channel Climate: When Relationships Get Heated	9/1
9.2	Important Channel Climate Behaviours	9/3
9.3	Achieving Cooperative Channel Climates	9/9
9.4	Conflict Resolution and Channel Climate	9/10
9.5	Compliance Techniques	9/12
9.6	Relationship Building in Marketing Channels	9/16
9.7	Nurturing Channel Relationships	9/18
9.8	Improving Channel Performance through Cooperation	9/19

	9.9 Key Terms	9/21
	Learning Summary	9/21
	Review Questions	9/22
Module 10	Conflict Resolution Strategies	10/1
	10.1 Negotiation: The Art of Give and Take	10/2
	10.2 Problem-Solving Strategies	10/11
	10.3 Persuasive Mechanisms	10/13
	10.4 Legalistic Strategies	10/14
	10.5 Taking the Long View: Managing Conflict through Managing Channel Climate	10/15
	10.6 Interdependence: Tying It All Together	10/17
	10.7 Key Terms	10/18
	Learning Summary	10/18
	Review Questions	10/19
Module 11	Information Systems and Relationship Logistics	11/1
	11.1 Logistics	11/2
	11.2 Logistics and Channel Management	11/6
	11.3 Relationship Logistics Model	11/8
	11.4 Logistics Inputs	11/11
	11.5 Logistics Mediators	11/12
	11.6 Logistics Outputs	11/21
	11.7 Key Terms	11/22
	Learning Summary	11/22
	Review Questions	11/24
Module 12	Cultivating Positive Channel Relationships	12/1
	12.1 Recruiting and Screening New Prospects	12/2
	12.2 Selecting the Right Channel Partners	12/6
	12.3 Motivating New Channel Members	12/8
	12.4 Securing Recruits for the Long Term	12/9
	12.5 Appendix 12 – Managing Impressions in Channel Relationships	12/14
	12.6 Key Terms	12/26
	Learning Summary	12/26
	Review Questions	12/27

PART 4	<i>ECONOMIES OF EXCHANGE</i>	
Module 13	Transaction Costs in Marketing Channels	13/1
	13.1 Conditions for Exchange	13/2
	13.2 Factors in Deriving Economic Value	13/3
	13.3 Cooperation versus Opportunity Costs	13/7
	13.4 Transaction Cost Analysis	13/8
	13.5 Transaction Cost Analysis: Problems and Limitations	13/12
	13.6 Economic Exchange Relationships	13/19
	13.7 Key Terms	13/22
	Learning Summary	13/22
	Review Questions	13/24
Module 14	Vertical Marketing Systems	14/1
	14.1 Building Channels	14/1
	14.2 When Should Organisations Vertically Integrate?	14/11
	14.3 Value-Adding Partnerships: Beyond Vertical Marketing Systems	14/15
	14.4 Key Terms	14/20
	Learning Summary	14/20
	Review Questions	14/22
Module 15	Franchising: A Global Trend	15/1
	15.1 Franchising Systems	15/2
	15.2 Relevant Trends in the Franchising Environment	15/7
	15.3 Internal Environmental Factors	15/11
	15.4 Conflict in Franchising	15/12
	15.5 Current Legal Standards in Franchising	15/14
	15.6 Making Franchise Relationships Work	15/17
	15.7 What's in Franchising's Future?	15/23
	15.8 Key Terms	15/25
	Learning Summary	15/25
	Review Questions	15/27
PART 5	<i>RELATIONSHIPS AND THE INTERACTION PROCESS</i>	
Module 16	Long-Term Interfirm Relationships	16/1
	16.1 Exchange Relationships: Bridging Transactions	16/2
	16.2 Exchange Episodes	16/4
	16.3 The Discrete-Relational Exchange Continuum	16/10

	16.4 Stages of Channel Relationships	16/13
	16.5 Exchange Governance Norms	16/16
	16.6 Relationship Selling	16/20
	16.7 Key Terms	16/21
	Learning Summary	16/21
	Review Questions	16/22
Module 17	The Role of Strategic Alliances	17/1
	17.1 Strategic Alliances: Definition and Characteristics	17/1
	17.2 The Nature and Scope of Strategic Alliances	17/6
	17.3 Types of Strategic Alliances	17/11
	17.4 Developing Strategic Alliances	17/15
	17.5 The Downside of Strategic Alliances	17/22
	17.6 Key Terms	17/23
	Learning Summary	17/23
	Review Questions	17/24
Module 18	Strategic Implications for the New Millennium	18/1
	18.1 Channel Management: Practitioners' Insights	18/2
	Review Questions	18/9
Appendix 1	Practice Final Examination	A1/1
	Practice Final Examination 1	1/2
	Practice Final Examination 2	1/3
Appendix 2	Answers to Review Questions	A2/1
	Module 1	2/1
	Module 2	2/4
	Module 3	2/5
	Module 4	2/8
	Module 5	2/10
	Module 6	2/14
	Module 7	2/16
	Module 8	2/19
	Module 9	2/21
	Module 10	2/24
	Module 11	2/26
	Module 12	2/29
	Module 13	2/31

Contents

Module 14	2/33
Module 15	2/36
Module 16	2/39
Module 17	2/41
Module 18	2/43
Index	I/I

Introduction

This marketing channels distance learning programme is based on the published (1997) book *Marketing Channels: A Relationship Management Approach** and was updated in 2013. The programme has the following objectives:

1. To explore the nature and scope of exchange relationships in marketing channels settings.
2. To integrate the various marketing channels perspectives and pedagogies from around the world.
3. To marry existing marketing channels theory to cutting-edge channels practice.
4. To pay special attention to legal and ethical issues in marketing channels.
5. To connect marketing channels to trends in the marketplace.

The contents of this publication are organised around the above objectives on a sequential basis. It contains 18 modules which are divided into five parts as follows:

- One – Marketing Channels Framework
- Two – External Channel Environment
- Three – Internal Channel Environment
- Four – Economies of Exchange
- Five – Relationships and the Interaction Process

Each module contains six sections: (1) a statement of module objectives; (2) the main text; (3) short answer and essay questions; (4) multiple choice questions; (5) discussion questions; (6) references.

Instructions on Using Study Programme Materials

Before studying any of the module materials, read the Preface which discusses the authors' rationale in writing the text component of this study programme's materials, in particular their use of a Channel Relationship Model (CRM) to provide direction throughout the text.

Following your reading of the Preface, you should prepare yourself for studying Module 1 – and each successive module – by reading the module objectives. In the process of doing so, try to relate the content of these to how they interact with other marketing activities as well as with other functional areas in your company such as finance and production.

When you finish this brief exercise, read the main text carefully and thoroughly. Some students find it desirable to read the text material twice – once through quickly followed by a second, more careful reading. Some find it helpful to take notes or even outline the contents of this section. You should do whatever you feel provides the best results. Upon completion of your study of the main text in the module, you should proceed to the summary outline that follows the text of the

* Written by Lou E. Pelton, David Strutton, and James R. Lumpkin, published by and copyright Richard D. Irwin, a Times Mirror Higher Education Group, Inc., Company, Chicago, IL (1997).

module. Pay particular attention to the definition of key words/terms. If you find *any* difficulty in understanding *any* part of this outline, you should refer to that part of the text.

You are now ready to be examined on how well you understand the module and can apply its content to the real world. Four types of questions are used to test your effort. The answers to all four sets of questions are contained in Appendix 2. The first three sets are essentially concerned with the module's content and how well you can recall and discuss it. You should write your answers and then compare them with the answers given in Appendix 2.

Conclusion

The time required to complete a module will, of course, vary between students – and even for the same student with regard to different modules. On average, we would expect you to spend at least two to three hours studying each module's content. Some of this time will be spent in relating what you are reading to your own job situation. The self-examination part of the learning procedure (the four batteries of questions at the end of each module) will take probably another two hours or more, depending upon how much reviewing is necessary.

As you proceed through the modules, you may find it desirable, even necessary, to review certain parts of earlier modules. Thus, some of the later modules may well require additional study time. If you continuously try to apply what you are learning to your own organisation, you will find yourself learning a great deal more not only about marketing, but about your organisation as well. We would hope that you will involve, where you feel it is appropriate, knowledgeable business people (including those in the organisation where you are employed) in your pursuit of an understanding of marketing channels. We also hope that at the conclusion of the course you will be satisfied with what you have learned about this subject and feel confident in your ability to apply the basic concepts included in the text.

After completing your study of the 18 modules, you are now ready to take the two practice examinations (Appendix 1). *A word of caution* – be sure you thoroughly review all modules, including the answers to review questions, before taking these exams.

For those of you wanting more exposure to certain marketing subjects, each module's references represent a major resource. These not only identify a large number of useful articles from a wide range of academic journals and business publications, but also refer to the best specialised textbooks which are concerned with the subject's different components.

Preface

Nestled in Atlanta, Georgia's Stone Mountain park which is just a stone's throw from Emory University's Center for Relationship Marketing, the father of contemporary marketing channels, Louis W. Stern, delivered a telling address to an assembly of marketing scholars. In his address, he shaped a contemporary view of marketing channels. His view championed the shift toward long-term, win-win *channel relationships*. Why begin our book by mentioning Professor Stern's discourse at the Second Research Conference on relationship marketing? The simple reason is that our book is all about channel relationships. *Marketing Channels: A Relationship Management Approach* addresses the real-world connection between marketing channels and relationship marketing. Small wonder that our book is inspired by two pioneers in marketing channels and relationship marketing theory, Professors Louis W. Stern and Jagdish N. Sheth. In the spirit of their scholarly contributions, our book highlights the growing importance of channel relationships in creating sustainable market value and sustainable competitive advantage.

A Course for Exploring the Nature and Scope of Exchange Relationships in Marketing Channel Settings

The door to sustainable market value hinges on channel relationships. Market giants like General Electric, IBM, Microsoft, Mitsubishi, Motorola, and Siemens forge collaborative channel relationships to improve their global market competitiveness. In fact, management guru Peter Drucker cites marketing channels as the last frontier on the road to building sustainable market value. Simply put, as markets change, so too must marketing channels. Yet, marketing channels pedagogy has remained virtually unchanged for decades. *Marketing Channels: A Relationship Management Approach* charts a new course for exploring the nature and scope of channel relationships.

A Model-Driven Approach, the CRM Provides Direction for the Entire Course

This course takes a marked detour from the traditional Four Ps 'map' of marketing channels. *Marketing Channels: A Relationship Management Approach* pioneers a model-driven approach to marketing channels pedagogy. The Channel Relationship Model (CRM) is introduced in the first module, and it provides direction for the entire course.

The first part of the course, called the Marketing Channels Framework, introduces students to a relationship perspective of marketing channels. It describes how an organisation's mission should drive channel systems in the competitive marketplace. The interface between marketing channels and the marketing mix elements is also explored in this part. Our book then proceeds to address each of the other fundamental components of the CRM:

- *External Channel Environment.* This component of the CRM investigates external challenges and opportunities that impact channel systems. The part demonstrates that channel relationships are important mechanisms to more effectively manage uncertainty in the macroenvironment.
- *Internal Channel Environment.* The next part investigates the behavioural issues that beset the channel relationship process, including coordination, conflict and co-operation. The importance of information systems and logistics in creating and sustaining coordinated channel relationships is highlighted there, as well.
- *Economies of Exchange.* The third component of the CRM critically assesses the economic basis for the exchange process. It extends the notion of economic exchange to address vertical integration decisions faced by marketing organisations. In this part, a special emphasis is placed on franchising as a vertical integration option.
- *Relationships and the Interaction Process.* The final part of the course explores the relational exchange approach in marketing channels practice. The concepts of relational exchange are related to the development of strategic partnering, and the implications of strategic partnering for future marketing channels practice are addressed.

Acknowledgments

We sincerely thank the students and educators – too numerous to individually mention – whose insights and suggestions provided a general direction for our efforts. We also thank Gilbert A. Churchill, Jr, the first reviewer of our efforts, for his encouragement and advice on how to develop this project. As a result of their efforts, this is truly a market-driven channels text.

A host of reviewers made sure that our text preparation adhered precisely to the letter and spirit of the Eight Imperatives. We extend our sincere gratitude to them. Without the following reviewers, this project could not have been successfully completed: Moshen Bagnied, *University of the District of Columbia*; Dan Bello, *Georgia State University*; David Bloomberg, *Western Illinois University*; James R. Brown, *Virginia Polytechnic Institute and State University*; Chris Cox, *Nicholls State University*; Robert F. Dwyer, *University of Cincinnati*; Samuel Gillespie, *Texas A&M University*; James C. Johnson, *St. Cloud State University*; Alma Minu-Wimsatt, *East Texas State University*; Rammonhan Pisharodi, *Oakland University*; David J. Urban, *Virginia Commonwealth University*; Joyce A. Young, *Indiana State University*; Brent Wren, *University of Alabama-Huntsville*; Ronald Zallocco, *University of Toledo*.

Channel relationships do not just happen, they evolve over time. Accordingly, there are a number of individuals who provided training and support that culminated in *Marketing Channels: A Relationship Management Approach*. We appreciate their contributions, and we recognise them here: Marwan Aridi, *Aridi Computer Graphics*; Stephanie Armbruster, *University of Southwestern Louisiana*; David Ballantyne, *Monash University*; Barbara Brickley, *University of Southwestern Louisiana*; Rajiv Dant, *Boston University*; William R. Darden, *Louisiana State University*; O.C. Ferrell, *University of Memphis*; Barnett A. Greenberg, *Florida International University*; Ronald W. Hasty, *University of North Texas*; Neil C. Herndon, *City University of Hong Kong*; Subhash Mehta, *National University of Singapore*; Mary F. Mobley, *Augusta College*; Atul Parvatiyar, *Emory University*; Jennifer Romero, *University of Southwestern Louisiana*; Mickey C. Smith, *University of Mississippi*; James H. Underwood, *University of Southwestern Louisiana*; Scott J. Vitell, Jr, *University of Mississippi*; David Wilson, *Pennsylvania State University*.

We would like to especially thank Mary Domingue who tirelessly deciphered and organised our writings through the many versions of the text.

Margaret Carty once wrote, ‘The nice thing about teamwork is that you always have others on your side.’ This project extended beyond the authors’ contribution. In fact, this book is a joint effort with our editor, Stephen Patterson. Steve was an enthusiastic supporter of the book’s pedagogy, from its conception to its production. Steve championed and challenged our pedagogical perspectives, thus ensuring a true match between this book’s mission, its content and the needs of the market it serves.

Stephen Patterson was the nucleus of a dedicated and conscientious team of Richard D. Irwin professionals. Having heard anecdotes of developmental channel

conflicts from other authors, we expected to practice some of the conflict resolution strategies (addressed in Module 10) in our dealings with the publisher. This was not the case. The following members of the Irwin team epitomised the sort of cooperation, coordination and specialised contributions that lead to long-term, successful exchange relationships: Rob Zwettler, publisher; Colleen Suljic, marketing manager; Eleanore Snow and Lynn Mooney, developmental editors; Andrea Hlavacek, editorial coordinator; Jean Lou Hess, project supervisor; Liz McDonald, copyeditor; Michael J. Hruby, picture researcher; and Crispin Prebys, designer.

Like channel relationships, *Marketing Channels: A Relationship Management Approach* is an ongoing process. So we look forward to hearing your suggestions for improvements and your experiences using our book.

We agree with Professor Drucker – marketing channels will be the route to sustainable market value. We sincerely hope that *Marketing Channels: A Relationship Management Approach* is a worthy vehicle for providing market value to students.

Lou E. Pelton

David Strutton

James R. Lumpkin

PART I

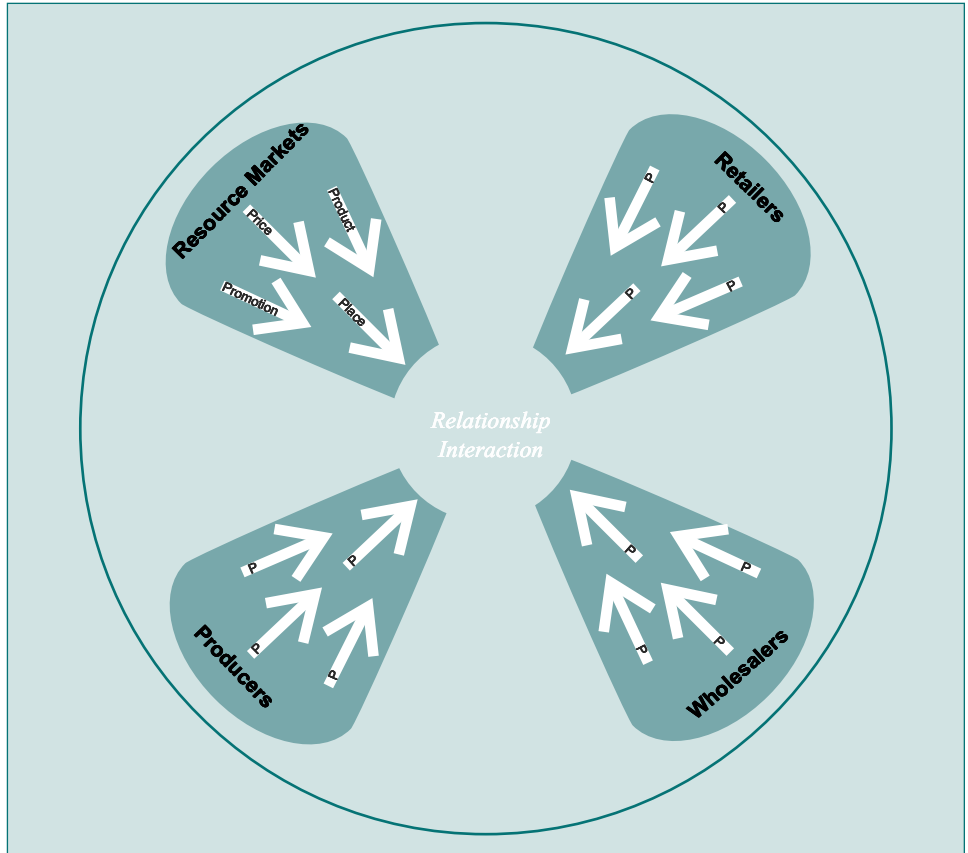
Marketing Channels Framework

Module 1 Where Mission Meets Market

Module 2 Channel Roles in a Dynamic Marketplace

Module 3 Conventional Marketing Systems

Module 4 Marketing Mix and Relationship Marketing



Where Mission Meets Market

Contents

1.1	The Elements of Successful Marketing Channels.....	1/1
1.2	What Is a Marketing Channel?	1/4
1.3	Evolution of Marketing Channels	1/5
1.4	Channel Intermediaries: The Customer Value Mediators.....	1/9
1.5	Channel Relationship Model (CRM)	1/15
1.6	The CRM: Compass Points	1/18
1.7	Key Terms	1/19
	Learning Summary.....	1/19
	Review Questions	1/20

Learning Objectives

After reading this module, you should be able to:

- Discuss how pooled resources, collective goals, connected systems, and flexibility relate to successful marketing channels.
- Defend the association between a marketing organisation’s mission statement and the market(s) that it serves.
- Define a marketing channel, and explain how marketing channels create exchange utility.
- Trace the evolution of marketing channels from a production to a relationship orientation.
- Define channel intermediaries and explain how they create customer value.
- Describe how the definition of marketing channels relates to the Channel Relationship Model (CRM).

1.1 The Elements of Successful Marketing Channels

For marketing channels to succeed in a competitive marketplace, independent marketing organisations must *pool* individual resources to achieve *collective goals* through a *connected system*. In addition, this connected system must be *flexible* enough to accommodate changes in the environment. By combining their strengths, organisations hope to achieve global success which they would be unable to achieve individually. Let’s take a look at the four key elements of success in channels.

1.1.1 Pooled Resources

A marketing channel operates as a team, sharing resources and risks to move products and resources from their point of origin to their point of final consumption. Consider how the US beer industry operates, for example.

The US has a three-tier beer distribution system, which consists of brewers, distributors and retailers. Over 3000 beer distributors, with over 130 000 employees, manage the multibillion-dollar business of delivering brew to retailers.¹ From Anaheim (California) to Zanesville (Ohio), these wholesale distributors make sure that beer flows from brewers to a variety of retail outlets ranging from neighbourhood taverns to local convenience stores. In the US, the basic system is that brewers must sell to distributors, distributors sell to retail outlets and only retail outlets can sell beer to consumers. So, for a consumer to quaff a beer, a literal ‘give and take’ has to unfold between breweries, wholesale distributors, and retailers.

Beer distributors do more than pool resources for retailers. It is not unusual to see distributors acting as field operatives, talking with customers, straightening up cases of beer on retail floors, and cleaning draft-beer lines. Not only do distributors provide retailers with merchandising and promotional assistance, they also gather market information for the breweries’ marketing staffs.²

1.1.2 Collective Goals

A sense of shared purpose helps unite organisations within marketing channels, particularly when the organisations sense a chance to win a critical competition for market share. While at times these connections are short in duration, they sometimes last for decades.

The purpose shared by members of an organisation is reflected in the organisation’s mission statement. A **mission statement** is an organisation’s strategic charter – a public declaration of why it exists. A mission statement proclaims: (1) an organisation’s goals, (2) the procedures to be employed in pursuit of those goals, and (3) how the organisation intends to satisfy the needs of its internal and external customers.

The mission statement of FedEx in 2013 was: ‘FedEx Corporation will produce superior financial returns for its shareowners by providing high value-added logistics, transportation and related business services through focused operating companies. Customer requirements will be met in the highest quality manner appropriate to each market segment served. FedEx will strive to develop mutually rewarding relationships with its employees, partners and suppliers...’ Three critical marketing principles are inherent within FedEx’s mission. First, FedEx’s mission describes *who the firm intends to serve*: anyone having transportation, distribution and related business service needs. The mission then explains *how the firm intends to serve its market*: by developing mutually rewarding relationships with its employees, partners and suppliers. Finally, the statement discloses *the criteria that FedEx must meet or exceed to establish a competitive advantage*: by offering customers a high-quality service.³

1.1.3 Connected System

Organisations cannot exist without markets. All business competition emerges within marketing channels, and the success or failure of all individual enterprise is ultimately decided there.⁴ Channel members regulate the flows of goods and services in the marketplace. The degree to which channel members regulate these flows has never been more significant than it is today, as illustrated in Time Out 1.1. The influence of marketing channels is likely to grow every year into the foreseeable future.

Time Out 1.1

Working Together through Marketing Channels

US companies are bringing planes, cars, and even household appliances to market quicker and less expensively. The key to this revolution? Manufacturers have decided to lean on their suppliers – players within their marketing channels – to help engineer and bankroll their new projects.

This is really an extension of changes that began in the 1980s, when manufacturers first began to attack their high labour expenses by shifting production to suppliers, who had lower labour costs. Now manufacturers are shaving costs further by farming out many of the tasks associated with new product development to suppliers. In fact, many manufacturers are no longer ‘manufacturers’, but rather orchestrators who harmonise their suppliers’ work. Meanwhile, manufacturers’ suppliers, who for decades did little more than pound out parts as cheaply as possible, are staffing their own research and development departments in response to these changing market needs.

McDonnell-Douglas Corp. trimmed 60 per cent of its cost of developing a new 100-seat passenger plane by having suppliers provide start-up tooling costs and by sub-contracting assembly of the plane. Chrysler exploited its parts suppliers’ ability to design everything from car seats to drive shafts. Whirlpool cooked up its first range without hiring a single engineer. Instead, design work was done by Eaton Corp., a supplier that already made gas valves for other appliance manufacturers.

Where all this will end is far from clear. But one thing is certain: This change in the role of marketing channels and channel partnerships will surely increase the international competitiveness of American companies well into the future.

Question

- Despite this glowing report, can you envision any problems that might emerge from these closer channel member associations?

Adapted from: Remich, Norman C., Jr (1994), ‘The Power of Partnering’, *Appliance Manufacturer*, 42(8), A1–A4, and Templin, Neal and Jeff Cole (1994), ‘Working Together: Manufacturers Use Suppliers to Help Them Develop New Products’, *The Wall Street Journal*, (19 December), A1.

The next time you sip a cup of coffee, consider the connected forces that impact its distribution. For one, there is a good chance that those brewed coffee beans were

grown in Colombia, one of the world's largest producers of premium-grade coffees. When Mother Nature abuses Colombia's coffee crop with tropical rainfalls or frost, prices skyrocket on New York's Coffee, Sugar & Cocoa Exchange. On the other hand, coffee prices plummet when word of a good crop spreads across the trading floor. In turn, these price fluctuations surely affect the behaviour of the companies that purchase green coffee beans to roast and resell to wholesalers. Ultimately, the success or failure of Colombia's coffee crop affects the price you pay for roasted beans at your local grocery store or coffee house.⁵

1.1.4 Flexibility

Marketing channels must be flexible systems in order to be successful. Wroe Alderson, a prominent marketing theorist of the twentieth century, described marketing channels as *ecological systems*. Alderson offered this description because of the unique, ecological-like connections that exist among the participants within a marketing channel. As Alderson put it, the organisations and persons involved in channel flows must be 'sufficiently connected to permit the system to operate as a whole, but the bond they share must be loose enough to allow for components to be replaced or added'.⁶

Whether you prefer cold beer or hot coffee, you probably don't consider how the barley or beans arrive in a consumable form at your favourite watering hole or coffee house. Your lack of concern is exactly what this team is striving to create: a seamless flow from farm to mug. In this book, we discuss how independent organisations form marketing relationships to create satisfied customers.

1.2 What Is a Marketing Channel?

For many of you, the word 'channel' may conjure up images of a waterway. You may imagine Mark Twain's vivid descriptions of the everchanging Mississippi River channel in *Huckleberry Finn*. Or you might envision the English Channel – a formidable geographic barrier that has kept England secure from foreign invasion since the year 1066. On the other hand, the term may remind you of the mechanical device that allows you to flip from one football game to another on an autumn weekend.

Regardless of the image, each implies the presence of a passageway, a real or imaginary conduit allowing certain processes to occur. Such imagery offers a surprisingly accurate description. The term *marketing channel* was first used to describe the existence of a trade channel bridging producers and users.⁷ Early writers compared marketing channels to paths through which goods or materials could move from producers to users. This description makes it easy to understand how the term 'middleman' came into being as a way to explain product flows.⁸ Since then, a whole lot of other flows have been made possible by marketing channels.

Try to instil a sense of movement in your understanding of marketing channels. This movement of products and services is only made possible through the exchange process. Recall that marketing is an exchange process. In fact, the concept of exchange lies at the core of marketing. Exchange occurs whenever something

tangible (e.g., a meal) or intangible (e.g., a political concept) is transferred between two or more social actors. In fact, marketing is generally studied as an exchange process.⁹ Marketing is a ‘social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others’.¹⁰

Now consider that *marketing channels facilitate the exchange process*. Since marketing focuses on the activities and behaviours necessary for exchange to occur, channels should be thought of as *exchange facilitators*. Thus, any connection between individuals and/or organisations that allows or contributes to the occurrence of an exchange is a marketing channel.

So, a **marketing channel** can be defined as an array of exchange relationships that create customer value in the acquisition, consumption, and disposition of products and services. This definition implies that exchange relationships emerge *from market needs* as a way of *servicing market needs*. Channel members must come to the marketplace well equipped to address changing market needs and wants.

On your next trip to the supermarket, consider the variety of prepared foods in and around the deli case. Consumers are increasingly opting for fast, convenient, ready-to-serve meals. With supermarket managers pressured to compete in the prepared foods market, restaurant equipment manufacturers are lending a helping hand by partnering with other suppliers to offer turnkey food preparation programmes. These turnkey programmes offer grocery retailers a ‘ready-to-serve’ package that includes equipment, training, and in-store promotional support. One such programme was Hobart Corporation’s Pizza-To-Go, which offered retailers (and their customers) a variety of pizza options. Hobart’s ‘Pizza Planning Guide’ covered everything from cheese suppliers to triple cheese pizza recipes. Turnkey programmes like Pizza-To-Go offer retail grocers big returns on small space investments, and the programmes ultimately help supermarkets create satisfied customers.¹¹

By definition, activities or behaviours that contribute to exchange cannot exist without first having markets. In market settings, it is understood that no individual or organisation can operate for long in complete isolation from other individuals or organisations. The interaction between Hobart (equipment producers), cheese suppliers (wholesale distributors), supermarkets (retailers), and hungry patrons (consumers) demonstrates how exchange relationships emerge *from market needs* as a way of *servicing market needs*. In each case, some interaction must exist for marketing to occur. In the next section, we investigate how, as a result of such interactions, marketing channels have evolved from a distribution to a relationship orientation.

1.3 Evolution of Marketing Channels

Marketing channels always emerge out of a demand that marketplace needs be better served. However, markets and their needs never stop changing; therefore, marketing channels operate in a state of continuous change and must constantly adapt to confront those changes. From its inception to its contemporary standing, the evolution of marketing channels thought can be divided into four stages.

1.3.1 The Production Era and Distributive Practices

The origins of marketing as an area of study are inextricably tied to distributive practices. The earliest marketing courses, in fact, were essentially distribution courses. Course titles like ‘Distributive and Regulative Industries of US Distribution of Agricultural Products’ and ‘Techniques of Trade and Commerce’ abounded at Schools of Commerce during the early 1900s. These courses addressed the ways in which marketing channels spawned middlemen who, in turn, facilitated more efficient movements of goods and services from producers to users.¹² As American productivity and urbanisation increased with each passing decade of the twentieth century, the demand for a variety of production resources to be used as manufacturing inputs naturally followed suit. Rapidly growing urban centres demanded larger and more diverse bundles of goods than had previously been available. By 1929, retailing accounted for nearly \$50 billion of US trade.¹³ Modern-looking market channels emerged in response to the need for more cost-effective ways of moving goods and raw resources.¹⁴

One description of marketing channels taken from this era stated, ‘Transportation and storage are ... concerned with those activities which are necessary for the movement of goods through space and the carrying of goods through time.’¹⁵ Increasingly, *facilitating devices* were needed to transport, assemble, and reship goods. Thus, the origins of the modern marketing channel cannot be separated from purely distributive practices.

1.3.2 The Institutional Period and Selling Orientation

The Gross National Product of the US grew at an extraordinary rate during the 1940s and this industrial expansion contributed to the emergence of sizeable inventory stockpiles. The cost of managing these inventories grew rapidly as well.¹⁶ Production techniques and marketing channel processes each became more sophisticated during this period. Issues pertaining to distribution primarily revolved around cost containment, controlling inventory, and managing assets. Marketers were shifting from a *production* to a *sales* orientation. The attitude that ‘a good product will sell itself’ receded as marketers encountered the need to expand sales and advertising expenditures to convince individual consumers and organisations to buy their specific brands.¹⁷ The classic marketing mix, or *Four Ps* typology – product, price, promotion, and place – emerged as a guiding marketing principle. Issues relating to distribution were relegated to the place domain.¹⁸ The idea that relationships between buyers and sellers could be managed did not yet exist as a topic of study.

Many new types of channel intermediaries surfaced during this period. For example, industrial distributors emerged in the channel of distribution for most industrial products and consumer durables. And by the late 1950s, sales by merchant wholesalers reached \$100 billion.¹⁹ Producers were continuously seeking new ways to expand their market coverage and distributive structures. Several giant retailers had emerged by this time, and small retailers were increasingly formalising and specialising their operations to meet the needs of a more refined marketplace.²⁰

1.3.3 The Marketing Concept

In 1951, Robert Keith, vice president of marketing at Pillsbury, introduced a seminal marketing principle to the business world: the marketing concept. According to the marketing concept, the customer is the nucleus of all marketing mix decisions.

As such, organisations should only make what they can market instead of trying to market what they have made.

The marketing concept is intuitively appealing because its focus is on the customer. In this sense, however, the marketing concept paints a very one-sided approach to reconciling a firm's mission with the markets it serves because it positions marketers as reactive exchange partners – adapting channels of distribution to meet market needs.²¹ A few of the ways that Coke is applying the marketing concept through its marketing channels are described in Time Out 1.2.

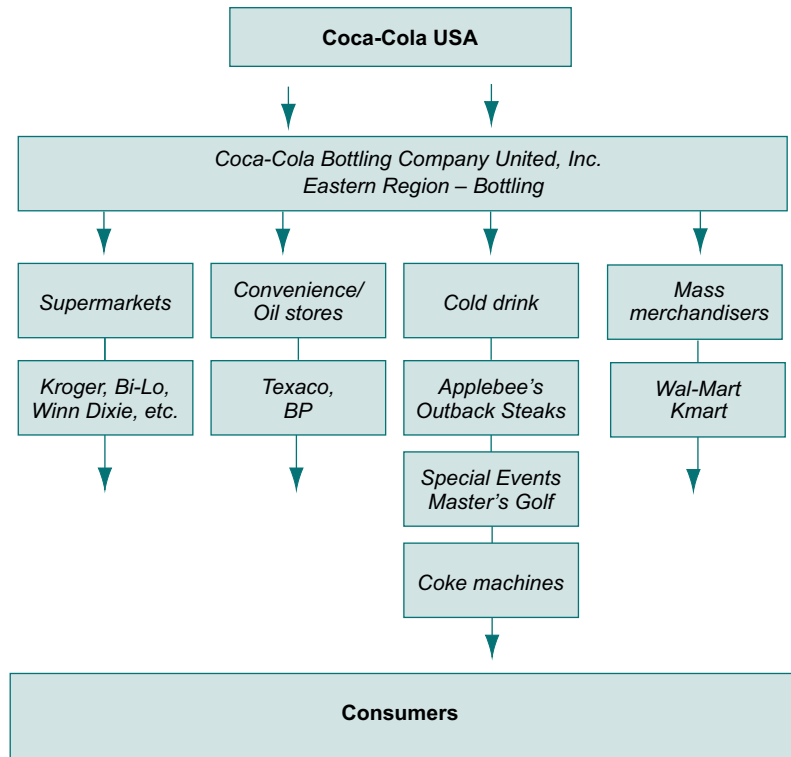
Time Out 1.2

Coca-Cola Bottler Assures Customer Satisfaction through Its Intermediaries

Coca-Cola Bottling Company United, Inc. is one of the largest independent bottlers of Coca-Cola products in the United States. Headquartered in Birmingham, Alabama, United's territory covers part of Alabama, Mississippi, Georgia, South Carolina, and Tennessee. The company supplies Coca-Cola products to many different intermediaries including supermarkets, drugstores, mass merchandisers, convenience/oil stores, restaurants, and vending machines. It is also present at special events such as the Master's Golf Tournament and local events such as county fairs. Its customers' satisfaction depends on quality delivery. United assures that quality by maintaining regular delivery schedules, prompt and accurate invoicing, and proper maintenance of its customers' inventory.

Question

- Often, the flows of seemingly simple products are not simple at all. Why?



Time Out is based on author conversation with Tom Smillie, Marketing Analyst, Eastern Region, Coca-Cola Bottling Company United, Inc.

1.3.4 Relationship Marketing Era

The marketing concept proved a logical precursor to the Total Quality Management (TQM) philosophy espoused by the late W. Edwards Deming. TQM suggests a highly interactive approach in which customers become active partners with producers, wholesalers, or retailers (channel members) to solve marketplace problems. The TQM philosophy initiated a mindset among managers that a firm's relationship with its customers fosters market-share gain and customer retention. This mindset developed alongside an era in marketing theory and practice known as relationship marketing.

The relationship marketing era is characterised by a fundamental shift from a customer *voice* to a customer *dialogue*. Rather than just reacting to customer-initiated feedback, the channel member proactively initiates and maintains a participative exchange with its customers. The concept of participation infers a high degree of cooperation and coordination between customers and their suppliers. Close

relationships between customers and their suppliers have revolutionised marketing channels in two ways:

- Close relationships emphasise a long-term, win-win exchange relationship based on mutual trust between customers and their suppliers.²²
- They reinforce the relationship dimension of exchange that is at the heart of marketing.

The progression through these four stages – from a production to a relationship approach in marketing channels – has been fostered by the evolving contributions channel intermediaries have made toward the creation of customer value.

1.4 Channel Intermediaries: The Customer Value Mediators

The relationship perspective introduced above is a far cry from the traditional view of markets as physical places where people gathered to engage in trade. A glimpse at ancient Rome's economy will help you understand the progression of marketing channels from a distribution to a relationship orientation:

'At one end of the busy process of exchange were peddlers hawking through the countryside; ... daily markets and periodical fairs; shopkeepers haggling with customers ... A little higher in the commercial hierarchy were shops that manufactured their own merchandise ... At or near ports were wholesalers who sold ... goods recently brought in from abroad.'²³

This passage shows how a logical channel structure emerged very early in the history of institutionalised markets. An established channel structure is clearly reflected within the organised behavioural system of peddlers, auctioneers, merchant wholesalers, and shopkeepers who directed the flow of goods and services in Rome. Each market player described above performed a role fulfilled by entities now known as channel intermediaries.

Channel intermediaries are individuals or organisations who mediate exchange utility in relationships involving two or more partners. Intermediaries generate form, place, time, and/or ownership values by bringing together buyers and sellers. While the names of the players have changed, the functions performed by channel intermediaries remain essentially the same. Intermediaries have always helped channels to 'CRAM' it: create utility by contributing to *Contactual* efficiency, facilitating *Routinisation*, simplifying *Assortment*, and *Minimising* uncertainty within marketing channels.

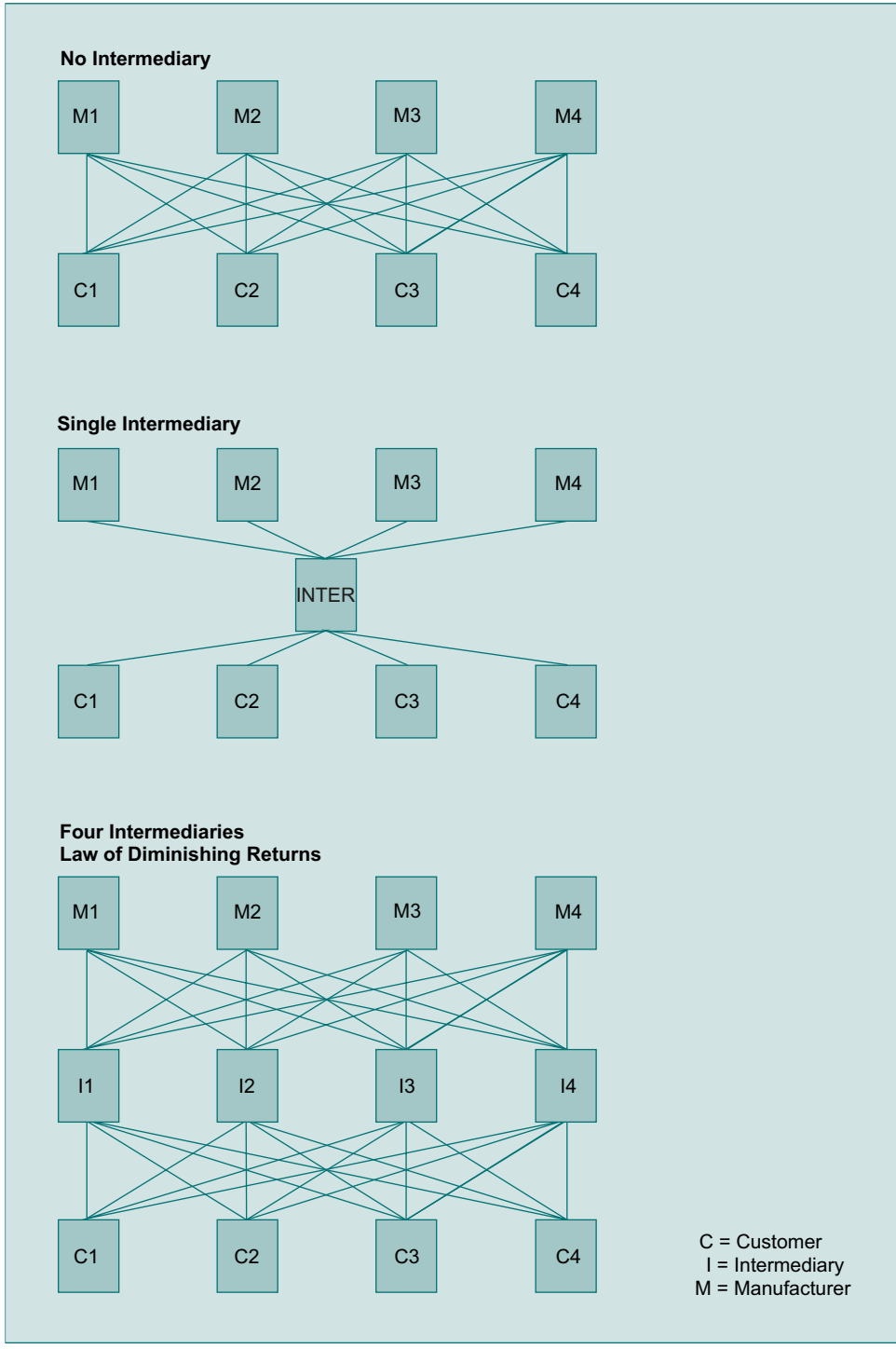
1.4.1 Contactual Efficiency

Channels consist of sets of marketing relationships that emerge from the exchange process. An important function performed by intermediaries is their role in optimising the number of exchange relationships needed to complete transactions. **Contactual efficiency** describes this movement toward a point of equilibrium between the quantity and quality of exchange relationships between channel

members. Without channel intermediaries, each buyer would have to interact directly with each seller, making for an extremely inefficient state of affairs.

When only two parties are involved in an exchange, the relationship is said to be a **dyadic relationship**. The process of exchange in a dyadic relationship is fairly simple, but it becomes far more complicated as the number of channel participants increases. Consider the following formula to understand how quickly the exchange process within a given channel can become complicated. The number of exchange relationships that can potentially develop within a channel is equivalent to $(3^n - 2^{n+1} + 1)/2$, where n is the number of organisations in a channel. When n is 2, only one relationship is possible. However, when n increases to 4, up to 25 relationships can unfold. Increase n to 6, and the number of potential relationships leaps to 301. The number of relationships unfolding within a channel would quickly become too complicated to efficiently manage if each channel member had to deal with all other members. In this context, the value of channel intermediaries as producers of contactual efficiency becomes obvious. Still, having too many intermediaries in a marketing channel likewise leads to inefficiencies. As the number of intermediaries approaches the number of organisations in the channel, the law of diminishing returns kicks in. At that point, additional intermediaries add little to no incremental value within the channel. These relationships are illustrated in Exhibit 1.1.

Exhibit I.1 Contactual efficiency



The pharmaceutical drug industry illustrates how contactual efficiency shapes up in the marketplace. McKesson Corporation, an American drug and personal care products wholesaler, acts as an intermediary between drug manufacturers and retail pharmacies. Millions of transactions would be necessary to satisfy the needs of the some 40 000 pharmacies in the US if these pharmacies had to order on a monthly basis from the 1500 US pharmaceutical drug manufacturers. When our example is broadened to the possibility of daily orders from these pharmacies, the total number of monthly transactions required would be nearly impossible to consummate. However, introducing wholesale distributors into the pharmaceutical channel reduces the number of annual transactions illustrating the essence of contactual efficiency.²⁴

1.4.2 Routinisation

The costs associated with generating purchase orders, handling invoices, and maintaining inventory are considerable. Now imagine the amount of order processing that would be necessary to complete millions upon millions of pharmaceutical transactions. In recognition of this, McKesson Corporation offered *Economost*, a computer-networked ordering system for pharmacies that provided fast, reliable, and cost-effective order processing. The system processed each order within one hour and routed the order to the closest distribution system for delivery. *Economost* relieved retailers of many of the administrative costs associated with routine orders and, not coincidentally, made it more likely that McKesson would get their business as a result of the savings.²⁵ Nowadays this approach is commonly adopted with many organisations turning to enterprise software to manage business operations such as that offered by SAP AG.

The *Economost* system represented the state of the art in routinisation. **Routinisation** refers to the means by which transaction processes are standardised to improve the flow of goods and services through marketing channels. Routinisation itself delivers several advantages to all channel participants. First, as transaction processes become routine, the expectations of exchange partners become institutionalised. There is then no need to negotiate terms of sale or delivery on a transaction-by-transaction basis. Second, routinisation permits channel partners to concentrate more attention on their *own* core business concerns. Furthermore, routinisation provides a basis for strengthening the relationship between channel participants.

1.4.3 Sorting

Organisations strive to ensure that all market offerings they produce are eventually converted into goods and services consumed by those in their target market. The process by which this market progression unfolds is called sorting. In a channels context, **sorting** is often described as a *smoothing function*. This function entails the conversion of raw materials to increasingly more refined forms until the goods are acceptable for use by the final consumer. The next time you purchase a soda, consider the role intermediaries played in converting the original syrup (often produced in powdered form) to a conveniently consumed form. Coca-Cola USA ships syrup and other materials to bottlers throughout the world. Independent

bottlers carbonate and add purified water to the syrup. The product is then packaged and distributed to retailers.

Two principal tasks are associated with the sorting function. They are:²⁶

- **Categorising.** At some point in every channel, large amounts of heterogeneous supplies have to be converted into smaller homogeneous subsets. Returning to our pharmaceutical example, the number of drugs or drug combinations available through retail outlets is huge. Over 10 000 drugs or drug combinations currently exist. In performing the categorisation task, intermediaries first arrange this vast product portfolio into manageable therapeutic categories. The items within these categories are then categorised further to satisfy the specific needs of individual consumers.
- **Breaking Bulk.** Producers try to produce in bulk (i.e., large) quantities. Thus, it is often necessary for intermediaries to break homogeneous lots into smaller units. How does this apply to distribution of drug products? Over 60 per cent of the typical retail pharmacy's capital is tied to the purchase and resale of inventory. The opportunity to acquire smaller lots means smaller capital outflows are necessary at a single time. Consequently, pharmaceutical distributors must continuously break bulk to satisfy the retailer's lot size requirements.

The sorting function's contributions to profit are astounding, helping to convert billions of dollars of unproductive inventory into sales.

1.4.4 Minimising Uncertainty

The role that intermediaries play in reducing uncertainty is perhaps their most overlooked function. Several types of uncertainty develop naturally in all market settings.²⁷

Need Uncertainty

Need uncertainty refers to the doubts that sellers often have regarding whether they actually understand the needs of their customers. Most of the time neither sellers nor buyers understand the exact machines, tools, or services required to reach optimal levels of productivity. Since intermediaries function as bridges linking sellers to buyers, they can become much closer to both producers and users than producers and users are to each other. As a result, the intermediary is in the best position to understand each of their needs and reduce sellers' uncertainty by carefully reconciling *what is available* with *what is needed*.

Few members within any channel are able to accurately state and rank their needs. Instead, most channel members have needs they perceive only dimly, while still other firms and persons have needs of which they are not yet aware.²⁸ In channels where there is a lot of need uncertainty, intermediaries generally evolve into specialists. The ranks of intermediaries must then increase, while the roles they play become more complex. Conversely, the number of intermediaries generally declines as need uncertainty decreases.

Market Uncertainty

Market uncertainty depends on the number of sources available for a product or service. Market uncertainty is generally difficult to manage because it often results

from uncontrollable environment factors – i.e., social, economic, and competitive factors. One means by which organisations can reduce their market uncertainty is by broadening their view of what marketing channels can, and perhaps should, do for them.

Transaction Uncertainty

Transaction uncertainty relates to imperfect channel flows between buyers and sellers. When we consider product flows, we typically think of the delivery or distribution function. Intermediaries play the key role in ensuring that goods flow smoothly through the channel. The delivery of materials frequently must be timed to precisely coincide with the use of those goods in the production processes of other products or services. Problems arising at any point during these channel flows can lead to higher transaction uncertainty. Such difficulties could arise from legal, cultural, or technological sources. When transaction uncertainty is high, buyers attempt to secure parallel suppliers, although this option is not always available.

Uncertainty within marketing channels can be minimised through careful actions taken over a prolonged period of exchange. Naturally, as exchange processes become standardised, need, market, and transaction uncertainty is lessened. Furthermore, as *exchange relationships* develop, uncertainty decreases because exchange partners have got to know one another better and are communicating their needs and capabilities.

The functions performed by marketing intermediaries concurrently satisfy the needs of channel members in several ways.²⁹

- **Facilitating Strategic Aims.** The most basic way that the needs of market channels can be assessed and then satisfied centres on the role channel intermediaries can perform in helping channel members reach the goals mapped out in their strategic plans.
- **Fulfilling Interaction Requirements.** This refers to the degree of coordination and on-site service required by members of a marketing channel. Coordination provides the means by which harmony in ordering systems, delivery timing, and merchandising is achieved between buyers and sellers.
- **Satisfying Delivery and Handling Requirements.** How often do customers need deliveries? What are their order quantities? To what extent will demand fluctuate? These questions typify the processes involved in matching channel functions to the need for efficient resource management within marketing channels. Channel members are often unaware of their precise delivery and handling requirement needs. By minimising transaction uncertainty, channel intermediaries help clarify these processes.
- **Managing Inventory Requirements.** The costs of financing and carrying inventory differ across product categories and channel members. The proficiency, with which they determine and ultimately satisfy warehousing, stock-out, and product substitutability needs, sets intermediaries apart from each other.

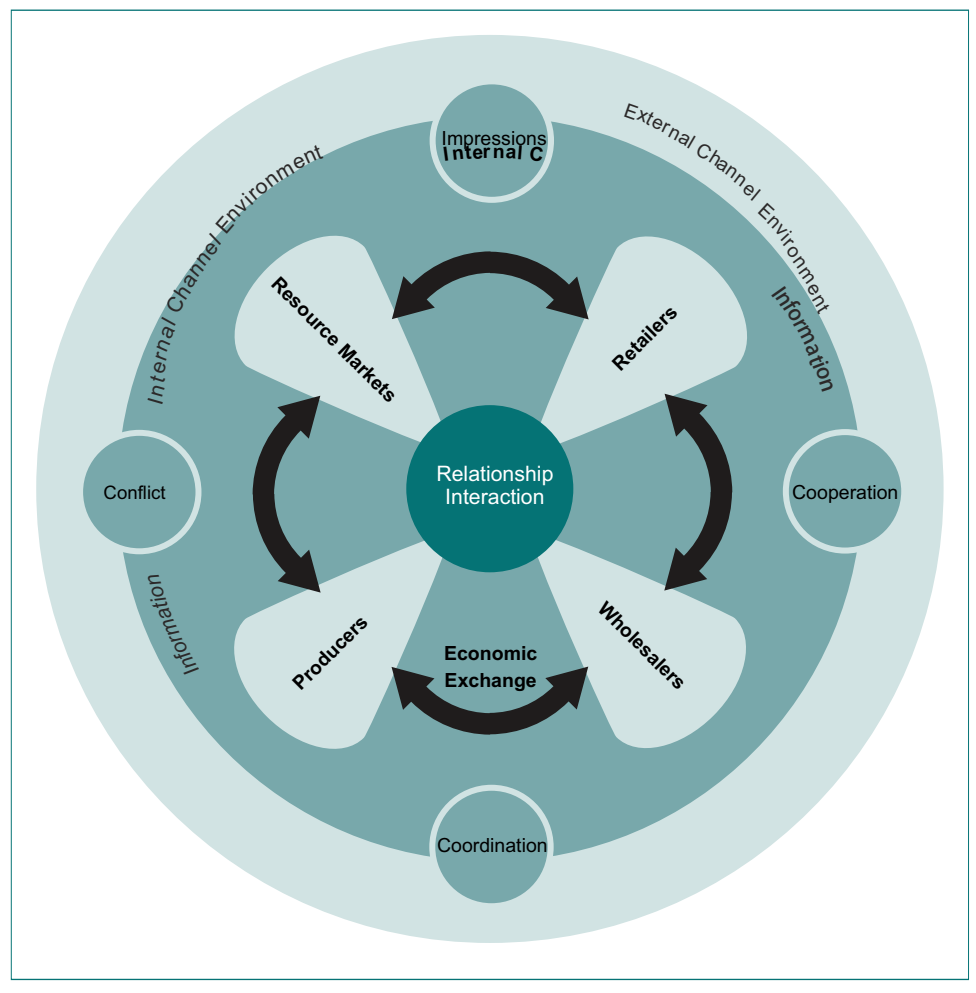
To summarise, channel intermediaries, by bridging producers and their customers, are instrumental in aligning an independent organisation's mission with the

market(s) it serves. Channel intermediaries foster relationship-building by providing these fundamental functions in the marketing channel.

1.5 Channel Relationship Model (CRM)

Earlier in this module, we defined a marketing channel as an array of exchange relationships that create customer value in the acquisition, consumption, and disposition of products and services. Each component of this definition is embedded in the Channel Relationship Model (CRM) pictured here as Exhibit 1.2. While the marketing channel participants will likely change over time, the CRM provides a structure for examining marketing channels, exchange relationships and the creation of customer value.

Exhibit 1.2 Channel Relationship Model (CRM)



1.5.1 Array of Exchange Relationships

The term *array* refers to the assortment of human (social) interactions that occur within and between marketing channels. In the CRM, there are three fundamental human interactions. The first interaction is within the marketing organisation (intraorganisational). The second interaction is between marketing organisations (interorganisational). Finally, the last set of exchange relationships is between marketing organisations and their environments. How do these exchange relationships play out in the marketplace?

In the 1990s Table Toys, Inc., a small Texas-based toymaker, rose to compete with market giants in the \$17 billion toy industry. But it wasn't easy. The flagship table product itself was developed as a result of an internal exchange relationship: a marriage. The company's founder, Donna Buske, asked her husband to build a table to organise the Lego blocks typically scattered on the floor at the Houston day care centre where she worked. Her husband, a furniture maker, returned with a wooden table equipped with a recessed basket for the loose blocks. That table eventually became the prototype for the popular Fun Tables and Play Tables that accommodate Lego blocks at doctors' offices, day care centres, and homes throughout the US.

In spite of their creativity, however, the Buskes found it difficult to get their product on retail store shelves. For example, Toys 'R' Us initially told them, 'We don't talk to manufacturers and we don't look at prototypes.' So the Buskes connected with a toy industry veteran who introduced the Buskes to a manufacturer's sales representative (intermediary). He, in turn, successfully forged relationships with other organisations, including Target, an American discount retailer, and Toys 'R' Us! Upon getting the orders, the Buskes then had to develop relationships with plastic moulders to fill market demand.³⁰

Later, the Buskes faced another problem: copycats in the competitive environment. Many manufacturers produce similar tables at lower cost. Organisations have to interact with the external environment to maintain their competitive position in the marketplace just as they have to develop relationships between other organisations.

Fundamental changes are currently unfolding in nearly all industries and these changes are redefining the nature of the marketplace. The needs of industrial users and consumers are becoming increasingly sophisticated, to the point where many now insist on consultative and value-added partnerships rather than impersonal and brief encounters.³¹ The array of exchange relationships is critical to the development of customer value.

1.5.2 Creating Customer Value

Organisations take part in marketing channels because they receive a certain value, known as exchange utility, from their participation. **Exchange utility** is the sum of all costs and benefits realised separately or jointly by all the persons or organisations participating in an exchange relationship.

Four Components of Customer Value

For customers, marketing channels create form, place, possession, and time utilities. To illustrate how channels create utility, consider the seemingly routine purchase of a litre of milk. Because of the value added by marketing channels, milk is available for immediate consumption in the form sought by consumers (e.g., skimmed, low-fat, or whole; white or chocolate; one or two litres). This creates *form utility*. *Place utility* saves buyers from having to go to the farm and find a cow when they need milk. *Possession utility* offers consumers a convenient way to take ownership of the product. Retail outlets usually have clearly established prices, eliminating the need to negotiate terms of sale. The presence of *time utility* implies that goods and services will be available when they are needed. Milk shortages are thankfully rare. Consequently, few of us think about the complicated system of flows that are responsible for bringing milk from farms to kitchens.

Maintaining Customer Relationships

Investing in efforts to maintain existing customers is far more cost efficient than investing in attracting new customers. In fact, businesses spend six times more money to attract new customers than they do to keep existing ones. This is one reason why companies take customer service so seriously.

Complaining customers are much more likely to continue doing business with an organisation if they perceive the problem has been resolved in their favour. Typically, the newly satisfied customer is also likely to spread the good word to other people. Given such word-of-mouth communication, it is obvious that the way problems within the customer–supplier relationship are resolved has far-reaching ramifications. And the opportunity to develop long-term customer relations is not limited to product manufacturers or suppliers. For instance, American and United Airlines have each developed their own ticketing and reservation systems. These systems generate information that they subsequently use to fashion unique customer alliances within the highly price-competitive air travel industry.

1.5.3 Products and Services Flows

In the past, channel management almost exclusively focused on the activities necessary to acquire goods and services.³² However, the activities associated with the other two stages of exchange between producers and consuming organisations in marketing channels – consumption and disposition – should not be overlooked.

Acquisition

Acquisition involves the acts by which channel entities obtain products and services. Professional contract-purchasing (PCP) organisations are an emerging force in marketing channels. These organisations provide their customers with increased purchasing power by connecting them to established networks featuring, in some industries, thousands of suppliers. Teams of PCP specialists save clients time and money by eliminating costly details associated with order processing and price shopping. As a result, their clients can often free up capital and labour resources which they can then redirect to more profitable operations.³³ Marketing

channels are also changing in response to the increasing number of alliances that have emerged between purchasing firms and their suppliers. These alliances are becoming popular as tools for carving out competitive advantages.³⁴

In marketing channels, the act of **consumption** involves the utilisation of resource inputs (goods and services) in the production of resource outputs. Consumption in marketing channels is typically evaluated as a function of materials management. That is, consumption activities relate to how materials and information flow from the point of production to the final user. Increasingly in marketing channels, products and services are being consumed in new and different ways.

A practice known as **outsourcing** lies behind many of these changes. Outsourcing occurs when companies hire outside providers to assist them in any of a variety of business practices. The use of outsourcing has grown as manufacturers and suppliers face the need to replace outdated technologies while maintaining customer satisfaction. Organisations who use outsourcing gain updated technological links to customers without a significant upfront investment.³⁵

Disposition

At some point, all entities who have participated in channel relationships must engage in the act of disposition. **Disposition** refers to all behaviours or activities associated with channel members' efforts to detach themselves from tangible and intangible goods.³⁶ Many firms have developed relationships with specialists who understand environmental regulations, hazardous waste treatment, and physical plant safety. These responses have been prompted by what is either a genuine concern for the environment or a logical concern for what may happen to firms who appear unconcerned with the environment.

When recycling products, consumers become *de facto* producers, supplying manufacturers with presorted materials that re-enter production systems as inputs in the creation of new products. This process has become known as **reverse logistics**. Have you ever taken aluminium cans to a recycling centre? By doing so, you took part in one of the many marketing channels for recycled goods.

1.6 The CRM: Compass Points

This textbook takes you on a journey through marketing channels principles and practices from a relationship marketing perspective. Each of the major ideas and themes examined in the rest of this book is grounded either directly or indirectly in the Channel Relationship Model (CRM). The CRM is illustrated in Exhibit 1.2. The CRM captures four classes of exchange relationships in marketing channels:

- The relationship between a channel member and its *external environment* is shown in the CRM and is addressed in Part 2 of the textbook. Part 2 investigates how various macroenvironmental forces such as economic, technological, political, legal, ethical, and sociocultural dynamics affect channel members' goal-oriented activities.

- The relationship between a channel member and its *internal environment* is shown in the model and is addressed in Part 3. In Part 3, we critically assess the setting (atmosphere) in which social and economic interactions between channel members take place. Part 3 also considers the social issues and problems which beset the relationship process: coordination, conflict, and cooperation.
- In Part 4, the relationship between channel systems is discussed. Part 4 also discusses vertical integration in marketing channels, and the role of franchising in the global marketplace.
- Finally, long-term relationships between channel members and their channel systems are shown in Part 5 of the CRM. Part 5 describes how strategic partnering can foster superior system performance.

Before we proceed, however, we need to develop a framework for this discussion by considering the individual channel member and the marketplace in which it operates. We will do this in the remainder of Part 1.

Channel members must be equipped to contend in a fiercely competitive marketplace. In Module 2, we will discuss how channel members strive for a competitive advantage in a dynamic marketplace.

1.7 Key Terms

acquisition	exchange utility
channel intermediary	marketing channel
consumption	mission statement
contactual efficiency	outsourcing
disposition	routinisation
dyadic relationship	

Learning Summary

Marketing channels have traditionally been viewed as a bridge between producers and users. However, this perspective fails to capture the complex network of relationships that facilitate marketing flows: the movement of goods, service, information, and so forth between channel members. Marketing and distribution were inextricably intertwined at the beginning of the twentieth century. As the production era of marketing emerged, the demand for middlemen increased. In a historical sense, these middlemen contributed substantially to the movement of goods and people from rural area to new industrialised urban centres. By the 1940s, when the selling era in marketing began, new sort of middlemen – now known as intermediaries – had surfaced in the marketplace. Large retailers expanded further, while smaller retailers generally settled into unserved or underserved market niches. The selling era rather quickly gave way to the marketing concept era. The increasingly widespread recognition of the importance of the marketing concept during the latter half of this century has been paralleled by an emerging behavioural thrust in marketing channels.

Since the core of marketing is the exchange process, marketing channels can be viewed as *exchange facilitators*. This allows marketing channels to be defined as an array of exchange relationships that create customer value in the acquisition, consumption, or disposition of goods and services. Exchange relationships, and thus marketing channels themselves, emerge from market needs as a way of more efficiently serving market needs. Exchange utility is the sum of all costs and benefits recognised by the exchange parties. Utility can feature form, place, possession, and time dimensions.

This broadened definition of marketing channels offers several advantages: (1) it allows marketing channels to be studied as behavioural systems, (2) it extends the scope of the functions performed within marketing channels to include those involved with usage and disposition, and (3) it illustrates the trade-off of costs and benefits that inevitably occur in exchange relationships.

A sense of shared purpose connects organisations and individuals in the marketplace. This is also true of marketing channels. For this reason, the activity known as channel management can be viewed as the point at which an organisation's mission and the market(s) it serves come together. An organisation's mission is its strategic charter that describes the ways the firm will seize market opportunities while satisfying the needs of internal and external customers. A mission statement also describes *who* the firm intends to serve, *how* it intends to serve them, and *what* means will be used to establish competitive advantages in the market(s) of interest. Toward this end, the overriding mission of channel intermediaries is to serve as middlemen. But this role should be broadly defined – for any organisation or individual who mediates exchange is a middleman. Channel intermediaries serve four key functions: to promote contactual efficiency and routinisation, to provide assortment, and to minimise uncertainty.

A contemporary relationship-oriented approach to the study of marketing channels is adopted in this book. A Channel Relationship Model (CRM) serves as a framework for presenting the material addressed throughout the text. Three fundamental interactions are shown in the CRM. The first occurs within the marketing organisation. The second develops between marketing organisations. The last interaction unfolds between marketing organisations and their environments. Through the CRM, the role of channel environments, channel climates, and interaction processes in fostering business relationships is investigated. The CRM perspective will ultimately enable you to better understand how exchange partners can achieve their strategic aims through interacting in marketing channels and dynamic marketplaces.

Review Questions

Short-Answer and Essay Questions

- 1.1 List the four elements needed for a successful marketing channel.
- 1.2 During which era did the classic marketing mix, or Four Ps typology – product, price, promotion, and place – emerge as a guiding marketing principle?

- I.3 In a channels context, what is another term for sorting?
- I.4 Generally speaking, what happens to the number of intermediaries in a channel as need uncertainty decreases?
- I.5 How would a typical buyer react to high transaction uncertainty?
- I.6 What structure is used to show how an array of exchange relationships can create customer value in the distribution of products and services?
- I.7 List the three activities associated with the flow of products and services through marketing channels.
- I.8 According to your text, what is a marketing channel?
- I.9 How has the relationship marketing era revolutionised marketing channels?
- I.10 H. E. Kimmel, a twentieth-century admiral, wrote, 'Efficiency produces more with less effort.' How does his statement support the concept of contactual efficiency?
- I.11 How does routinisation positively affect channel members?

Multiple Choice Questions

- 1.12 According to the text, which of the following is an element needed for a successful marketing channel?
- A. Flexibility.
 - B. Connected systems.
 - C. Pooled resources.
 - D. Collective goals.
 - E. All of the above.
- 1.13 As Bernie looked at a folder from the New Mexico Department of Health, he read, 'We administer all provisions of laws relating to public health laws and regulations of the State Board of Health, supervising and assisting county and regional boards and departments of health, and doing all other things reasonably necessary to protect and improve the health of the people.' Bernie was reading an example of a(n):
- A. organisational strategy.
 - B. departmental goal.
 - C. mission statement.
 - D. focused objective.
 - E. integrated statement of purpose.
- 1.14 A(n) _____ is an organisation's strategic charter – a public declaration of why it exists.
- A. logistical purpose
 - B. corporate objective
 - C. justification
 - D. organisational logistics
 - E. mission statement
- 1.15 It is 1940 – manufacturers have a selling orientation. Which of the following statements is Jack most likely to have overheard while he eavesdropped on a group of manufacturers discussing business?
- A. 'I am trying to develop long-term relationships with my retailers.'
 - B. 'The cost of managing my inventory is going to drive me to bankruptcy.'
 - C. 'Distribution – getting it from Point A to Point B – that's the only thing I worry about.'
 - D. 'Someone please explain the place domain in this new Four Ps typology.'
 - E. 'If you want to be a success, focus on the customer.'
- 1.16 What is the fundamental difference between relationship marketing and the sales, production, and marketing eras?
- A. The marketing concept is being totally abandoned in the relationship marketing era.
 - B. The idea of exchange is becoming less important in the relationship marketing era.
 - C. The length of the channels is becoming shorter in the relationship marketing era.
 - D. The relationship marketing era supports centralised management, downsizing, and increased computerisation of distribution activities.
 - E. The relationship marketing era is characterised by a customer dialogue.

- 1.17 Contactual efficiency describes:
- A. how large amounts of heterogeneous supplies are converted into smaller homogeneous subsets.
 - B. the structure needed for examining how an array of exchange relationships can create customer value in the distribution of products and services.
 - C. the degree of coordination and on-site service required by members of a marketing channel.
 - D. the movement toward a point of equilibrium between the quantity and quality of exchange relationships between channel members.
 - E. the means by which transaction processes are standardised to improve the flow of goods and services through marketing channels.
- 1.18 When Mike mows his yard, he collects the lawn clippings and gives them to his neighbour Eilene, who uses them to mulch around her roses. In return for the mulch, she gives Mike roses for his hall table. Since Eilene and Mike are the only two people involved in this exchange, they can be said to have a ____ relationship.
- A. need-certainty
 - B. single-level
 - C. dyadic
 - D. bi-level
 - E. dual-exchange
- 1.19 Routinisation refers to:
- A. how large amounts of heterogeneous supplies are converted into smaller homogeneous subsets.
 - B. the structure needed for examining how an array of exchange relationships can create customer value in the distribution of products and services.
 - C. the degree of coordination and on-site service required by members of a marketing channel.
 - D. the movement toward a point of equilibrium between the quantity and quality of exchange relationships between channel members.
 - E. the means by which transaction processes are standardised to improve the flow of goods and services through marketing channels.
- 1.20 ____ refers to the means by which transaction processes are standardised to improve the flow of goods and services through a marketing channel.
- A. Flow standardisation
 - B. Routinisation
 - C. Channel efficiency
 - D. Channel standardisation
 - E. Equable flow
- 1.21 What does it mean when a channel intermediary talks about a smoothing function?
- A. The intermediary wants to equalise the tasks performed by each member of the channel.
 - B. The intermediary wants to remove redundant members from the channel.
 - C. The intermediary wants to make sure no channel member has to hold the product or service an inordinately long time.
 - D. The intermediary is hoping to maintain channel harmony through coordination and cooperation.
 - E. The intermediary is referring to the tasks of categorising and breaking bulk.

- 1.22 Two principal tasks are associated with the sorting function. They are:
- A. dyadic and monolithic exchanges.
 - B. categorising and breaking bulk.
 - C. inventory management and customer relationships.
 - D. inventory distribution and inventory handling.
 - E. acquisition and diversification.
- 1.23 Konceptual Design Wholesalers carries over 45 000 different doorknobs, latches, cabinet handles, and door plates made from brass, bronze, and 24-karat gold plate. Even though it has over 200 identical bronze cabinet latches, interior designers, who it markets to, might only want two or three of those latches. Within its channel, Konceptual Design engages in ____ for its retailers.
- A. diversification
 - B. divestment
 - C. downloading
 - D. breaking bulk
 - E. product separation
- 1.24 Country Herbs in New Jersey sells seven different mixes of herbs that can be used to make dips, flavour meat, or season a casserole. Arlene Yannece, its owner, thinks that customers might like some more flavours, and she is considering changing the recipes currently used in the mix. She is very unsure as to what her customers want; she is experiencing ____ uncertainty.
- A. exchange
 - B. product
 - C. demand
 - D. market
 - E. need
- 1.25 How can an organisation reduce its market uncertainty?
- A. By offering more products and services.
 - B. By reducing the number of products and services it offers.
 - C. By broadening its view of what marketing channels can and should do for it.
 - D. By forming dyadic relationships with intermediaries.
 - E. There is no way an organisation can reduce its market uncertainty.
- 1.26 ____ is the sum of all costs and benefits realised separately or jointly by all the persons or organisations participating in an exchange relationship.
- A. Economic equilibrium
 - B. Cost-benefit equilibrium
 - C. Channel utility
 - D. Exchange utility
 - E. Contractual efficiency

- 1.27 Farmer John drives a van to north Georgia each morning, picks up a load of apples, and sells them to the people who live in middle Tennessee each afternoon. By bringing the apples to the people who consume them, Farmer John creates _____ utility.
- form
 - psychological
 - time
 - possession
 - place
- 1.28 _____ involves the acts by which channel entities obtain products and services.
- Procurement
 - Requisition
 - Solicitation
 - Acquisition
 - Annexation
- 1.29 In marketing channels, the act of _____ involves the utilisation of resource inputs (goods and services) to produce resource outputs.
- dissipation
 - consumption
 - depletion
 - deployment
 - divestment
- 1.30 Consumption in marketing channels is typically evaluated as a function of:
- inventory control.
 - channel selection.
 - channel efficiency.
 - sorting.
 - materials management.
- 1.31 _____ occurs when companies hire outside providers to assist them in any of a variety of business practices, including database processing.
- Job divestment
 - Outsourcing
 - Job deployment
 - Disposition
 - Job redirection
- 1.32 _____ refers to all behaviours or activities associated with channel members' efforts to detach themselves from tangible and intangible goods.
- Disposition
 - Deployment
 - Outsourcing
 - Divestment
 - Reverse acquisition

- I.33 Firms that use recycling as part of their _____ activities are showing either real or pretend concern about the environment.
- A. disposition
 - B. deployment
 - C. outsourcing
 - D. divestment
 - E. reverse acquisition

Discussion Questions

- I.34 What unites individual organisations in a successful marketing channel?
- I.35 How is the role of an organisational mission critical for marketing channel management?
- I.36 Describe the broadened concept of a marketing channel. What are three advantages of defining marketing channels in this manner?
- I.37 Describe the exchange processes of acquisition, consumption, and disposition as they relate to a marketing channel.
- I.38 How do the four characteristics of marketing channels relate to the exchange process?
- I.39 Discuss the difference between form utility, place utility, possession utility, and time utility as they relate to marketing channels.
- I.40 Discuss how marketing channels functionally relate to real-world market settings.
- I.41 How do marketing channels develop?
- I.42 Describe the three stages of the historical evolution of marketing channels in the United States.
- I.43 Discuss the CRM model of marketing channel transactions.

References

1. NBWA (2013), 'America's Beer Distributors: Fueling Jobs, Generating Economic Growth & Delivering Value to Local Communities', Center for Applied Business & Economic Research, Alfred Lerner College of Business & Economics, University of Delaware, [pdf] available at: <http://nbwa.org/sites/default/files/NBWA-Economic-Report-2013.pdf> [Accessed 30 August 2013].
2. Charlier, Marj (1995), 'Beer Brouhaha: Existing Distributors Are Being Squeezed By Brewers, Retailers; Biggest Discounters, Chains Seek Ways to Eliminate "Middlemen" Wholesalers Trend Worries Little Guys', *The Wall Street Journal*, (22 November), A1.
3. FedEx (2013), 'Mission, Strategy, Values', [online] available at: <http://about.van.fedex.com/mission-strategy-values> [Accessed 30 August 2013].

4. Bowersox, Donald J. and M. Bixby Cooper (1992), *Strategic Marketing Channel Management*, New York: McGraw-Hill.
5. Adapted from McGee, Suzanne (1995), 'Commodities: Colombian Price Floor Rumors Lift Coffee Prices', *The Wall Street Journal*, (9 February), C14 and McGee, Suzanne (1995), 'Commodities: Coffee Prices Plunge to Lowest Levels Since June', *The Wall Street Journal*, C14. Montville, Leigh (1992), 'Different Strokes', *Sports Illustrated*, (22 July), 108–110.
6. Alderson, Wroe (1957), *Marketing Behavior and Executive Action*, Burr Ridge, IL: Richard D. Irwin.
7. Lewis, Edwin E. (1968), *Marketing Channels: Structure and Strategy*, Perspectives in Marketing Series, Robert D. Buzzell and Frank M. Bass, eds, New York: McGraw-Hill.
8. McCammon, Bert C. and Robert W. Little (1965), 'Marketing Channels: Analytical Systems and Approaches', an excerpt in *Marketing Channels & Institutions: Readings on Distribution Concepts & Practices*, Bruce J. Walker and Joel B. Haynes, eds, Columbus, OH: Grid, Inc.
9. Alderson, Wroe (1957), *Marketing Behavior and Executive Action*, Homewood, IL: Richard D. Irwin; Bagozzi, Richard P. (1975), 'Marketing as Exchange', *Journal of Marketing*, 50(April), 81–87; Blau, Peter M. (1967), *Exchange and Power in Social Life*, New York: John Wiley & Sons, Inc.; and Weber, Max (1974), *The Theory of Social and Economic Organization*, New York: Oxford University Press.
10. Bagozzi, Richard P. (1979), 'Toward a Formal Theory of Marketing Exchange', *Conceptual and Theoretical Developments in Marketing*, O. C. Ferrell, Stephen W. Brown, and Charles W. Lamb, Jr, eds, Chicago, IL: American Marketing Association.
11. 'Just Turn the Key', *Supermarket Business*, 50(6), 101–111.
12. Bartels, Robert (1988), *The Development of Marketing Thought*, Third Edition, Columbus, OH: Publishing Horizons, and Stock, James R. and Kathleen R. Whitney (1989), 'A Historical Assessment of the Development of the Discipline of Logistics: An Appraisal and a Critique', in *Proceedings of the Fourth Conference on Historical Research in Marketing: The Emerging Discipline*, Terence Nevitt, Kathleen R. Whitney and Stanley C. Hollander, eds, Lansing, MI: Michigan State University, 54–73.
13. Many large retailing establishments emerged prior to the twentieth century. R. H. Macy & Company (1858), John Wanamaker (1861), and F. W. Woolworth (1879), to name a few, were a response to the shifts in population to urban centers. The problems of the flows of goods and services (between rural and urban areas) is demonstrated by the formation of two general-mail houses, Montgomery Ward (1872) and Sears Roebuck (1886). For a more in-depth discussion, refer to Brisco, Norris A. (1947), *Retailing*, New York: Prentice-Hall.
14. Duddy, Edward A. and David A. Revzan (1947), *Marketing: An Institutional Approach*, New York: McGraw-Hill.
15. Shaw, Arch (1915), 'Some Problems in Market Distribution', *Quarterly Journal of Economics* (August), 706–765.
16. Harris, William D. and James R. Stock (1985), 'Reintegration of Marketing and Distribution: A Historical and Future Perspective', in *Proceedings of the Second Conference on Historical Research in Marketing*, (April), Lansing, MI: Michigan State University, 420–440.
17. Boone, Louis E. and David L. Kurtz (1992), *Contemporary Marketing*, Seventh Edition, Fort Worth, TX: Dryden Press.
18. McCarthy, E. Jerome (1971), *Basic Marketing: A Managerial Approach*, Fourth Edition, Burr Ridge, IL: Richard D. Irwin.

19. Brion, John M. (1965), *Marketing through the Wholesaler–Distributor Channel*, Marketing for Executives Series #10, Chicago, IL: American Marketing Association, 53.
20. For an interesting account of the evolution of the retailing trade industries, see Bucklin, Louis P. (1972), *Competition and Evolution in the Distributive Trades*, Englewood Cliffs, NJ: Prentice Hall; Dean, James W. Jr and James R. Evans (1994), *Total Quality: Management, Organization and Strategy*, St Paul, MN: West Publishing Company.
21. Iacobucci, Dawn (1994), ‘Toward Defining Relationship Marketing’, in *Relationship Marketing: Theory, Methods and Applications*, 1994 Research Conference Proceedings, Jagdish N. Sheth and Atul Parvatiyar, eds, Center for Relationship Marketing, Robert C. Goizueta Business School, Emory University.
22. Gronroos, Christan (1990), ‘Relationship Approach to Marketing in Service Contexts: The Marketing and Organizational Behavior Interface’, in *Journal of Business Research*, 20(January), 3–11.
23. Durant, Will (1944), *The Story of Civilization: Part III, Caesar and Christ*, New York: Simon and Schuster, 328.
24. United States Census Bureau (2010), ‘Number of Establishments, Employment, and Annual Payroll by Enterprise Employment Size for the United States, All Industries: 2011’, [online] available at: http://www2.census.gov/econ/subs/data/2011/us_6digitnaics_2011.xls [Accessed 12 March 2014]; Smith, Mickey C. (1991) *Pharmaceutical Marketing: Strategy and Cases*, Binghamton, NY: Pharmaceutical Products Press, 252–264.
25. Adapted from Cook, Kathleen and Glenn L. Habern (1987), ‘In-Store Systems Improving Profitability’, *Retail Control*, 55(December), 11–13; Gebhart, Fred (1992), ‘Harder Times Hit California Wholesale/Retail Leaders’, *Drug Topics*, 136(20 January), 58; and Clemons, Eric K. and Michael Row (1988), ‘A Strategic Information System: McKesson Drug Company’s Economist’, *Planning Review*, 16(September/October), 14–19. 28.
26. Adapted from Stern, Louis W. and Adel El-Ansary (1992), *Marketing Channels*, Fourth Edition, Englewood Cliffs, NJ: Prentice-Hall.
27. Adapted from Hakansson, Hakan, J. Johanson and B. Wootz (1976), ‘Influence Tactics in Buyer–Seller Processes’, *Industrial Marketing Management*, 4(6), 319–322.
28. Fuller, Joseph B., James O’Conor, and Richard Rawlinson (1993), ‘Tailored Logistics: The Next Advantage’, *Harvard Business Review*, (May/June).
29. Fuller, Joseph B., James O’Conor, and Richard Rawlinson (1993), ‘Tailored Logistics: The Next Advantage’, *Harvard Business Review*, (May/June), 92. While the article largely concentrates on logistics, the position is taken that these criteria are generalisable to all marketing channel functions.
30. Johannes, Laura (1993), ‘Texas Journal: Babes in Toyland: A Tale of a Start-Up’, *The Wall Street Journal*, (22 December), T3.
31. Anderson, David (1986), ‘Case Studies and Implementations of LDI Arrangements (Part II)’, *Data Communications*, 15(February), 173–182 and Short, James E. and N. Venkatraman (1992), ‘Beyond Business Process Redesign: Redefining Baxter’s Business Network’, *Sloan Management Review*, 34(Fall), 7–20.
32. This conclusion is based on the definitions of marketing channels. One example is the definition proffered by Stern, Louis W. and Adel El-Ansary (1992): ‘sets of interdependent organizations involved in the process of making a product or service available for use or consumption’, in *Marketing Channels*, Englewood Cliffs, NJ: Prentice-Hall.
33. Pupis, Patricia M. (1991), ‘Purchasing Firms Handle Myriad Details of Design’, *Hotel & Motel Management*, 206(4 November), D6.

34. Gentry, Julie J. (1993), 'Strategic Alliances in Purchasing: Transportation Is the Vital Link', *International Journal of Purchasing & Materials Management*, 29(Summer), 11–17.
35. Verity, John W. (1992), 'They Make a Killing Minding Other People's Business', *Business Week*, (30 November), 96.
36. Young, Melissa Martin and Melanie Wallendorf (1989), 'Ashes to Ashes, Dust to Dust: Conceptualizing Consumer Disposition of Possessions', in *Marketing Theory and Practice*, Terry Childers et al., eds, Chicago, IL: American Marketing Association, 33–39.

