

Develop A Framework for Selection of Intermediary in Marketing Channel

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Abstract

This study seeks to examine how a company can select the best intermediary for its Marketing channels with minimum of criteria and time. A theoretical framework is proposed based on the most important tasks of intermediary and the criteria to measure them. There are four basic tasks and thirty criteria in three independent levels. Subsequently, an exploratory case study in Iranian Food industry is described to illustrate the value of the framework. It is possible to apply the theoretical framework to select the intermediary for any industry or country. However, there might be possible location-specific or industry-specific limitations. Moreover, the framework has proved to be useful in improving the selection of the intermediary in marketing channel. This is a notable and promising side-effect of the exploratory study, at least from a managerial point of view.

Keywords:

Marketing channel, Distribution channel, Channel design, Selection criteria, Channel members, Intermediary selection.

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Introduction

The purpose of business is to satisfy the needs of its customers. A business that fails to do this in a competitive economy will not survive, because customers will go elsewhere. Businesses that are good at satisfying customer needs have the best opportunities to grow and prosper. (Doyle, 1998) Satisfying customer is the most important and difficult task for business in recent years. So if any business does it better customers will go there.

One way to achieve customer's satisfaction is the classical marketing mix model "4Ps", namely, product, promotion, price, and the fourth "P" of the marketing mix is called place (Gummesson, 1995, Doyle, 1998). Producing new products that customers want, pricing them correctly and developing well-designed promotional plans are necessary, but they are not sufficient conditions for customer satisfaction. The final part of the jigsaw is distribution, the Place element of the marketing mix. (Jobber, 2001) Distribution is the means by which products are moved from producer to the ultimate customer. (Webster, 1991)

Drucker (1974) predicted that in the twenty-first century business, the biggest change would not be in new methods of production or consumption, but in distribution channels. Today most companies do not sell and distribute their goods directly to the final user. Instead many of the tasks, which include distribution activities such as transportation and storage, marketing activities such as selling, pricing and promotion, are undertaken by a variety of external intermediaries. The choice and control of these intermediaries is called marketing channel management.

The concept of marketing channel can be confusing. Sometimes it is thought of as the route taken by a product as it moves from the producer to the consumer or other ultimate user. Some define it as the path taken by the title to goods as it moves through various agencies. Still others describe the marketing channel in term of a loose coalition of business firms that have banded together for purpose of trade. Given these differing perspectives, it is not possible to have a single definition of the marketing channel. The paper has taken a managerial decision-making viewpoint of the marketing channel as seen mainly through the eyes of marketing management, primarily in producing and manufacturing firms. Thus, the marketing channel may be defined as: "The external contractual organization that management operates to achieve its distribution objectives". (Rosenbloom, 2004)

From the viewpoint of the manufacturer, a key aspect of marketing strategy is to determine how best to go to market (Bowersox & Cooper, 1992). Marketing channel decisions are among the most critical decisions facing management. The channels chosen intimately affect all the marketing decisions. (Kotler, 2003)

As a strategic marketing tool marketing channels had, for many years, taken something of a "back seat" to the other three strategic areas of the marketing mix: product, price, and promotion. Many firms viewed marketing channel strategy as somewhat of a "leftover" after the more "important" product, price, and promotional strategies had been considered. Although termed "the long neglected side of marketing" this attitude appears to be changing. (Haas, 1995)

Creative, well-executed marketing channel strategies provide some of the more potent means by which companies can enhance their ability to compete domestically and internationally. Most companies concentrate their efforts and energies on other business functions, such as finance, production, research and development or on elements of marketing other than distribution in their attempts to secure competitive advantage. Somehow, management seems convinced that these more tangible, more controllable, or more measurable activities are more directly related to generating high shareholder value, especially in the near term. For a number of companies, a critical assessment and revision of their marketing channels are long overdue. It even appears that many companies do not know what is required to build a superior distribution system or do not have the will to try new approaches. (Stern & El-Ansary, 1992)

But this neglect of marketing channels has changed in many cases to a keen interest in the area. Why has this happened? At least four developments underlie this shift in emphasis (Rosenbloom, 2004):

1. Explosion of information technology and E-commerce
2. More difficulty to gain a sustainable competitive advantage
3. Growing power of distributors, especially retailers in marketing channels
4. Need to reduce distribution costs

The choice of the most effective channel of distribution is an important aspect of marketing strategy. To Find and select the right channel intermediaries is crucial to the success of the marketing strategy.

Unfortunately, too many reports of problems indicate the lack of sufficient attention to channel selection. (Hayes, Jernster and Aaby, 1996, s.420) The selection and resultant performance of a specific partner or partners are, of course, the ultimate determinants of the success or failure of a marketing channel (Stern & El-Ansary, 1992, s235). Clearly, Companies need to select their channels members carefully. To customers, the channel members are the company. (Kotler, 2000)

The purpose of this research is to obtain the best way to select intermediary in marketing channel so the channel design models and methods should be reviewed at the first.

Literature review

Use of the term "design" as it applies to the marketing channel varies widely. Some authors use it as a term to describe channel structure. Others use it to denote the formation of a new channel from scratch, while still others use it more broadly to include modifications to existing channels. Finally, design has also been used synonymously with the term selection, with no distinction made between the two. Such variations in the usage lead to a good deal of confusion. Therefore, before proceeding further we will define more precisely what we mean by design as it applies to the marketing channel:

Channel design refers to those decisions involving the development of new marketing channels where none had existed before, or to the modification of existing channels.

Selection decisions may or may not be the result of channel design decisions. For examples, suppose a firm needs more coverage in exiting territories. Even though its channel structure remains essentially the same in terms of its length, intensity, and types of intermediaries, the firm may need additional outlets to allow for growth. Another common reason for selection, independent of channel design decisions, is to replace channel members that have left the channel -either voluntarily or otherwise (Rosenbloom, 2004).

Certainly the design of marketing channel is not entirely new to the academic literature. There are some models in designing the marketing channel but there are few methods specially designed for selection of intermediary in marketing channel.

The first use of operation research models in selection of intermediary was in 1986. Rangan, Zoltners and Becker postulated a model for intermediary selection under the assumption that the firm's distribution channel structure remains unaltered. The optimal intermediary network selected by the model was compared to an intuitive network recommended by sales management. (Rangan et al., 1986)

Neves (2001) proposed a model that has 4 phases -understanding, objectives/goals, implementation, monitoring and revision- and 11 steps. in implementation phase, In the 9th step – channel selection – Once the objective is set, the company can select the channel structure and channel members, if it has the flexibility to do so, which depends on the availability of agents in the channel, the kind of relationship that will be build and several other factors analyzed in the preceding steps (Neves et al., 2001).

Rosenbloom (2004) developed a model for designing the channel that can be broken down into seven phase or steps: (1) Recognizing the need for a channel design decision, (2) Setting and coordinating distribution objectives, (3) Specifying the distribution tasks, (4) Developing possible alternative channel structure, (5) Evaluating the variables affecting channel structure, (6) Choosing the "best" channel structure, (7) Selecting the channel members. The actual selection of firms that will become marketing channel members is the last phases of channel design model (Rosenbloom, 2004).

Rix (2005) proposed a model consisted of 4 steps: first, decide the task of distribution within the marketing mix, second, select the type of distribution channel, third, determine appropriate intensity of distribution and finally, choose specific channel members (Rix, 2005). In the final step, the firm select intermediary of marketing channel.

Finally, Kotler (2006) developed a model including 4 steps, analyzing consumer's needs, setting channel objectives, identifying major alternative and evaluating them (Kotler and Armstrong, 2006; Kotler and Keller, 2006). In the final step like Rix model, the firm select intermediary of marketing channel.

There are few articles specially designed for selection of intermediary in marketing channels that include some applying selection criteria.

In 1951, in the first attempt to specify a set of selection criteria for choosing channel members, Brendel developed a list of 20 key questions for industrial firms to ask their prospective channel members (Brendel, 1951).

The most comprehensive and definitive list of channel member selection criteria, however, is still what offered by Pegram in 1965 (Pegram, 1965). Pegram's list is empirically based and Pegram used more than 200 American and Canadian manufacturers. Pegram divided the criteria into a number of categories.

Another set of criteria, proposed by Hlavacek and McCuiston (1983), augments Brendel's list with some additional criteria (Hlavacek and McCuiston, 1983). They argued that for the technical products sold in the industrial market, manufacturers should select distributors who carry a small rather than large array of products. They also suggested that the potential channel member's market coverage should be specified as a criterion not merely in terms of geographical coverage but also in terms of market segment coverage. Further, they also believed that financial capacity of the potential channel member, while important, should not be overemphasized because sometimes less well financed distributors are "hungrier" and more aggressive. Finally, they argued that the aggressiveness of a potential distributor is always a vital criterion.

Shiple (1984) provided another set of selection criteria based on a study of manufacturers in the United States and the United Kingdom (Shiple, 1984). The study reported on 12 criteria grouped under three basic categories: (1) sales and market factors, (2) product and service factors, and (3) risk and uncertainty factors.

Based on the careful review of the international marketing literature relevant to selecting foreign distributors, Yeoh and Calantone (1995) identified six major categories of selection criteria: (1) commitment level, (2) financial strength, (3) marketing skills, (4) product-related factors, (5) planning abilities, (6) facilitating factors (Yeoh and Calantone, 1995). They referred to these six factors as the "core competencies" that distributors must possess for effective representation in foreign markets.

Methodology

The topic area is generally marketing management and specifically in marketing channel. The location area is some of the distributors in Iranian food industry, and the data is for spring 2008. This research is both descriptive and exploratory.

the development of the questionnaires were done through these stages: a review of literature where various statements pertaining to tasks and criteria for intermediary role have been identified and refined; these statements were given to marketing experts for further refinement and ranking; and these statements were further refined and the less important tasks and criteria were omitted for inclusion in the survey. For the reliability of the questionnaire, in the task section Guttman Split-half index is 0.8470 and in the criteria section Guttman Split-half index is 0.9597 with the space saver method. This questionnaire was distributed to professionals in Iranian food distribution industry. Thirty usable questionnaires were received which the rate was 80%. The data was evaluated with descriptive statistics and three main indexes: average, median and mode. According to the data and distribution of them (that are not uniform) median is the base index for the weight and value of the tasks and criteria (figure 1).

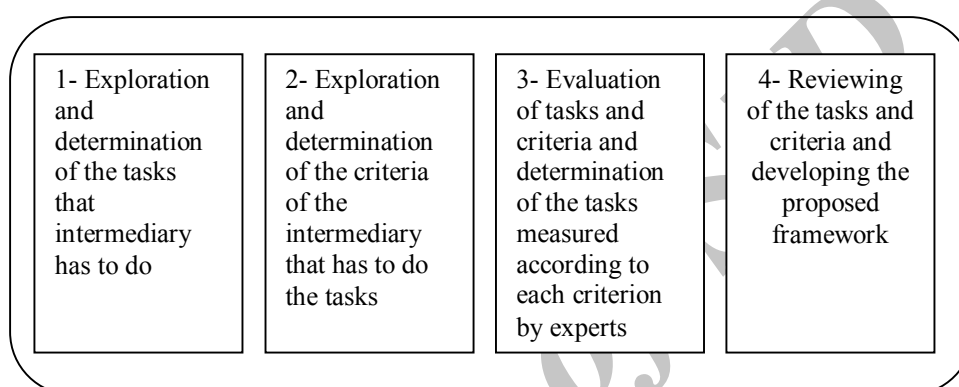


Figure 1: The process of research

Results

1- Exploration and determination of the tasks that intermediary has to do

A marketing channel performs the work of moving goods from producers to consumers, overcoming the time, place, and possession gaps that separate goods and services from those who need or want them. Members of the marketing channel perform a number of key functions:

- (1) They gather information about potential and current customers, competitors, and other factors and forces in the marketing environment.
- (2) They develop and disseminate persuasive communications to stimulate purchasing.

- (3) They reach agreement on price and other terms so that transfer of ownership or possession can be affected.
- (4) They place orders with manufacturers.
- (5) They acquire the funds to finance inventories at different levels in the marketing channel.
- (6) They assume risks connected with carrying out channel work.
- (7) They provide for the successive storage and movement of physical products.
- (8) They provide for buyers' payment of their bills through banks and other financial institutions.
- (9) They oversee actual transfer of ownership from one organization or person to another. (Kotler, 2000)

Modern, well-managed merchant wholesalers are especially well suited for performing the following types of distribution tasks for producers and manufacturers. The types are: market coverage, sales contact, inventory holding, order processing, market information and customer support (Rosenbloom, 2004). Sometimes tasks are equal to marketing flows. Eight generic marketing flows exist, namely, physical possession, ownership, promotion, negotiation, financing, risking, ordering and payment. Physical possession refers to all storage activities, including transportation between two channel members (Coughlan et al., 2001). Ownership refers to the transfer of ownership from one organization or person to another. Promotion includes personal selling, media advertising, sales promotions, publicity, etc. Negotiation refers to the effort to reach a final agreement on prices and other terms, so that the delivery can occur. Financing refers to the terms of sale, such as payment in thirty days, and risking is concerned with price guarantees, warranties, insurance, repair, after-sales service, etc. Ordering and payment are the flows concerned with the actual purchase and payment of the offering.

These tasks were selected for the questionnaire: market coverage, sales contact, physical possession, ownership, promotion, negotiation, financing, risking, ordering, payment, market information and customer support.

2- Exploration and determination of the criteria of the intermediary that has to do the tasks

After determination of the tasks that should be done by the intermediaries it is required that there are some criteria for measuring the intermediaries in

specific tasks. There are a lot of criteria and factors for this and some of them are listed in this paper.

Stern and El-Ansary presented 18 criteria that some of them are in common with Kapoor and Kansal's list:

- (1) Financial strength of prospective channel partner (revenue, profit and loss, balance sheet),
- (2) sales strength (number of sales agents, sales and technical competence),
- (3) Product line (competitive products, compatible products, complementary products),
- (4) Reputation (leadership, well-established, community standing, background of key executives, level of expertise),
- (5) Market coverage (geographic coverage: outlets per market area, industry coverage, call frequency or intensity of coverage),
- (6) Sales performance (performance of related lines, general sales performance, growth prospects, ability to penetrate accounts, success in reaching target markets/individuals, after-sales follow-up),
- (7) management strength (planning, employee relations, marketing orientation, strategic direction),
- (8) advertising and sales promotion programs,
- (9) training programs (self-administered, willingness to allow suppliers to participate),
- (10) sales compensation programs,
- (11) Plant, equipment, and facilities (transportation/delivery methods and record, inventory such as kind and size, inventory minimum: safety stocks and service levels, warehousing such as supplied in field and ability to handle shipments efficiently),
- (12) ordering and payment procedures,
- (13) installation and repair services (after-sales follow-up, warranty work),
- (14) quality of demonstrator programs,
- (15) willingness to commit resources to individual lines/brands,
- (16) willingness to cooperate in joint programs,
- (17) willingness to share data (customer, sales force, inventory, delivery),
- (18) willingness to accept a quota.

Peter and Domelly develop another list that has 9 criteria as following:

- (1) availability,
- (2) willingness to accept product or product line,

- (3) geographical market served,
- (4) marketing functions performed,
- (5) potential for conflict,
- (6) potential for long term relationship,
- (7) competitive products sold,
- (8) financial condition,
- (9) other strengths and weaknesses.

These criteria are selected among the above lists and some Iranian expert's proposed criteria for the questionnaire: Financial strength, the power of short term payment (cash or like cash), number of customers, sales and technical competence, ability to penetrate accounts, growth prospects, number of sales agents, centralization in this job, after-sales follow-up, focus in retailing or wholesaling, share of the box (the percentage that he/she bought from ours), advertising and sales promotion programs, ordering and payment producers, sales compensation programs, accept your marketing strategy, management strength in planning, management strength in employee relations, marketing orientation and strategic direction, systems and infrastructure, distribution of human resource (age, education), human resource remaining, level of expertise, well-established community standing, background of key executives, training programs, market share, geographic coverage: outlets per market area, call frequency or intensity of coverage, inventory, warehousing, competitive products, compatible products, complementary products, output rate of other products, transportation/delivery methods and record, ownership of the equipments and facilities, willingness to cooperate in joint programs, potential for conflict, willingness to accept a quota and willingness to share data.

3- Evaluation of tasks and criteria and determination of the tasks that are measured according to each criterion by experts

After determination of the tasks and criteria that should be done by the intermediaries it is required that experts evaluate and measure them. The results are shown below.

In this step, values of tasks were processed by techniques of descriptive statistics. In descriptive statistic, 3 indexes, average, median and mode were calculated. When distribution is not normal and skewed, the best index is median. Research's data and distribution of them is not normal and has skewedness so median is selected for the final value of the tasks. Distribution of tasks value is shown in diagram 1.

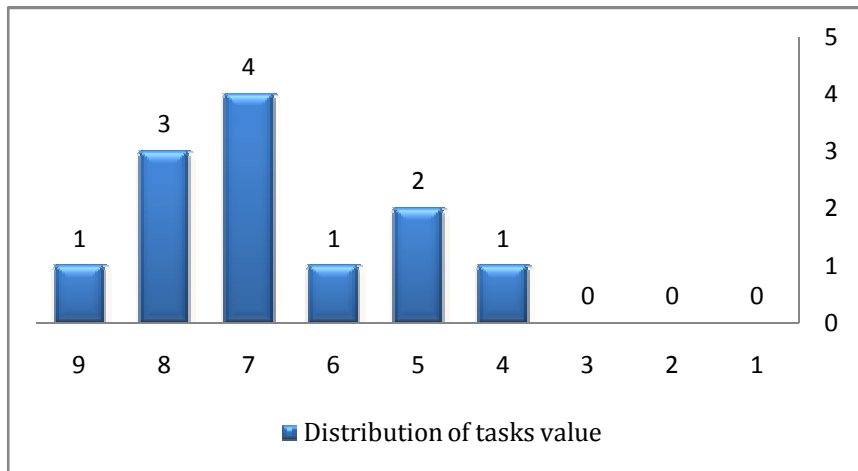


Diagram 1: Distribution of tasks value

In this research, value of every task is identified. Also Factors that don't have common point with other tasks were recognized. Diagram 2 shows information about them. Average of tasks value was 6.8, median was 7 and mode was 7. Therefore tasks with value more than 7 remained and others were deleted from final list.

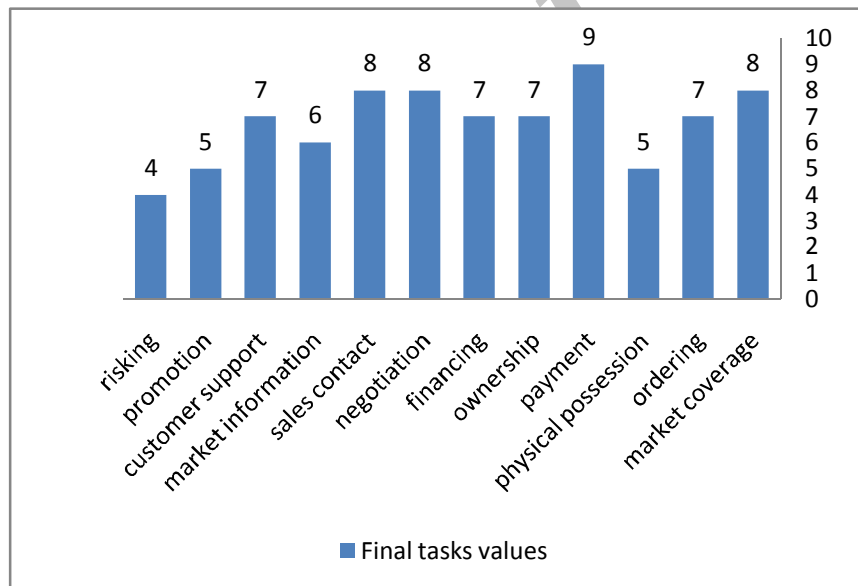


Diagram 2: Final tasks values

Like tasks, median was used for evaluation and determination of criteria. Distribution of criteria value is shown in diagram 3.

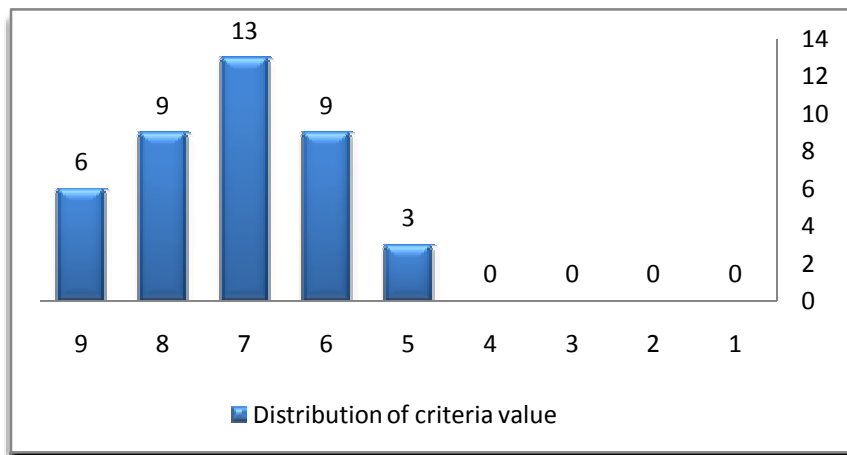


Diagram 3: Distribution of criteria value

Average of criteria value was 7.2, median 7 and mode 7. Therefore criteria with value more than 6 remained and others were deleted from final list. Table 1 shows information about them.

4- Reviewing of the tasks and criteria and developing the proposed framework

This research concentrated on selection of intermediary in marketing channel. The output of this research is a framework for selection of intermediary in marketing channel. In this section conceptual framework is presented.

In this framework, at first, four basic tasks were selected. These tasks got high score and had least overlap with each other. Then, criteria which had relationship with each other were recognized, this relationship was chosen based on references and the related tasks for each criteria in the questionnaire. According to value of criteria; all criteria that got 9 score were in level 1. All criteria with 8 score were in second level. Criteria with 6 or 7 scores were in third level. This framework is shown in shape 5.

For evaluation and selection of marketing channel members, Manager can use criteria of level 1 and consider choices. In the case that the results were very close and sensitive, manager can use some or all of the criteria in the next level -level 2- then add them in his/her decision matrix. He/she can give lower weight to criteria of level 2 rather than level 1. If the results were close and sensitive too, then it's to go to level 3. Manager has to insert criteria with lower weight rather than criteria of past levels, in the process of evolution.

Table 1: Final criteria values

Criteria	value	Criteria	value	Criteria	value	Criteria	value
competitive products	7	Financial strength	8	willingness to accept a quota	7	Transportation /delivery methods and record	8
compatible products	7	level of expertise	8	the power of short term payment	9	advertising and sales promotion programs	7
complementary products	7	well-established	8	number of customers	8	ordering and payment producers	8
exit rate of other products	7	after-sales follow-up	6	sales and technical competence	8	sales compensation programs	6
share of the box	7	training programs	7	ability to penetrate accounts	8	accept your marketing strategy	8
marketing orientation	7	market share	8	background of key executives	8	management strength in planning	9
growth prospects	5	intensity of coverage	9	number of sales agents	6	management strength in employee relations	8
community standing	7	geographic coverage	7	centralization in this job	6	systems and infrastructure	7
potential for conflict	5	inventory	7	human resource remaining	7	willingness to cooperate in joint programs	9
willingness to share data	6	warehousing	5	focus in retailing or wholesaling	5	distribution of human resource (age, education)	5
ownership of the equipments and facilities	6						

One of the distinctions of this framework is that decision maker is not facing with many criteria, and he/she can add other criteria for better evaluation. Most of experts point that selection of intermediary in marketing channel need some limited criteria, and other criteria are not important for them. These criteria with experts' score considerations are level 1.

It is obvious that management and customer support task belong to the costumers, and three other tasks are parts of distributive tasks of producer. Market coverage pays more attention to current condition and negotiation and sales contact tend towards future development and willingness to cooperate the intermediary.

Finally comparison between the framework and the past researches is discussed. In research of Brendel L.H. in 1951, the questionnaire included 20 questions to select members of marketing channel. Questions 1, 5 and 6

were related to task of negotiation and sales contact. Questions 7, 8 and 9 were related to task of payment. The questions 10,11,12,15 were related to market coverage and other questions were related to task of Management and customer support.

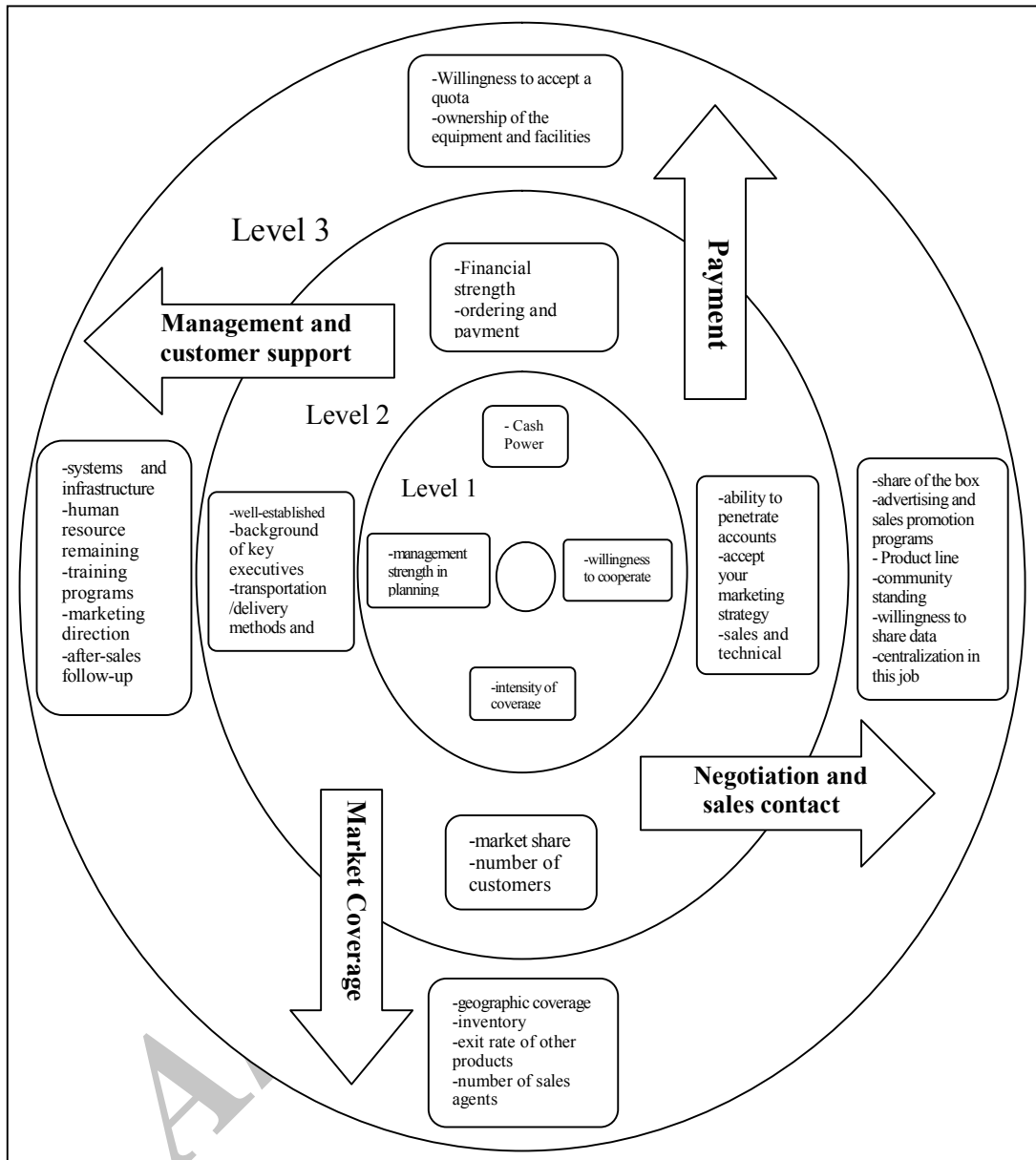


Figure 2: conceptual framework

In the research of Pegram R. in 1965, factors like credit and financial condition, sales strength, product line, reputation, market coverage, sale performance, management succession, management ability and attitude were considered. In these factors, credit and financial conditions related to payment, sales strength, product line, reputation and sale performance are considered above task of negotiation and sales contact, Market coverage and the size related to market coverage task, management succession and ability related to Management and customer support task.

In the research of Hlavacek J.D and McCuistion T.J. in 1983, there are some applicable points: they argued that for technical products sold in the industrial market, manufacturers should select distributors who carry a small rather than large array of products. They also suggested the potential channel member's market coverage should be specified as a criterion not merely in terms of geographical coverage but also in terms of market segment coverage. Finally, they argued the aggressiveness of a potential distributor is always a vital criterion. In interview with experts, all of these factors were confirmed and were noticed in the framework. Product line and aggressiveness tend to collaboration in negotiation and sales contact task, market segment coverage in the market coverage and his view for cooperation in management and customer support task.

In research of Shipley D.D. in 1984, 12 criteria were grouped under three basic categories: 1) sales and market factors, 2) product and service factors and 3) risk and uncertainly factors. Sales and market factors are presented in tasks of market coverage and negotiation and sales contact. Product and service factors are considered in tasks of market coverage and risk and uncertainly factors in tasks of payment and management and customer support.

In research of Yeoh P.L and Calantone, all of 6 factors are considered in this framework. Commitment level relates to the negotiation and sales contact, financial strength relates to the payment, marketing skills relates to the market coverage and finally, product-related factors, planning abilities and facilitating factors relate to the Management and customer support.

Conclusion

The purpose of this research is presenting a framework for selection of intermediary in marketing channel. It is a small part of models to plan marketing channel. The result is a framework that has four basic task, payment, market coverage, negotiation and sales contact and management and customer support. Due to results of questionnaires, there are four important criteria that are categorized in level 1 and they are basic criteria that organizations use for selection of intermediary. If there is a need to use more criteria, it is possible to use one of tasks or all of them in the next levels. Based on the rules, they have to have lower value in comparison to previous levels.

As it is clearly observed in comparison between the framework and the past researches, factors and criteria of all past researches are considered in tasks and criteria of conceptual framework. So it is recommended that organizations use this framework for selection of intermediary in marketing channel. Although criteria and task are suitable for all businesses, it is possible to add tasks and special criteria of any organization to framework with attention to their value. This will lead to better results in process of selection of intermediary in marketing channel. Organization can use multi-criteria decision making techniques like TOPSIS and AHP and their software for optimal use of framework.

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