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Determinants of the variety of routes to market

Rupinder P. Jindal [a,*], Werner Reinartz [b], Manfred Krafft [c], Wayne D. Hoyer [d]

[a] *C. T. Bauer College of Business, University of Houston, Houston, Texas 77204-6021, United States*
[b] *INSEAD, Boulevard de Constance, Fontainebleau 77305, France*
[c] *Westphalian Wilhelms University Münster, 48143 Münster, Germany*
[d] *McCombs School of Business, University of Texas at Austin, Austin, Texas 78712-1176, United States*

Abstract

Increasingly, firms use more and different routes to market. This study investigates whether such heterogeneity in the variety of routes to market can be explained systematically. More specifically, the authors examine how (1) the type and level of a firm's customer orientation and (2) the type and degree of customer search behavior influences the firm's adoption of a variety of routes. They collect primary data on 210 firms in four consumer industries across three countries to test the hypotheses. The authors find strong evidence for a link between a firm's customer orientation and the breadth of its variety of routes but only partial evidence for a link between customer search behavior and the breadth of the variety of routes.
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1. Introduction

A route to market is the distinct process through which a product or service can be selected, purchased, ordered, and received by a customer (Frazier & Shervani, 1992). In other words, it represents a "format" for accessing a customer base. A variety of routes to market exists, such as salesforces, retailers, company-owned outlets, call centers, catalogs, and web stores. Each route is a package of different levels of service outputs, search convenience, and costs. An immediate question that arises for a firm is: how broad should the variety of such routes be to offer its products and services to the customers?

Theory suggests that a firm should adopt only a limited variety of routes to market because of the concept of "channel conflict," which suggests that providing a customer with options to purchase through an extensive variety of routes escalates intrabrand competition in the marketplace (Coughlan, Anderson, Stern, & El-Ansary, 2006). This competition in turn puts pressure on prices, which leads to the alienation of intermediaries. To compensate for their reduced margin, intermediaries are tempted to reduce their level of service outputs and indulge in bait-and-switch tactics (Coughlan et al., 2006). At the extreme, they even may refuse to carry the product or service, which can lead to the erosion of brand image and market share. However, if a firm limits the variety of routes through which a customer can make a purchase, it keeps the intrabrand competition under control. This control ensures the full support and cooperation of the intermediaries, necessary for the successful implementation of the firm's strategic marketing activities, such as the development and roll out of new products and the delivery of customer satisfaction. These arguments hold especially true in industries in which the intermediary plays an active role in imparting necessary service outputs, such as financial services, technological products, and hospitality services. Thus, according to theory, a firm should follow a rational approach of adopting only a limited variety of routes to reach its customers. But do firms follow this approach?

Empirical evidence indicates that more and more firms are adopting an increasingly broad variety of routes to market (Cespedes & Corey, 1990; Coughlan et al., 2006; Frazier, 1999). Why do these firms choose a distribution strategy that appears irrational, disorderly, or, worse yet, cannibalistic? What are the forces responsible for this development?

The literature, especially the trade press, points to the evolving role of customers in a firm's distribution strategy as a

* Corresponding author. Tel.: +1 713 743 5848; fax: +1 713 743 4572.
E-mail address: rjindal@uh.edu (R.P. Jindal).

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major force for the adoption of a broader variety of routes (Friedman & Furey, 1999; Wheeler & Hirsh, 1999). The leading arguments weave around growing customer demands for wider availability and greater convenience of purchase, greater variety in service outputs at the point of purchase, customization of service outputs, and postpurchase support. Because different routes to market provide different levels of such service outputs (e.g., product information, breadth of assortment, level of social interaction, hours of business, order size, ease of negotiation, credit availability, payment options, transaction security, delivery time, return policy, and post-purchase support), firms adopt a broader variety of routes to fulfill the varying customer needs. That is, instead of designing a distribution structure to address the concerns of the intermediaries, firms seem to be responding to customer demands.

The objective of this study is to explore the influence of (1) a firm's customer orientation and (2) the search behavior of its customers based on the variety of routes the firm adopts. We use primary data from four consumer industries that possess two important characteristics: First, service outputs are an inalienable component of the delivery process and the customer's purchase experience and, second, the route to market plays an active role in imparting these service outputs (as opposed to just enabling passive distribution). For example, financial services (large search and advice components) and power utilities (large search and risk components) qualify according to these criteria. Our results provide strong evidence that a firm's customer orientation influences the variety of routes used by the firm. In addition, the influence of customer search behavior is partially supported.

This study makes two contributions to channels of distribution research. First, it establishes customer-centric factors as antecedents for the adoption of a narrow or broad variety of routes. Although a highly important issue for firms, this area has been underresearched, and most existing research deems increased customer heterogeneity the major factor responsible for the use of a broader variety of routes. This study expands the set of antecedents by establishing the role of the firm's customer orientation and the customer's search behavior.

Second, we conduct this study in the context of consumer markets. Traditionally, empirical channel research has focused largely on industrial markets, but certain characteristics, such as the small number of customers, long-term relationships, and complex and time-consuming purchase processes, differentiate industrial markets from consumer markets. These characteristics indicate a potentially different set of forces at work during the delivery of consumer products and services (Frazier, Sawhney, & Shervani, 1990; Rosenbloom, 1999). Although recognizably different from industrial markets, consumer markets have not been considered to the same extent in channel research.

2. Conceptual development

A large body of academic marketing literature focuses on channels of distribution. This literature can be categorized into two broad areas: channel structure and channel management. Whereas the majority of the early research in this field focused on channel management, research on channel structure did not emerge until the 1980s (Frazier et al., 1990). Research in channel management has mostly examined issues in the domain of firm–intermediary relationships. Research in channel structure, in contrast, has examined various facets related to establishing a distribution system in the market, such as the optimal number of total outlets in a territory, the types of intermediaries in the channel, and the level of integration in the channel. Emphasizing the importance of channel structure issues, Stern and El-Ansary (1988, p. 2) point out that "it is important to know why certain types of structures emerge before we can turn to an in-depth analysis of channel member relations, because these relations take place within a specific structure, not apart from it."

The channel structure of a firm has two dimensions: the number of "distinct" channels, or routes to market, used (i.e., the variety dimension) and the number of members in each route, or the extent of usage of each route (i.e., the intensity dimension) (Coughlan et al., 2006). The variety dimension pertains to offering new formats for customers to procure a product or service, whereas the intensity dimension focuses on achieving a specific level of market coverage through a particular format after it has been adopted. In this study, we focus specifically on the variety of routes to market used by a firm, such as its salesforce, retailers, company-owned outlets, call centers, catalogs, and web stores.

In the past several years, empirical evidence has indicated that more and more firms are adopting an increasingly broad variety of routes to market (Cespedes & Corey, 1990; Coughlan et al., 2006; Frazier, 1999). Researchers have recognized this development in noting that "[t]he key question appears to be not whether a multiple channel approach should be utilized, but rather how many and what types of channels should be established by the firm" (Frazier & Shervani, 1992, p. 218). It is surprising, however, that the use of multiple channels has been examined only by a few empirical studies, such as those by Dutta, Bergen, Heide, and John (1995), Alba et al. (1997), Deleersnyder, Geyskens, Gielens, and Dekimpe (2002), Wiertz, de Ruyter, Keen, and Streukens (2004), and Sa Vinhas and Anderson (2005). In general, most of these empirical studies have focused on the addition of a direct channel, usually a web store. Only a few studies have considered the simultaneous use of multiple channels. Sa Vinhas and Anderson (2005) studied business-to-business manufacturers' concurrent use of direct and indirect channels. They found that when there was a high potential for conflict between the two types of channels due to perceptions of a tilted playing field, manufacturers either reduced the simultaneous use or differentiated each channel's offerings.

We still understand very little about issues related to the structure, management, and implications of the simultaneous use of a variety of routes. These unexplored issues include why some firms offer a broader variety of formats to their customers, which firms excel by doing so, how broad a variety they should offer, with what factors they should calibrate this variety, how

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