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Managing channels of distribution in the age of electronic commerce

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Abstract

The emergence of electronic commerce (e-commerce) has created a new business paradigm, one that presents marketers with noteworthy opportunities and challenges. Perhaps the greatest impact is in the area of channel management. The top issue for many business-to-business (B2B) firms today is channel conflict. In this paper, we investigate the effect of introducing the Internet channel into an already complex, multichannel distribution system from the perspective of the supplier firm. We describe strategies for proactively managing conflict, both externally with channel partners and internally among the subunits responsible for managing the channels. Twelve propositions for research are developed; eight relate directly to the marketing mix and four focus on channel communication and coordination. All of the research propositions offered are mechanisms by which suppliers can influence the level of channel conflict they experience. Dedicated channel management groups, documentation of channel strategies, and superordinate goals are identified as strategies for minimizing unwanted conflict.

Keywords: Channel conflict; Distribution strategy; Electronic commerce

1. Introduction

> I don't think maturation and e-commerce belong in the same sentence. My picture of e-commerce is that it's on some kind of S-curve development. It's very, very early in the takeoff stage, and consequently, anything that we conclude about either the structure of e-commerce, the practice of e-commerce or the current players in e-commerce is very dangerous to draw a whole lot of long-term conclusions about. (Intel Chairman Andrew Grove, *The Wall Street Journal*, April 17, 2000)

Led first by the Internet pure-play "dot-coms" and followed closely by the Fortune 500, the explosive growth of business-to-business (B2B) electronic commerce (e-commerce) has been well chronicled in the popular press. In its most recent forecast, Forrester Research predicts B2B revenues over the Internet will reach US$2.7 trillion in 2004, accounting for 17% of all B2B sales [1]. Such a large volume of online transactions would represent a sevenfold increase over the US$406 billion Forrester expects in 2000. The emergence of e-commerce has created a new model for doing business that affects all aspects of the marketing mix. A particularly important aspect of this new business paradigm is its impact on marketing channels.

E-commerce presents business marketers with profound opportunities, including reduced costs, access to new market segments, and the ability to provide information worldwide on a continuous basis. However, e-commerce also introduces potentially significant challenges. Channel conflict is perhaps the most serious concern for companies as they add e-commerce. In a recent survey of 50 manufacturers, 66% indicated channel conflict was the biggest issue they faced in their online sales strategy, three times as many as the second most frequent response [2]. Firms are attempting to reconstruct the supply chain and make it more efficient, a process that will undoubtedly cause conflict with many of the supply chain's existing participants [3]. Traditional distribution channels are threatened by online e-commerce [4]. How supplier organizations manage this channel conflict throughout their entire distribution system will be an important factor in their success.

The purpose of this paper is to address an important question for channels research — what impact does the advent of e-commerce have on managing channel conflict in a B2B setting? Emphasis is given to proactive strategies

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managers can utilize to prevent unwanted conflict, and propositions for future empirical research in this area are offered. The next section consists of an introduction to electronic marketing channels in the context of complex distribution systems, followed by a review of the academic channel conflict literature. Strategies for proactively managing channel conflict are presented next, along with research propositions. We conclude with a discussion of managerial implications and suggestions for future research in this area.

2. Electronic channels

E-commerce is defined as the strategic deployment of computer-mediated tools and information technologies to satisfy business objectives [5]. As such, e-commerce offers fundamentally new ways of doing business, as opposed to mere extensions of existing practices. Indeed, the emergence of the "marketspace" — a virtual world of information paralleling the real marketplace of goods and services — enables marketers to manage content, context, and infrastructure in new and different ways, thereby providing novel sources of competitive advantage [6]. Electronic marketing channels use the Internet to make products and services available so that the target market with access to computers or other enabling technologies can shop and complete the transaction for purchase via interactive electronic means [7].

All marketing channel systems must perform three fundamental tasks: the exchange of goods, the exchange of money, and the exchange of information [8]. In terms of the generic functions that are provided, these tasks are referred to as physical distribution or fulfillment, transaction facilitation, and communication, respectively [9]. As an electronic marketing channel, the Internet is quite capable of replacing conventional distribution channels when it comes to communicating information and conducting transactions. However, the Internet is unable to provide for the physical exchange of tangible goods. It is worthwhile to note, though, that the Internet can be used as a complete marketing channel for products that can be digitized and delivered electronically, such as software, music, and reports. When the Internet should be used only as a communication medium, to help people locate the nearest available source for products, or as both a communication medium and sales-distribution channel is an important research question [10].

2.1. Complex distribution systems

One key reason for supplier organizations to be concerned about channel conflict when they introduce an electronic marketing channel is that the use of intermediaries in B2B markets is commonplace [4]. Over the past decade, industrial marketers have adopted increasingly complex channel strategies in response to shifts in consumer shopping behavior, the globalization of markets, and the advent of the Internet. Indeed, the use of multiple channels of distribution to serve B2B markets has rapidly become the rule rather than the exception [10,11]. The primary motivations for supplier firms establishing more and more complex distribution arrangements are the desire to increase market share and reduce costs [12].

Firms benefit from multichannel distribution strategies in a variety of ways. First, it allows them to better adapt to changing customer needs and shopping patterns. Such adaptive capability has proven useful as they attempt to respond to novel distribution channels, including the Internet. Second, companies with broad product lines can benefit because it is unlikely that a single channel type will be optimal for all products. Third, firms with excess manufacturing capacity can benefit from additional outlets when existing channels are saturated with supply [13]. Finally, additional channels enable the supplier to focus on more precise target markets, thereby improving overall competitiveness.

While using such a complex distribution strategy offers many potential benefits to the supplier organization, it presents some managerial challenges as well. Multiple channels place competing demands on internal company resources such as capital, personnel, products, and technology. Moreover, the various distribution channels may compete with each other for the same customers in the marketplace, increasing the likelihood of intermediary dissatisfaction and customer confusion. In situations where the resulting behavior moves from being goal-centered to opponent-centered, otherwise healthy competition can quickly become unwanted conflict [14], both in the marketplace and within the supplier firm. Clearly, the introduction of an electronic marketing channel by a B2B supplier firm to an already complex distribution system increases the possibility of unwanted conflict.

3. Channel conflict

Channel conflict is not a new phenomenon that was created by the Internet revolution. To the contrary, the conflict construct received considerable attention in channels research in the 1970s and 1980s [10]. In the 1990s, conflict received little attention in the channels literature, in part due to the emphasis of the relationship marketing paradigm on the field. Recently, though, the magnitude and speed with which electronic marketing channels have emerged, along with the trend toward multichannel distribution, have brought channel conflict to the forefront once again.

The foundation for the study of channel conflict lies in the organizational behavior literature [15]. The macrolevel or sociological approach has focused on conflict between groups, departments, divisions, and even entire organizations as units of analysis. Conflict is viewed as being inevitable because of inherent differences in the perceptions and goals of the organizational members. Conflict is also depicted as being functional, provided the very basis of the relationship is not threatened, because constructive conflict might move the organization to higher levels of creativity,