Journal of the Academy of Marketing Science
http://jam.sagepub.com

Organizing and Managing Channels of Distribution

Gary L. Frazier

Journal of the Academy of Marketing Science 1999; 27; 226
DOI: 10.1177/0092070399272007

The online version of this article can be found at:
http://jam.sagepub.com/cgi/content/abstract/27/2/226

Published by:

http://www.sagepublications.com

On behalf of:

Academy of Marketing Science

Additional services and information for *Journal of the Academy of Marketing Science* can be found at:

Email Alerts: http://jam.sagepub.com/cgi/alerts

Subscriptions: http://jam.sagepub.com/subscriptions

Reprints: http://www.sagepub.com/journalsReprints.nav

Permissions: http://www.sagepub.com/journalsPermissions.nav

Citations http://jam.sagepub.com/cgi/content/refs/27/2/226

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

Organizing and Managing Channels of Distribution

Gary L. Frazier
University of Southern California, Los Angeles

During the past three decades, tremendous strides have been made in our understanding of how firms should organize and manage their channels of distribution. Still, we have barely touched the surface of all the managerial issues that need to be addressed. A variety of research needs still exist regarding constructs and issues examined in prior channels research. Furthermore, many issues of managerial importance relating to the organization and management of channels of distribution have received no attention in empirical research. The purpose of this article is to provide a perspective on how channels research should proceed in the future to promote the most progress. It is hoped that the article will help to shape the future direction of marketing thought with regard to channels of distribution and its fundamental domain.

Excellent progress has been made in our understanding of behavioral relationships in channels of distribution since the first major empirical studies were published in the area in the early 1970s (cf. El-Ansary and Stern 1972; Hunt and Nevin 1974; Lusch 1976; Rosenberg and Stern 1971). The knowledge that has accumulated on how interfirm power originates and is then applied, how control of the channel relationship is facilitated, and what intrachannel conflict and channel member satisfaction are based on is impressive. Recent efforts to better understand how strong, long-term channel relationships develop—including the impact of trust, commitment, and relational norms on channel interaction—are noteworthy (cf. Anderson and Narus 1990; Anderson and Weitz 1992; Heide and John 1992; Morgan and Hunt 1994). Furthermore, some progress has been made in our understanding of organizational decisions relating to vertical integration, the use of multiple channels, distribution intensity, and bureaucratic structuring (cf. Anderson 1985; Dutta, Bergen, Heide, and John 1995; Dwyer and Welsh 1985; Fein and Anderson 1997; Frazier and Lassar 1996; John and Weitz 1988).

While the existing knowledge base provides a reasonable foundation, a variety of issues still exist regarding constructs and issues examined in prior research. The role of power in channel relationships is often confused. Interfirm monitoring efforts have barely been touched on. Few of the different facets of interfirm communication have been examined in any depth (cf. Mohr and Nevin 1990). Intrachannel conflict and its impact on long-term channel relationships have been largely ignored of late. The relationship marketing paradigm as applied to distribution channels has been pushed beyond its natural boundaries. Important factors likely to shape channel integration, distribution intensity, and bureaucratic structuring remain unexplored. The use and management of multiple channels have been barely touched on. Physical distribution processes and technologies have not received their due attention in research on channel organization and management.

In addition, many important managerial issues relating to the organization and management of channels of distribution have yet to be addressed in empirical channels research. Among the most important of these issues are (1) how resource allocations to channels should be made across global product markets; (2) how functions are shared-split between channel members; (3) what combination of push and pull strategy is appropriate for firms using indirect channels; (4) when and how the Internet should be used as a sales-distribution channel; (5) how coordination is achieved among distributors in integrated supply networks; (6) how goals are set, plans are developed, and performance is appraised among channel

Journal of the Academy of Marketing Science.
Volume 27, No. 2, pages 226-240.
Copyright © 1999 by Academy of Marketing Science.

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

members; and (7) how distributors should operate their businesses. Worldwide business trends—including market fragmentation, reduced barriers to free and open competition, one-stop shopping initiatives in consumer and business markets, industry consolidation, and the rapid adoption of new technologies—are magnifying the importance of these managerial issues and the need to research them. Any business trend that influences end-customer preferences for products and services and channel members' ability to effectively serve end customers will directly affect the organization and management of distribution channels.

The purpose of this article is to provide a perspective on how research of the organization and management of distribution channels should proceed in the future to promote the most progress. One way to potentially accomplish this end would be to integrate several theories (e.g., exchange theory, transaction cost analysis, and social network theory) and develop a conceptual framework with precise and testable propositions. However, such an approach would limit the breadth of the research issues on channel organization and management that could be addressed. Therefore, an alternative approach was taken. First, on the basis of my understanding of the literature and its limitations, important research needs were identified relating to constructs and issues examined in prior channels research. Second, based on my understanding of what has been examined thus far relative to the managerial issues that manufacturers and intermediaries confront in organizing and managing channels, new issues were identified in urgent need of research. Recent consulting experiences with companies like Anheuser-Busch, Coca-Cola, Hasbro, Hewlett-Packard, Honeywell, Micron Electronics, Samsung, and Texas Instruments in a variety of global markets contributed to my understanding of the managerial issues that need attention. It is hoped that the article will stimulate a variety of channels-of-distribution research and help to guide the future direction of marketing thought on channels of distribution.

RESEARCH NEEDS IN EXTANT LITERATURE

Interfirm Power

Power remains a misunderstood construct in channels-of-distribution research. Confusion still exists among the power, communication, and control constructs in both a conceptual and operational sense. Largely because of this confusion, many researchers embracing the relationship marketing paradigm have criticized power as having negative effects on channel relationships. Morgan and Hunt (1994) associate power with "sick and dysfunctional" channel relationships, and trust and commitment with healthy and functional relationships. They conclude, "Power, then, like opportunistic behavior, helps us to understand relationship marketing failures" (p. 34). Weitz and Jap (1995) associate power with authoritative control and indicate that as relationship marketing takes precedence, firms are relying less and less on power as a coordination mechanism (also see Gundlach, Achrol, and Mentzer 1995; Hallen, Johanson, and Seyed-Mohamed 1991). In fact, the current trend in channels research is to avoid using the term *power* at all and focus instead on replaceability, dependence, or interdependence magnitude and asymmetry. Only when interdependence asymmetry is high is power discussed in the form of a power advantage for the less-dependent firm.

A firm's power in a dyadic channel relationship is its potential for influence on the other firm's beliefs, attitudes, and behaviors. This potential is tied to the other firm's dependence or need to maintain the channel relationship to achieve desired goals (Frazier 1983a). When each firm possesses a high level of dependence in a dyadic channel relationship, interdependence is high in magnitude and symmetric. In such cases, each firm enjoys a high level of power and the bonds between the firms should be reasonably strong. Such relationships are not sick or dysfunctional—quite the contrary. High joint power is likely to promote trust, commitment, and relational behavior because of the common interests, attention, and support found in such channel relationships (cf. Gundlach and Cadotte 1994; Kumar, Scheer, and Steenkamp 1995b; Lusch and Brown 1996).

When each firm possesses a low level of dependence in a dyadic channel relationship, interdependence is low in magnitude. Each firm has low power. The fact that the dependence levels are symmetric has little bearing because of low interdependence magnitude. In such cases, the amount of attention and support each firm gives the other is likely to be very low. Commitment is likely to be low, while trust is likely constrained by limited opportunities for interaction among boundary personnel. As long as each firm correctly acknowledges the inherent nature of such relationships, they may function rather smoothly without problems. If, however, one or the other firms begin making demands that are unrealistic, such relationships can become dysfunctional. But this is due to the lack of interdependence and, hence, power, not the presence of high power.

When one firm is highly dependent on a dyadic channel relationship and the other has low dependence, interdependence asymmetry will be high. Conventional wisdom suggests interests will diverge in such relationships and the firm with the power advantage based on lower dependence will act rather selfishly and pressure the other firm (cf. Anderson and Weitz 1989, 1992; Heide 1994). The development of normative contracts may be impeded in such cases (Lusch and Brown 1996). However, some

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

evidence suggests when long-term cooperation is important and norms of fairness exist in the channel system, firms with power advantages will attempt to mold strong and effective relationships rather than pressuring associated firms to maximize selfish interests (cf. Frazier and Summers 1986; Ganesan 1993; Kumar, Scheer, and Steenkamp 1995a).

The issues raised above need further exploration. The key to high-quality research on power is to define it conceptually as a "potential for influence." Some have defined power as the ability to compel compliance, suggesting that power and coercion-pressure are one and the same. Morgan and Hunt (1994) view power in this manner and state,

> [T]o many academics, as well as to most practitioners, the term power implies, or at least strongly connotes, coercion, that is, do this or else. If one does not have the ability to force compliance, then one may be said to have some degree of influence, but not genuine power. For these academics and practitioners, noncoercive power is at best a non sequitur and at worst an oxymoron. (P. 33)

Many academicians and practitioners may think of power and force or coercion as being synonomous. A word like *power* conjures up negative images to many in our society for a variety of reasons. Such a pedestrian view, however, provides no justification for defining power as a construct in academic research. Constructs represent the basic building blocks of academic research. Constructs are abstractions intended to help us better understand the world and the behaviors that take place within it. Power must be defined and examined in such a manner as to enrich our understanding of behavioral interactions and outcomes between channel members. Defining power as a potential for influence, which is, by the way, the predominant view in extant channels research, is clearly superior to the pressure or coercion definition, as it allows for a clear separation between the possession, use or application, and effects of power (see Frazier 1983b; Frazier and Antia 1995). The value of this distinction is evident in many channel studies, in which a firm's power has been found to be inversely related to the use of coercion (cf. Frazier and Rody 1991; Frazier and Summers 1986; Ganesan 1993; Gundlach and Cadotte 1994). Studies finding a positive association between power and use of coercion have been lab or field studies, in which zero-sum games effectively exist among channel members, with long-term cooperation having little bearing (cf. Dwyer and Walker 1981; Frazier, Gill, and Kale 1989).

I hope channel researchers will consider these points before jumping to the presumption that power is some negative force to be guarded against at all costs. High joint power serves as the underlying foundation of strong channel relationships, including strong relational norms and high levels of interfirm commitment.

Monitoring Channel Members

How firms like McDonald's and Holiday Inns send employees unannounced to different intermediary locations to monitor their performance (i.e., mystery shoppers and mystery sleepers) has been discussed in the channels area for quite some time. Costs associated with monitoring are part of the costs of governing ongoing channel relationships, that is, transaction costs (cf. Williamson 1985).

Despite the importance of monitoring, to the best of my knowledge, Bello and Gilliland (1997) are the first to explicitly examine it in a major channels study. They find that efforts by U.S. manufacturers to monitor indicators of foreign distributor results (e.g., sales volume, market penetration of new products) are positively related to distributor performance. Knowing that a manufacturer is keeping track of certain performance outcomes, a distributor may be prone to focus more attention and resources on achieving them. Furthermore, feedback may be given as a result of monitoring efforts that aids firm performance.

Clearly, much more needs to be done. What needs to be monitored across different channel relationships and contexts is an important question. Behaviors as well as performance outcomes will need attention in many cases, especially where intermediaries are intended to add considerable value to the core product (cf. Celly and Frazier 1996). In addition, firms can monitor associated channel members through a variety of means, such as through use of boundary personnel, the electronic transfer of orders and other information, mail surveys to end customers, customer feedback in Web sites, and outbound telemarketing efforts. The means and combinations of monitoring that make the most sense under varying conditions need to be examined. How relationship building, or lack thereof, influences monitoring is an important question. A benefit of building strong channel partnerships may be that explicit monitoring and its associated costs are not needed, at least to any degree (cf. Kollock and O'Brien 1992).

Channel Communications

As indicated by Mohr and Nevin (1990), a variety of different facets of interfirm communication exist, including the amount, direction, medium, and content of communications. Thus far, the "content" dimension has been emphasized in the channels literature in the form of interfirm influence strategies, that is, the means of the communication used by a firm's personnel in applying its power (cf. Boyle, Dwyer, Robicheaux, and Simpson 1992; Frazier and Summers 1984; Johnson, Sakano, Cote, and Onzo

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

1993). The "amount" dimension of interfirm communication has also been examined in a few studies (cf. Anderson and Narus 1990; Anderson and Weitz 1989, 1992).

Interfirm communication must be studied in much greater depth in the future. Each facet of interfirm communication needs attention, including its direction and medium. Interfirm influence strategies are deserving of more research, especially in terms of how they are used in conjunction with one another. However, examining the content of other communications between channel members involving joint planning efforts, performance appraisals, and outcome-based and behavior-based coordination efforts appears more important. Also, research must be conducted on how interfirm communications influence channel member belief-attitude-intention formation in relation to individual channel programs and the adoption of new products (cf. Frazier and Sheth 1985). We can learn much from consumer and organizational buying behavior research on information processing and decision making in the process.

The sharing of intelligence between channel members has been virtually ignored. Intelligence can be thought of as information on the marketplace processed and retained by channel members that could potentially reduce decision making uncertainty (cf. Huber 1990). Channel members with better intelligence than their competitors should be more market oriented and enjoy an advantage in both forming and implementing marketing strategies (cf. Jaworski and Kohli 1993). Research is needed in identifying factors that facilitate the sharing of intelligence between channel members, both upstream and downstream.

The influence of electronic sharing of various types of data and intelligence on channel relationships needs to be examined as well. High levels of electronic data interchange are transforming the nature of many channel relationships and are fundamental to the success of efficient consumer response (ECR) systems, such as the one implemented by P&G with many retail chains (cf. Stern, El-Ansary, and Coughlan 1996). Electronic sharing between channel members may be especially crucial for channel systems facing high environmental uncertainty and competition. Under such conditions, the need for current data and intelligence is likely to be great.

While electronic sharing of data and intelligence has led to a strengthening of many channel relationships, many manufacturers have tried to substitute such technology for boundary personnel in an attempt to reduce selling and coordination costs. Such a cost reduction strategy may be appropriate under certain conditions but is likely to lead to weaker channel relationships. Research is needed that explores how the adoption of new technologies in conjunction with other decisions within the firm affects the strength of channel relationships.

Channel Control

A firm's control in a channel relationship reflects its actual impact on an associated firm's behavior and decision making. A number of studies in the 1970s and 1980s examined the control construct, but most were impeded by measurement problems, an exception being Anderson, Lodish, and Weitz (1987). Attributed control measures appear to be problematic due to perceptual biases and attribution processes. An agent may attribute a high level of control to a principal based on the latter's use of coercion, but that principal's actual control may be low because the coercion may have little effect (see Lusch and Brown 1982 for further explanation). The control construct has been largely ignored in recent channels research.

The control construct deserves additional research, but only if better measures are developed. One approach would be to gather data from firms on channel members' actual involvement in sponsored programs and channel initiatives. For example, Coca-Cola may have a program in China to get more coolers and vending machines placed in retail locations within 234 cities with more than 1 million in population. One could gather data from Coca-Cola boundary personnel on the reaction and support of associated primary wholesalers and secondary wholesalers in implementing the program. As another example, one could gather data from McDonald's on which franchisees actually adopt new promotional programs.

On a slightly different track, "control systems" are now getting attention in the marketing literature, based on agency theory and organizational control research (cf. Jaworski 1988; John and Weitz 1989). One must take care in applying concepts on intraorganizational control to interorganizational relationships, as formal authority relationships are not nearly as strong in the latter. In fact, the terminology *control system* is somewhat misleading in a channels setting. Influence attempts to gain control are one thing. Gaining actual control is another.

Still, it may be useful to think of a control system in a distribution channel as the set of agreements, programs, and interactions used by a firm in an attempt to shape strategies and actions of associated members in the value chain. The intent is to gain control, even if it is not realized in many cases. In market exchanges, the price mechanism may be the only component of firms' control systems (cf. Stern and Reve 1980). In other forms of exchange, a complex array of different tools-levers may be used. Firms can rely on a mix of contracts, pricing and credit programs (e.g., functional discounts, margin guarantees, extended dating), promotional programs (e.g., market development funds, co-op programs, incentive or spiff programs, earned volume rebates, end-customer promotions), merchandising aids, training programs, and inventory buyback programs, among other components. The key

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

question becomes what components should be part of a control system for individual firms.

No doubt, work needs to be done on "dimensionalizing" such a complex construct. For example, it appears that different control systems could be contrasted based on their breadth (number of components), depth (number of elements per component), and utilization or implementation (how often the components are put into full use in the value chain). Factors at the industry, firm, dyad, and network level are likely to have a bearing on these dimensions. Channel control systems and their composition are very hot topics among leading companies at the present time.

Channel Conflict

Along with power, the conflict construct received a good deal of attention in channels research in the 1970s and 1980s. The process framework of conflict (Pondy 1967) has been the underlying conceptual foundation for most of these studies. "It seems preferable to view channel conflict as a process which progresses from a latent state of incompatibility to perceived conflict to affective conflict to manifest conflict to conflict outcomes or aftermath" (Brown and Day 1981:264). However, conflict has never been examined as a process. In fact, only a few studies have attempted to examine more than one state of conflict (cf. Etgar 1979; Frazier and Rody 1991; Stern, Sternthal, and Craig 1973). Lately, conflict has been receiving little attention in the channels literature, in part, based on the influence of the relationship marketing paradigm on the field.

Conflict is an important construct to study in any type of exchange relationship. In the future, channel researchers must probe more deeply into the essence of the conflict process. "Tracing a crisis through the stages of conflict interaction, with special attention to communication content and flows, would be central to understanding the development and impact of conflict" (Rosenberg and Stern 1971:442). In simple exchange relationships with little interaction, interfirm conflict is unlikely to occur to any degree. In contrast, where a complex exchange exists and where considerable interaction occurs, conflict and cooperation are likely to coexist. Indeed, because domain and jurisdictional problems are often created when channel members work closely together, if either conflict or cooperation is absent, the relationship may not have the capacity to develop effective operations (cf. Alter 1990). Conflict is, at least in part, a property of work processes and must be examined as such. Viewing and examining conflict in this way may help us to better understand its functional and dysfunctional effects, about which we have very little knowledge at the present time.

Contract Design and Enforcement

Lusch and Brown (1996) underscore the importance of examining contracts in channels of distribution:

> [T]he conceptual and empirical study of contracts governing business relationships is an important area of inquiry in marketing channels research. This area is also managerially important, because the misuse of contracts could create irreconcilable conflict and other forms of dysfunctional behavior that could ultimately harm channel member performance. (P. 19)

Based on an agency-theoretic framework, research by Jeuland and Shugan 1983, Lal (1990), and Moorthy (1988) focuses on aligning channel member incentives through various contractual mechanisms. By deploying the right contracts, referred to as "self-enforcing" contracts in dyadic channel relationships, neither firm may have the incentive to deviate from the contractual terms and channel coordination is facilitated as a result. Lusch and Brown (1996) found that the dependence structure of the channel relationship influences the use of explicit and normative contracts, and that normative contracts appear to facilitate relational exchange behavior and intermediary performance. Empirical results in Heide, Dutta, and Bergen (1998) indicate that firms are more likely to require exclusive dealing when there is potential that other manufacturers can free ride on the services they provide. Along another vein, Dutta, Bergen, and John (1994) and Bergen, Heide, and Dutta (1998) center on the enforcement of channel contracts from a transaction cost economics perspective. Their findings suggest that enforcement practices are stricter when the importance of agent services, agents' margins, and principal commitment to the channel are high, and performance ambiguity is low.

While the above research provides a solid foundation, much more work on contracts is needed in future channels research. Explicit contracts currently in use in channel relationships vary considerably in detail, length, balance, and restrictiveness. Initial fees, royalty rates, monthly service fees, payment schedules, services offered, quality control policies, local advertising contributions, buy-back options, and termination details vary considerably across different franchise contracts. Following the lead of Heide et al. (1998), research that provides guidance as to the terms that should be included in explicit contracts under varying environmental and competitive conditions would be very useful.

The research on self-enforcing contracts has provided valuable insights. However, numerous ex post contingencies can arise that move contracts outside the "self-enforcing range" (cf. Klein 1996). As Williamson (1996) indicates, contracts together with transactional attributes

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

"give rise to . . . complex ex post governance structure responses" (p. 59). Therefore, more research along the lines of Dutta et al. (1994) and Bergen et al. (1998) is needed on how channel members react to violations of contracts and attempt to enforce them. Only the violation of resale restrictions has been examined thus far. Other obligations that are violated in channel relationships also need to be explored. Furthermore, to this point, tolerance and termination have been viewed as the primary options available to a principal. Between these two extremes, a range of possible enforcement responses exist—such as informal attempts to persuade compliance, site visits, cure letters, and cease and desist warnings—that need to be explored. Future research on enforcement should also explore network effects, as "individual relationships are embedded in a context of other relationships that could have goverance implications" (Heide 1994:81; also see Anderson, Hakansson, and Johanson 1994).

Market Orientation

Market orientation is the extent to which a firm focuses deeply on the needs and preferences of end customers, as well as centering on competitor initiatives (cf. Day 1994). While receiving considerable attention in the general marketing literature, market orientation had been ignored in the channels literature prior to Siguaw, Simpson, and Baker (1998). They found that the market orientation of the supplier organization is positively related to the market orientation of the distributor and distributor commitment to the dyadic exchange relationship.

How distribution channels are organized and managed will likely influence the market orientation of entire industries as well as individual firms therein. Therefore, additional research on market orientation in a channels context is critically needed. Day (1994) argues that channel-bonding capabilities are valuable to market-driven organizations, as they promote market sensing and intelligence sharing within the channel system. Empirical research into these possibilities would be valuable. In addition, additional research is needed into the relationships examined by Siguaw et al. (1998), including a better understanding of why and how one firm's market orientation will affect the commitment of associated channel members.

The Boundaries of Relationship Marketing

Relationship marketing refers to establishing, developing, and maintaining successful relational exchanges (Dwyer, Shurr, and Oh 1987; Morgan and Hunt 1994). The paradigm has had an important influence on channels research this past decade, breathing new life and research directions into the area. We now have a better understanding of the antecedents of close interfirm relationships and more insights into the underlying properties that strong exchange relationships possess (cf. Anderson and Narus 1990; Anderson and Weitz 1989, 1992; Morgan and Hunt 1994). Particularly important is that we now better grasp the trust and commitment constructs and their underlying determinants (cf. Anderson and Narus 1990; Anderson an Weitz 1989; Morgan and Hunt 1994; Scheer and Stern 1992).

This progress aside, it appears that the relationship marketing paradigm as applied to distribution channels has been pushed beyond its natural boundaries. Granted, there are many channel contexts where strong channel partnerships can thrive, representing a major source of competitive advantage for the firms. However, in my experience, there are even more contexts in which attempts to build and maintain the strongest channel partnerships make little sense because the costs of relationship-building activities would outweigh their benefits (cf. Jackson 1985). Discrete exchanges, market exchanges, repeated transactions (a weak form of relational exchange, see Webster 1992), and, in certain cases, hierarchical exchanges would be better types of exchange in such interfirm channel contexts.

A major need is to better conceptualize what relational exchange entails. Characteristics of relational exchange have been discussed, but a clear and precise conceptual definition is lacking in the channels literature. Relational exchange in a channels setting can be thought of as ongoing transfers of value between independent channel members where interactions and associations of personnel affect governance. Given this definition, a continuum of relational exchange may exist, ranging from repeated transactions on one end to partnerships on the other end. Costs (e.g., channel personnel, communication, specialized investments, switching, and opportunity costs) and benefits (e.g., organizational learning, channel value-added, joint payoffs, social rewards) of moving up and down this continuum need to be specified and explored. Also, conceptual frameworks are needed that help us to better understand what industries (e.g., construction equipment), channel systems (e.g., Caterpillar's channel system in the United States), and dyadic channel relationships (e.g., Caterpillar and a specific dealer) are conducive to the establishment and maintenance of strong channel partnerships.

Channel Integration

Relative to the management of ongoing channel relationships, the organization of distribution channels has received less attention. We owe a debt of thanks to transaction cost economics (TCE) for spurring a wave of empirical research on channel integration in the mid- to late

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

1980s. The predictions of TCE regarding specialized investments and performance ambiguity have received support. Integrated channels (i.e., direct channels) appear to be facilitated to the extent that specialized investments are required to consummate transactions and performance ambiguity is high (Anderson 1985; Anderson and Coughlan 1987; John and Weitz 1988; Klein, Frazier, and Roth 1990). The effects of environmental uncertainty are less clear. Some evidence suggests that volatility in the firm's output environment contributes to greater channel integration (Dwyer and Welsh 1985; John and Weitz 1988; Klein et al. 1990). Klein et al. (1990), on the other hand, find that complex, diverse environments promote greater reliance on nonintegrated (indirect) channels. The scale-economies paradigm has also received support in that the higher the sales volume of a product line or business, the more firms rely on integrated channels (cf. Klein et al. 1990; Lilien 1979).

Unfortunately, little has been done as of late to promote our understanding of the channel integration decision. TCE is appealing, but very narrow as currently developed. Constructs other than specialized investments, environmental uncertainty, and performance ambiguity will, no doubt, influence transaction costs, that is, the costs of governing exchange relationships. For example, the power of the firm at both the system level and the dyadic level will, no doubt, influence governance costs. Levels of trust and commitment in the channel system are likely to have an influence on transaction costs as well.

In addition, other theories, such as exchange theory and social network theory, need to be applied to the channel integration area to broaden the theoretical base and reduce likely specification error. Such factors as the financial resources of the company, its core competencies, the importance of the product market in question to the firm, and customer characteristics (e.g., size, needs and preferences) are likely to affect reliance on direct or indirect channels. In fact, the fundamental determinant of channel integration will, in all likelihood, be the average order size from individual customers. Small to moderate-sized customers cannot be economically served by traditional direct channels because selling and operational costs would surpass the revenues.

Multiple Channels

The use of multiple channels of distribution is now becoming the rule rather than the exception, given the fragmentation of markets, advancements in technology, and heightened interbrand competition, among other things. While multiple channels potentially increase the firm's penetration level and raise entry barriers, intrabrand competition and intrachannel conflict may become major problems, leading to lowered levels of support in the firm's direct and indirect channels. Such possibilities remain largely unexplored. While John and Weitz (1988) and Klein et al. (1990) examined the use of multiple channels to a degree, only Dutta et al. (1995) have focused an empirical study on the construct. Their major finding is that augmenting an indirect channel with a direct channel improves the manufacturer's ability to manage the indirect channel.

One important issue for future research rests with the definition of a dual or multiple channel. One approach would be to define a multiple channel as when more than one pipeline is used to sell and distribute the same product line. Thus, a multiple channel would be involved when a manufacturer uses a direct channel to sell to large customers and an indirect channel to sell to small to medium-sized customers. The other approach is to define a multiple channel as when more than one primary channel is used to sell the same product line to the same target market. An example of this is General Electric, which uses both electrical distributors and category killers like Home Depot to serve small to medium-sized contractors' needs for electrical products. I prefer the latter definition in general, but each approach has some merit depending on the purpose of the research study. Note that some intrabrand competition will exist even under the first approach, as intermediaries intended to sell to small to moderate-sized customers sometimes venture in and attempt to do business with large customers.

Models need to be developed to help determine when multiple channels need to be relied on to the fullest extent. The basic trade-off in the choice between fewer versus more channels appears to be market coverage versus intermediary investments and value added. Adding more channels may increase market coverage but may reduce intermediary incentive to invest and add value to the core product. The ultimate effect on long-term product sales is therefore unclear.

There may be occasions when multiple channels are complimentary to each other. For example, Victoria Secret uses two primary channels to sell its lingerie and clothing, retail stores and mail catalogs. The mail catalogs are likely to increase traffic at the retail stores by providing greater exposure to, and identification with, the brand among shoppers. Multiple channels may also be complimentary to each other in the introduction phase for a new product where many potential customers exist. In such cases, getting quicker exposure through more channels may aid the diffusion process, unless it inhibits necessary intermediary investments.

A fascinating question is what percentage of a firm's potential transactions with customers should be in conflict. That is, how often does a firm want its customers called upon by more than one channel. If no such conflict exists in a firm's channels, market coverage and sales revenues may be sacrificed unnecessarily. On the other hand, too much overlap is likely to create considerable customer

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

confusion and irritation. The answer to this question of overlap in channels is likely to vary considerably across channel contexts.

Also important is to examine the evolution of multiple channels during industry life cycles. Changes in value-added requirements are likely to dramatically affect channel evolution. For example, cellular telephone service providers like AirTouch Cellular primarily used agents and wholesalers to sell telephones and service when getting started in the United States in the early 1980s. Direct channels to Fortune 500 companies soon followed. A good deal of value added was required in the 1980s as the phones had to be properly installed in vehicles. This changed drastically, however, as portable phones started to take over in the late 1980s and early 1990s. Major retailers such as Circuit City and the Good Guys suddenly became very critical, lessening the importance of agents in the channel system, as their primary core competence, installation ability, became largely unneeded. Such changes in channel structure during industry life cycles need to be systematically examined in the future.

One interesting trend in some industries is that manufacturers are using both direct and indirect channels to serve their largest original-equipment manufacturer (OEM) customers. For example, semiconductor manufacturers like Texas Instruments use direct channels to sell lower volume, higher priced semiconductors to large customers like Sun Microsystems. However, they use distributors like Arrow and Hamilton-Hallmark to get higher volume, lower priced products such as memory chips to these same large customers. The distributors provide just-in-time delivery and associated inventory reductions that individual manufacturers either could not provide or decide not to provide based on return-on-investment criteria. Therefore, traditional wisdom that intermediaries like distributors should only be used to serve smaller sized customers is being transformed. The situations where intermediaries can be used effectively to serve large customers need attention in the future.

Distribution Intensity

Stern et al. (1996) state, “One of the key elements of channel management is deciding how many sales outlets should be established in a given geographic area” (p. 340). The options vary from exclusive through selective to intensive distribution. Within indirect channels, when an exclusive or highly selective approach is taken, the intent is normally to provide territorial protection to intermediaries to promote their investments in the brand (cf. Dutta, Heide, and Bergen forthcoming). By reducing intrabrand competition, interbrand competition may be promoted.

Studies by Frazier and Lassar (1996) and Fein and Anderson (1997), both using a credible commitments perspective, provide the initial empirical evidence on the topic. Frazier and Lassar show that manufacturers of high-end brands targeted to market niches and requiring close channel coordination tended to have lower distribution intensity levels. However, to the extent that retailers made credible commitments in the brand through signing restrictive contracts and making significant investments, the manufacturer was able to heighten distribution intensity to some degree to enhance market coverage. Fein and Anderson found that manufacturers and distributors behave in a manner that balances exposure, as limited distribution intensity by the manufacturer was found to go in tandem with product category selectivity by the distributor. Manufacturers were also shown to rely on fewer distributors in territories when distributor-specialized investments, direct sales, and brand strength are high, and competitive intensity and market importance are low.

In the future, how decisions on distribution intensity interact with the use of multiple channels needs to be examined. Firms may be able to rely on multiple channels for a greater variety of products, even those requiring a reasonable amount of intermediary investment, if distribution intensity is kept low in each channel. Furthermore, monitoring and enforcement efforts appear critical for firms using an exclusive or selective distribution approach, as unauthorized sales outside of assigned territories can cause considerable disruption. Therefore, exploring how firms should design contracts, monitor sales of intermediaries, and enforce territorial boundaries when using highly selective distribution is an important avenue for future research (see Dutta et al. 1994).

When first launching into foreign markets, many companies, especially those small to medium in size, appoint exclusive distributors for entire countries. In fact, some companies give export management companies the rights to sell their products throughout the entire world, except for their domestic markets. Such a “hands-off” approach to foreign-market entry may provide for some quick incremental sales. However, by making more effort to understand foreign markets themselves and appointing more distributors per country, firms may be able to enhance their market positions and sales. Such possibilities require attention in the future.

Bureaucratic Functioning

Research by Dwyer and Oh (1987), John (1984), and Reve (1986) have helped us to better understand how centralization, formalization, and participation affect the functioning of channel relationships. Collectively, the results of these studies suggest that the impact of certain dimensions of channel structure, such as formalization and participation, will vary across channel contexts. Intermediaries in some channels may appreciate the development of rules and procedures by their suppliers to govern their relationship, and open consultation in decision

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

making. In other channel contexts, rules and open consultation may be looked on with disdain. On the other hand, based on these studies, it appears that intermediaries generally resist the heavy use of centralized authority by manufacturers.

This area has received little attention of late and is deserving of more. In the process, more attention must be devoted to the conceptual underpinnings of the elements of bureaucratic structure in a channels context. Centralization, a construct borrowed from an intraorganizational context, does not appear to apply very well in interfirm settings involving manufacturers and intermediaries, overlapping with the interfirm power construct. It appears to make little sense to ask intermediaries how centralized decision making is in their "exchange relationships" with manufacturers. However, centralization is important "within" channel member organizations, specifically when examining the decision-making autonomy of manufacturer boundary personnel, distributor branch managers, and retail store managers and the impact of this autonomy or lack thereof on channel relationships. For example, a manufacturer dealing with a decentralized national distributor that allows considerable autonomy to individual branch managers has a considerable influence task. Distributor headquarters must be called upon to legitimize the relationship. Then, individual branches must be called upon to get the required actions going. The same manufacturer can face vastly different levels of cooperation across individual branches of a distributor organization.

Formalization makes sense as a construct, but it must be connected to the existence of explicit and normative contracts, and contract enforcement actions. A promising avenue for future research on bureaucratic functioning in channel systems would be the development and testing of contingency frameworks, as suggested by the work of Dwyer and Oh (1987), John (1984), and Reve (1986). The standardization of channel policies across regions and countries should also be examined as a dimension of bureaucratic structure in such research.

Physical Distribution Processes and Systems

Physical distribution has been transformed in the past two decades based on advances in technology and related processes. Computers, electronic data interchange (EDI), satellite communication systems, handheld scanners and bar code label equipment, and the Internet are among the technologies that have aided this transformation. More important, modern physical distribution systems and related concepts are dramatically influencing organizational structure and the nature of channel activities. Take, for example, the development and implementation of efficient consumer response (ECR) systems by P&G in its relationships with many supermarket and retail accounts. Prior to ECR, the sales function at P&G was critical in presenting information and convincing store buyers what orders to place and when. After ECR is accepted and implemented, including an "everyday low price" approach, P&G personnel get retailer warehouse shipment data through EDI on a daily basis and make the decision on what and when to ship, reducing the retailer's need for buyers. The sales function is still important, but in a different way, with long-term planning and joint action with retailers much more critical post-ECR.

Examining how physical distribution practices and related concepts such as ECR affect channel organization and management is an extremely rich area for future channels research. Business school faculty in the logistics area have addressed a variety of issues related to physical distribution. What is needed is greater cross-fertilization between the channels and logistics areas of research (cf. Frazier, Spekman, and O'Neal 1988). The boundaries between the two fields are artificial, created largely by the complexities of each field, and must be brought down.

Channel Management and Firm Performance

Certain studies have established linkages between channel management and firm performance. Heide and John (1992) found that intermediaries when highly dependent on manufacturer relationships can enhance their performance by making offsetting investments with their customers. Buchanan (1992) concludes that high retailer dependence can have either a good or bad impact on performance depending on the symmetry of interfirm dependence levels and decision-making uncertainty. Cavusgil and Zou (1994) found that a manufacturer's support and involvement with its foreign distributors are positively related to export performance. Bello and Gilliland (1997) found that efforts by U.S. manufacturers to monitor indicators of foreign distributor results (e.g., sales volume, market penetration of new products) are positively related to distributor performance.

Clearly, such research is important and must be extended in the future. One caution is in order, however. So many factors affect sales and profit performance that it is often difficult to find meaningful effects in one-shot studies, unless perceptual measures of performance are used that overlap to some degree with other perceptual measures used in the same studies. One potential way around such difficulties would be to conduct longitudinal research focusing on the change in performance given changes in channel organization or management. For example, intrachannel conflict may be unrelated to firm performance in an aggregate sense at one point in time. However, a change in conflict in particular relationships over time could be significantly related to a change in firm performance. Functional and dysfunctional effects of conflict could be

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

unmasked through such a research program. In my experience, in channel relationships where intermediary motivation and support are weak, an increase in conflict can lead to an increase in performance.

UNADDRESSED ISSUES

To this point, research needs have been stressed associated with constructs and issues examined, at least to some degree, in prior channels research. In this section of the article, important issues in need of research are stressed that have received no empirical attention in major studies in the channels literature, at least to my knowledge.

Resource Allocations to Channels in Global Product Markets

The amount and type of resources to devote to distribution channels across global product markets represent a highly important decision for many firms. Obviously, such resource allocation decisions are highly complex, requiring at least some understanding of how various elements of the firm's marketing mix—including product, price, promotion, and place—appeal to, and influence, targeted customers in each served market. Little has been done in channels research to shed light on how such resource allocation decisions should be made.

One cut at this decision would be to simply rank order the global markets in priority, to allocate a general amount of resources to each market, and then to decide what portion should be devoted to channels. This, however, ignores possible interactions and synergies that exist across a firm's distribution channels in various countries. No doubt, contingency frameworks need to be built and tested centering on the influence of marketing mix elements, including place, on customer demand under different global market conditions. In the process, the firm's objectives (e.g., increase its market share, enhance customer retention) and marketing strategy must be more closely related to channel management.

Function Allocation

Channel functions reflect the job tasks (e.g., lead generation, installation, customer training) that must be performed within the distribution channel. They represent the basic building blocks of any distribution channel. Certain products and services require a relatively complex array of channel functions to be performed in facilitating their exchange with end customers (e.g., semiconductors referred to as digital signal processors, camcorders).

Currently, little is known about the specification of "channel roles" involving required functions. Some channel functions, such as providing technical information to end customers, may be performed only by the manufacturer, whether in the field (branch office) or at corporate (home office). Other channel functions may be performed solely by intermediaries. Still others may be spilt and shared between the firms. In my experience, many manufacturers make channel role decisions very poorly and then compound the problem by attempting to motivate intermediaries to assume roles they are not capable of performing very well. Often, saving costs by off-loading as many functions as possible to downstream channel members is the key imperative. Unfortunately, when taken to an extreme, such an approach will lead to dysfunctional channel conflict and poor sales; efficiency at the expense of effectiveness.

The benefits of sharing functions with downstream channel members are often missed. By performing at least some of a channel function itself, a firm can gain knowledge it would otherwise lack, while better monitoring channel member behaviors and performance. At the same time, such behavior can help motivate associated channel members to excel in performing their portion of the function. A good example is when a manufacturer shares some of the personal selling function by having company salespeople make some joint sales calls with distributor salespeople.

Research is needed that examines, based on context, which functions are best shared between channel members. The proportion of responsibility that each firm should take in performing shared functions (e.g., the manufacturer performs 10% of personal selling activity, while associated distributors perform the remainder) must be addressed at the same time. The skills and capabilities of the firms need to be considered when deciding on an appropriate allocation of functions. On the basis of the inherent qualities of intermediaries, manufacturers may need to be heavily involved in sharing channel functions when the complexity of the product-service and environmental uncertainty are high.

Push and Pull Strategy

Virtually ignored to this point has been the push and pull strategy of firms in indirect channels of distribution. This issue is highly related to the aforementioned issues of resource allocations and function allocation. While push and pull strategy is normally associated just with manufacturers, it is also relevant for intermediaries in multilevel channel systems (e.g., primary wholesalers dealing through secondary wholesalers to reach retailers, a master distributor dealing through subdistributors to reach dealers).

Sole reliance on a push strategy means that the firm is only devoting resources to motivate desirable behavior at the next vertical level of the channel. For example, a manufacturer using distributors to reach OEMs would only direct personnel and design programs to reach distributors.

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

Smaller firms facing major resource constraints often resort to sole reliance on a push strategy. On the other hand, sole reliance on a pull strategy means that the firm is only devoting resources to motivate brand or firm preference with end customers. For example, a manufacturer using distributors to reach OEMs would only direct personnel and programs to OEMs. In theory, when a pull strategy is successfully implemented, the end customers would contact intermediaries requesting the products-services in question. A pull strategy can be very expensive, especially for consumer products and services.

Normally, however, firms rely on some combination of push and pull strategy. What is lacking in the channels literature is guidance as to the conditions under which certain combinations of push and pull strategy are appropriate. Such research has the potential to make truly significant contributions to our discipline and would definitely catch the attention of practitioners.

The Internet as a Sales-Distribution Channel

Companies that include on their Internet sites information about products, prices, and a means to order have a sales channel at their disposal at a relatively low cost. To complete the sales cycle, such companies can align with express delivery services to get orders to customers. Of course, the Internet can be used as a complete distribution channel for certain products (e.g., newspapers, software) and services (e.g., stock trading, travel).

When the Internet should be used only as a communication medium, including helping people locate the nearest available source for products, or as both a communication medium and a sales-distribution channel needs attention. In certain situations, use of the Internet as only a communication medium is likely to be appropriate. Manufacturers using an exclusive or highly selective distribution intensity approach where local dealer investments are crucial should likely stay away from using the Internet as a sales-distribution channel. When a product's price varies considerably across global markets, limiting the Internet's scope appears wise. Furthermore, where different firms hold trademark rights to the same product, depending on the global market, restricting the Internet to a communication role appears appropriate. For example, Hasbro holds trademark rights to the Scrabble game in North America, while Mattel holds those same rights in all other global markets. As a result, neither firm uses the Internet as a sales channel.

When the Internet is to be used as a sales-distribution channel, a variety of different decisions must be made, such as should the site be company operated or indirect and, if the latter, how many cyber intermediaries should be used? Channel integration and distribution intensity decisions are likely to have different spins put on them when the Internet is involved, rather than traditional channels. Also, due to product breadth and support issues, distributors like Marshall Industries (i.e., electronic components) and retailers like Wal-Mart may need to use the Internet as a sales-distribution channel differently than manufacturers would. Such possibilities deserve attention.

Use of the Internet as a sales-distribution channel by manufacturers and service providers is leading to the failure of many intermediaries and consolidation in many industries, especially in service-related industries. At the same time, the Internet is being embraced by intermediaries in other industries as a sales-distribution channel and contributing to their success. Research is clearly needed that examines the impact of the Internet as a sales-distribution channel on industry structure.

Coordination in Integrated Supply Networks

Many manufacturers have grown tired of dealing with a large number of different distributors for acquiring maintenance, repair, and overhaul items, such as pipes and valves, bearings, electrical products and lamps, janitorial supplies, safety products, cutting tools and abrasives, and lubricants. Many purchase orders are involved, requiring considerable expense in people and systems. As a result, many manufacturers are demanding "one-stop shopping," at least in some sense. Distributors of various types are being encouraged to organize into what are called "integrated supply networks." A "lead" or "central" distributor is normally identified in each network. The manufacturer communicates its needs at a particular point in time through a single purchase order to this central distributor, who then coordinates activities with the other distributors in the network. A single delivery from the central distributor or individual deliveries from each distributor involved in the purchase order could be involved. Some of these integrated supply networks have thrived, while many others have failed.

How integrated supply networks can be better managed is an important issue for future research. The focus should be on the coordination practices of central distributors and how such practices influence network performance. Examining how characteristics of the network, including network density and the relative sizes of the aligned distributors, affect coordination efforts and performance would also be important.

Goal Setting, Planning, and Performance Appraisal

In many channel relationships, little joint goal setting and joint planning occurs. In such cases, manufacturers often establish sales quotas on their own and communicate their nature to associated intermediaries. Performance

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

appraisal is also one-sided and typically very simple, merely addressing the question of whether or not the sales quota was surpassed. Such an approach to goal setting, planning, and performance appraisal may, in fact, be appropriate in many channel contexts, such as when market exchanges and repeated transactions are involved.

In other channel settings, however, the channel management process appears quite different. Channel members spend a good deal of time with each other in setting goals and developing short-term and long-term business plans. The "goal set" can be quite complex. In such relationships, performance appraisals are ongoing and feedback is frequently given. Such a management approach appears critical for the establishment and maintenance of strong relational exchanges.

Research is needed to address these issues. The thrust should be on determining conditions conducive to joint goal setting and planning, and extensive performance appraisals. Best practices in these areas of channel management need to be identified in the process.

Distributor Management

Channels research has typically taken a manufacturer perspective. That is, how channels should be organized and ongoing channel relationship should be managed are normally addressed from the manufacturer's point of view, such as whether or not to use integrated channels and how power should be used to coordinate exchanges. Furthermore, a large amount of research on retailing exists. What is missing is research that examines organizational decisions from the distributor's point of view.

Distributors face a variety of important questions, including:

1. How should my business be defined in terms of customers served and needs served (i.e., products carried and services provided)?
2. How many manufacturers should we represent and for which ones should we carry substantial inventory? Do we have major gaps in product lines where we should attempt to actively solicit certain manufacturers? Are we too dependent on any single manufacturer?
3. How should the distributorship be "positioned" in the minds of our customers? Can we use advertising and promotions to help in this positioning?
4. How quickly must we adopt new technologies?
5. When should we agree to restricted territories, exclusive dealing, and representing the full line of a manufacturer's products?
6. Which promotional programs do I accept from associated manufacturers?
7. How should we organize the sales force? Should we establish specialized departments with specialized salespeople to sell certain high-profile and complex products?
8. With which manufacturers do we attempt to build strong relational exchanges, if any? When are substantial specialized investments worth it? Which manufacturers deserve our full support?
9. To what extent is our industry consolidating? How should we react?
10. How much autonomy do we give to our branch managers? Should we use centralized purchasing and warehousing or allow each branch to purchase and store inventory on their own?

This is a very challenging time for most distributors. Consolidation among distributors is rapidly occurring in a number of industries, leading to increasing competition. Manufacturers and customers are pushing many distributors to adopt new technologies, but margin pressures and fear of change frequently prevent such adoption. Research that helps to answer some of the above questions could have a major impact on our discipline as well as on the manner in which distributors operate their businesses.

Utilization of Manufacturer Representatives

Traditionally in the United States, manufacturer reps or agents represent a variety of different noncompeting manufacturers. In the Far East, in contrast, manufacturer reps or agents are often associated with only one manufacturer, such as Samsung or Sony. However, tradition is currently changing in both regions.

Several years ago, Xerox decided it must reduce its selling costs and expand market coverage in the United States. It developed a program to entice a number of company salespeople to leave the company and establish manufacturer rep organizations. The enticement was the ability to sell lower end Xerox copiers to small and medium-sized businesses in exclusive territories. Many company salespeople did leave Xerox for this opportunity. The rep organizations in question only sell the Xerox brand, nothing else. Based on the success of this move by Xerox, other U.S. manufacturers are apparently following suit.

In the Far East, on the other hand, the reverse is happening to some degree. Many manufacturer reps in this region are slowly increasing the number of manufacturers they represent. In the process, they are able to increase their average order size, while incurring minimal incremental expenses. Of course, the manufacturers who previously enjoyed exclusive representation are normally not enthralled by such changes. Through the use of exclusive reps or agents, these manufacturers had channels with low fixed costs and risk. In addition, their control over these exclusive reps was very high.

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

These changes in the nature of manufacturer rep organizations around the globe need to be explored. Research is needed on how far U.S. manufacturers can go in appointing exclusive reps and keeping them satisfied. Moreover, an examination of how changes in representation by manufacturer rep organizations in the Far East affect their channel relationships would be very interesting.

Organizational Culture

Organizational culture is the pattern of shared values and beliefs that gives the members of an organization meaning and provides them with rules for behavior (cf. Despande and Webster 1989). In my experience, organizational culture has an important impact on channel management. Some manufacturers, even those that do a good deal of business through indirect channels, have a "do it in house-technical" culture that prevents them from understanding, respecting, and trusting intermediaries to any degree. Such an orientation is reflected in their channel policies and programs, which are often inconsistent with intermediary needs. On the other hand, manufacturers with market-driven cultures tend to work well with intermediaries, in part, because of the value they attach to market intelligence and functionally coordinated actions (cf. Day 1994). Flexible, clan, and bureaucratic cultures are also likely to have an influence, depending on the channel context. Research is clearly needed that examines the impact of organizational culture on channel management.

The Development of Channel Typologies

Channel context must be taken into account when developing conceptual frameworks, deciding on settings for empirical studies, and interpreting empirical results. To this point, context has not received its due attention in channels research. Sweeping generalizations are often made, with the possibility that the predictions and empirical results may hold only in certain channel systems left unaddressed. It is improbable that any single framework or model relating to behavioral phenomena can apply across all channel systems in the world due to the differences that exist across them.

Within any area of research, the ability to effectively take different contexts into account rests on the existence of sound typologies. The only existing typology of alternative channel systems places indirect channel systems into conventional, administered, and contractual system categories (cf. Stern et al. 1996). This typology has its strengths, as it depicts likely variation in the amount of coordination present within a channel system and whether or not explicit contracts are used in channel governance. However, on the whole, the typology seems inadequate and incomplete. While others have discussed different types of exchanges (e.g., market exchange, relational exchange), a systematic and well-defined classification system appears lacking. Efforts to develop improved typologies of channel systems could have truly significant benefits, aiding the maturation of the field.

CONCLUSION

Channel researchers should feel proud of the progress that has been made in our understanding of channel organization and management since the early 1970s. Much more is obviously left to do, however. Accordingly, the purpose of this article was to provide a perspective on how research on the organization and management of distribution channels should proceed in the future to promote the most progress. A variety of important needs for future channels research were identified in the article. Some of these needs related to constructs and issues examined in prior channels research. Other of these needs related to issues that have not received attention to date in empirical channels research.

Addressing these research needs at an adequate pace will require us to attract more and more young people into the channels area. I am confident this will occur, in part, because of the vital importance of channels research to business practitioners. As the world economy evolves, more and more companies are highlighting channel management as among their very top priorities. The opportunities for channel researchers to contribute to knowledge creation in the marketing discipline and, at the same time, affect business practice are almost endless. It is hoped that this article will help in a small way to point future channels research in the right directions.

ACKNOWLEDGMENTS

The author thanks Naresh Malhotra for motivating the article and Shantanu Dutta and Elliot Maltz for comments on a prior draft of the article.

REFERENCES

Alter, Catherine. 1990. "An Exploratory Study of Conflict and Coordination in Interorganizational Service Delivery Systems." *Academy of Management Journal* 33 (September): 478-502.

Anderson, Erin. 1985. "The Salesperson as Outside Agent or Employee: A Transaction Cost Analysis." *Marketing Science* 4 (Summer): 234-254.

——— and Anne Coughlan. 1987. "International Market Entry and Expansion via Independent or Integrated Channels of Distribution." *Journal of Marketing* 51 (January): 71-82.

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

———, Leonard Lodish, and Barton Weitz. 1987. "Resource Allocation Behavior in Conventional Channels." *Journal of Marketing Research* 24 (February): 85-97.

——— and Barton Weitz. 1989. "Determinants of Continuity in Conventional Industrial Channel Dyads." *Marketing Science* 8 (Fall): 310-323.

——— and ———. 1992. "The Use of Pledges to Build and Sustain Commitment in Distribution Channels." *Journal of Marketing Research* 29 (February): 18-34.

Anderson, James and James Narus. 1990. "A Model of Distributor Firm and Manufacturer Firm Working Partnerships." *Journal of Marketing* 54 (January): 42-58.

———, Hakan Hakansson, and Jan Johanson. 1994. "Dyadic Business Relationships Within a Business Network Context." *Journal of Marketing* 58 (October): 1-15.

Bello, Daniel and David Gilliland. 1997. "The Effect of Output Controls, Process Controls, and Flexibility on Export Channel Performance." *Journal of Marketing* 61 (January): 22-38.

Bergen, Mark, Jan Heide, and Shantanu Dutta. 1998. "Managing Grey Markets Through Tolerance of Violations: A Transaction Cost Approach." *Managerial and Decision Economics* 19 (Spring): 157-165.

Boyle, Brett, F. Robert Dwyer, Robert Robicheaux, and James Simpson. 1992. "Influence Strategies in Marketing Channels: Measures and Use in Different Relationship Structures." *Journal of Marketing Research* 29 (November): 462-473.

Brown, James and Ralph Day. 1981. "Measures of Manifest Conflict in Distribution Channels." *Journal of Marketing Research* 18 (August): 263-274.

Buchanan, Lauranne. 1992. "Vertical Trade Relationships: The Role of Dependence and Symmetry in Attaining Organizational Goals." *Journal of Marketing Research* 29 (February): 65-75.

Cavusgil, S. Tamer and Shaoming Zou. 1994. "Marketing Strategy-Performance Relationship: An Investigation of the Empirical Link in Export Market Ventures." *Journal of Marketing* 58 (January): 1-21.

Celly, Kirti and Gary Frazier. 1996. "Outcome-Based and Behavior-Based Coordination Efforts in Channel Relationships." *Journal of Marketing Research* 33 (May): 200-210.

Day, George. 1994. "The Capabilities of Market-Driven Organizations." *Journal of Marketing* 58 (October): 37-52.

Despande, Rohit and Frederick Webster Jr. 1989. "Organizational Culture and Marketing: Defining the Research Agenda." *Journal of Marketing* 53 (January): 3-15.

Dutta, Shantanu, Mark Bergen, and George John. 1994. "The Governance of Exclusive Territories When Dealers Can Bootleg." *Marketing Science* 13 (Winter): 83-99.

———, ———, Jan Heide, and George John. 1995. "Understanding Dual Distribution: The Case of Reps and House Accounts." *Journal of Law, Economics, and Organization* 11 (April): 189-204.

———, Jan Heide, and Mark Bergen. Forthcoming. "Vertical Territorial Restrictions and Public Policy: Evidence From Industrial Markets." *Journal of Marketing*.

Dwyer, F. Robert and Sejo Oh. 1987. "Output Sector Munificence Effects on the Internal Political Economy of Marketing Channels." *Journal of Marketing Research* 24 (November): 347-358.

——— and Orville Walker. 1981. "Bargaining in an Asymmetrical Power Structure." *Journal of Marketing* 45 (Winter): 104-115.

——— and M. Ann Welsh. 1985. "Environmental Relationships of the Internal Political Economy of Marketing Channels." *Journal of Marketing Research* 22 (November): 397-414.

———, Paul Schurr, and Sejo Oh. 1987. "Developing Buyer-Seller Relationships." *Journal of Marketing* 51 (April): 11-27.

El-Ansary, Adel and Louis Stern. 1972. "Power Measurement in the Distribution Channel." *Journal of Marketing Research* 9 (February): 47-52.

Etgar, Michael. 1979. "Sources and Types of Intrachannel Conflict." *Journal of Retailing* 55 (Spring): 61-78.

Fein, Adam and Erin Anderson. 1997. "Patterns of Credible Commitments: Territory and Brand Selectivity in Industrial Distribution Channels." *Journal of Marketing* 61 (April): 19-34.

Frazier, Gary. 1983a. "On the Measurement of Interfirm Power in Channels of Distribution." *Journal of Marketing Research* 20 (May): 158-166.

———. 1983b. "Interorganizational Exchange Behavior in Marketing Channels: A Broadened Perspective." *Journal of Marketing* 47 (Fall): 68-78.

——— and John Summers. 1984. "Interfirm Influence Strategies and Their Application Within Distribution Channels." *Journal of Marketing* 48 (Summer): 43-55.

——— and Jagdish Sheth. 1985. "An Attitude-Behavior Framework for Distribution Channel Management." *Journal of Marketing* 49 (Summer): 38-48.

——— and John Summers. 1986. "Perceptions of Interfirm Power and Its Use Within a Franchise Channel of Distribution." *Journal of Marketing Research* 23 (May): 169-176.

———, Robert Spekman, and Charles O'Neal. 1988. "Just-in-Time Exchange Relationships in Channels of Distribution." *Journal of Marketing* 52 (October): 52-67.

———, James Gill, and Sudhir Kale. 1989. "Dealer Dependence Levels and Reciprocal Actions in a Channel of Distribution in a Developing Country." *Journal of Marketing* 53 (January): 50-69.

——— and Raymond Rody. 1991. "The Use of Influence Strategies in Interfirm Relationships in Industrial Product Channels." *Journal of Marketing* 55 (January): 52-69.

——— and Kersi Antia. 1995. "Exchange Relationships and Interfirm Power in Channels of Distribution." *Journal of the Academy of Marketing Science* 23 (Fall): 321-326.

——— and Walfried Lassar. 1996. "Determinants of Distribution Intensity." *Journal of Marketing* 60 (October): 39-51.

Ganesan, Shankar. 1993. "Negotiation Strategies and the Nature of Channel Relationships." *Journal of Marketing Research* 30 (May): 183-203.

Gundlach, Gregory and Ernest Cadotte. 1994. "Exchange Interdependence and Interfirm Interaction: Research in a Simulated Channel Setting." *Journal of Marketing Research* 31 (November): 516-532.

———, Ravi Achrol, and John Mentzer. 1995. "The Structure of Commitment in Exchange." *Journal of Marketing* 59 (January): 78-92.

Hallen, Lars, Jan Johanson, and Nazeem Seyed-Mohamed. 1991. "Interfirm Adaptation in Business Relationships." *Journal of Marketing* 55 (April): 39-37.

Heide, Jan. 1994. "Interorganizational Governance in Marketing Channels." *Journal of Marketing* 58 (January): 71-85.

——— and George John. 1992. "Do Norms Matter in Marketing Relationship." *Journal of Marketing* 56 (April): 32-44.

———, Shantanu Dutta, and Mark Bergen. 1998. "Exclusive Dealing and Business Efficiency: Evidence From Industry Practice." *Journal of Law and Economics* 41 (October): 99-119.

Huber, George 1990. "A Theory of the Effects of Advanced Information Technologies on Organizational Design, Intelligence, and Decision Making." *Academy of Management Review* 15 (1): 47-71.

Hunt, Shelby and John Nevin. 1974. "Power in a Channel of Distribution: Sources and Consequences." *Journal of Marketing Research* 11 (May): 186-193.

Jackson, Barbara. 1985. *Winning and Keeping Industrial Customers*. Lexington, MA: Lexington Books.

Jaworski, Bernard. 1988. "Toward a Theory of Marketing Control: Environmental Context, Control Types, and Consequences." *Journal of Marketing* 52 (July): 23-39.

——— and Ajay Kohli. 1993. "Market Orientation: Antecedents and Consequences." *Journal of Marketing* 57 (July): 53-70.

Jeuland, Abel and Steven Shugan. 1983. "Managing Channel Profits." *Marketing Science* 2 (Summer): 239-272.

John, George. 1984. "An Empirical Investigation of Some Antecedents of Opportunism in a Marketing Channel." *Journal of Marketing Research* 21 (August): 278-289.

——— and Barton Weitz. 1988. "Forward Integration Into Distribution: An Empirical Test of Transaction Cost Analysis." *Journal of Law, Economics, and Organization* 4 (Fall): 121-139.

——— and ———. 1989. "Salesforce Compensation: An Empirical Investigation of Factors Related to the Use of Salary Versus Incentive Compensation." *Journal of Marketing Research* 26 (February): 1-14.

Johnson, Jean, Tomoaki Sakano, Joseph Cote, and Naoto Onzo. 1993. "The Exercise of Interfirm Power and Its Repercussions in U.S.-Japanese Channel Relationships." *Journal of Marketing* 57 (April): 1 -10.

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009

Klein, Benjamin. 1996. "Why Hold-ups Occur: The Self-Enforcing Range of Contractual Relationships." *Economic Inquiry* 34 (July): 444-465.

Klein, Saul, Gary Frazier, and Victor Roth. 1990. "A Transaction Cost Analysis Model of Channel Integration in International Markets." *Journal of Marketing Research* 27 (May): 196-208.

Kollock, Peter and Jodi O'Brien. 1992. "The Social Construction of Exchange." In *Advances in Group Processes*. Ed. Edward Lawler. Greenwich, CT: JAI, 89-112.

Kumar, Nirmalya, Lisa Scheer, and Jan-Benedict Steenkamp. 1995a. "The Effects of Supplier Fairness on Vulnerable Resellers." *Journal of Marketing Research* 32 (February): 54-65.

———, ———, and ———. 1995b. "The Effects of Perceived Interdependence on Dealer Attitudes." *Journal of Marketing Research* 32 (August): 248-256.

Lal, Rajiv. 1990. "Improving Channel Coordination Through Franchising." *Marketing Science* 9 (Fall): 299-318.

Lilien, Gary. 1979. "Advisor 2: Modeling the Marketing Mix Decisions for Industrial Products.," *Management Science* 25 (February): 191-204.

Lusch, Robert. 1976. "Sources of Power: Their Impact on Intrachannel Conflict." *Journal of Marketing Research* 13 (November): 382-390.

——— and James Brown. 1982. "A Modified Model of Power in the Marketing Channel." *Journal of Marketing Research* 19 (August): 312-323.

——— and ———. 1996. "Interdependency, Contracting, and Relational Behavior in Marketing Channels." *Journal of Marketing* 60 (October): 19-38.

Mohr, Jakki and John Nevin. 1990. "Communication Strategies in Marketing Channels: A Theoretical Perspective." *Journal of Marketing* 54 (October): 36-51.

Moorthy, K. 1988. "Strategic Decentralization in Channels." *Marketing Science* 7 (Fall): 335-355.

Morgan, Robert and Shelby Hunt. 1994. "The Commitment-Trust Theory of Relationship Marketing." *Journal of Marketing* 58 (July): 20-38.

Pondy, Lou. 1967. "Organizational Conflict: Concepts and Models." *Administrative Science Quarterly* 12 (September): 296-320.

Reve, Torger. 1986. "Organization for Distribution." In *Research in Marketing: Distribution Channels and Institutions*. Eds. Louis Bucklin and James Carman. Greenwich, CT: JAI, 1-26.

Rosenberg, Larry and Louis Stern. 1971. "Conflict Measurement in the Distribution Channel." *Journal of Marketing Research* 8 (November): 437-442.

Scheer, Lisa and Louis Stern. 1992. "The Effect of Influence Type and Performance Outcomes on Relationship Climate." *Journal of Marketing Research* 29 (February): 128-142.

Siguaw, Judy, Penny Simpson, and Thomas Baker. 1998. "Effects of Supplier Market Orientation on Distributor Orientation and the Channel Relationship: The Distributor Perspective." *Journal of Marketing* 62 (July): 99-111.

Stern, Louis and Torger Reve. 1980. "Distribution Channels as Political Economies: A Framework for Comparative Analysis." *Journal of Marketing* 44 (Summer): 52-69.

———, Brian Sternthal, and Samuel Craig. 1973. "Managing Conflict in Distribution Channels: A Laboratory Study." *Journal of Marketing Research* 10 (May): 169-179.

———, Adel El-Ansary, and Anne Coughlan. 1996. *Marketing Channels*. 5th ed. Englewood Cliffs, NJ: Prentice Hall.

Webster, Frederick. 1992. "The Changing Role of Marketing in the Corporation." *Journal of Marketing* 56 (October): 1-19.

Weitz, Barton and Sandy Jap. 1995. "Relationship Marketing and Distribution Channels." *Journal of the Academy of Marketing Science* 23 (Fall): 305-320.

Williamson, Oliver. 1985. *The Economic Institutions of Capitalism*. New York: Free Press.

———. 1996. *The Mechanisms of Governance*. New York: Free Press.

ABOUT THE AUTHOR

Gary L. Frazier, Ph.D., holds an endowed chair appointment as the Richard and Jarda Hurd Professor of Distribution Management in the Marshall School of Business Administration at the University of Southern California (USC), Los Angeles. His research interests have focused on the structuring and management of channels of distribution around the world. He is especially interested in how channel relationships can be efficiently and effectively coordinated to create value for the channel's customers. He has conducted research studies on channels of distribution in Europe and India, as well as in the United States. He has edited 10 books and proceedings, and has published more than 40 research articles, including 15 in the *Journal of Marketing* and the *Journal of Marketing Research*. He heads the Program in Distribution Management at USC, supported by distributors with more than $10 billion in annual sales. He has won several awards for his teaching. He also has had the opportunity to consult and teach for a number of major corporations.

Downloaded from http://jam.sagepub.com at SAGE Publications on December 3, 2009