

## Chapter 4

# BEHAVIORAL PROCESSES IN MARKETING CHANNELS

### Chapter Objectives

This chapter notes that channel conflict is an inherent behavioral dimension in marketing channels and is pervasive because it stems from many causes such as role incongruities, resource scarcities, perceptual differences, expectational differences, domain differences, goal incompatibility and communication difficulties. The management of channel conflict involves three tasks: (1) detecting channel conflict, (2) appraising the effects of conflict, and (3) resolving the conflict.

The chapter then goes on to define the five types of “power” and their definitions. The definition of the various “roles” played by channel members are described and the chapter delineates each “role” for a channel member in the process. The chapter ends reviewing the communication process for channel members and how the behavioral differences within the channel inhibits the communication process.

#### Learning objectives

- 1) The marketing channel can be viewed as a social system as well as an economic one.
- 2) Behavioral processes, such as conflict, power, role, and communication are inherent behavioral dimensions in marketing channels.
- 3) How conflict emerges in marketing channels.
- 4) What are the major causes of channel conflict?
- 5) Recognize the major issues involved in managing channel conflicts.
- 6) Become familiar with the concept of power as it applies to the marketing channel.
- 7) Be aware of the basic research finds concerning the use of power.
- 8) Be alert to the concept and use of roles in marketing channels.
- 9) Have an appreciation for how behavioral processes can distort the flow of communications in the marketing channels.

### Chapter Topics

- 1) The Marketing Channel as a Social System
- 2) Conflict in the Marketing Channel
- 3) Power in the Marketing Channel
- 4) Role in the Marketing Channel
- 5) Communication Processes in the Marketing Channel

## Chapter Outline

### The Marketing Channel as a Social System

#### Key Term and Definition

- **Social System:** The system generated by any process of interaction on the sociocultural level between two or more actors. The actor is either a concrete human individual (a person) or a collectivity.

When these individuals or collectivities (firms or agencies) interact as member of the marketing channel, an *interorganizational social system* exists.

### Conflict in the Marketing Channel

Conflict exists when a member of the marketing channel *perceives* that another member's actions impeded the attainment of his or her goals.

#### A) Conflict versus Competition

Conflict in the marketing channel should not be confused with competition. Competition is behavior that is object-centered, indirect, and impersonal.

Conflict, on the other-hand, is direct, personal, and opponent-centered behavior.

#### B) Causes of Channel Conflict

Analysis and research have pointed to many possible causes of channel conflict. These are:

- a. Misunderstood communications
- b. Divergent functional specializations and goals of channel members
- c. Failings in joint decision-making
- d. Differing economic objectives
- e. Ideological differences of channel members
- f. Inappropriate channel structure

Although there are many causes of channel conflict most can be placed into one or more of the following seven categories:

1. Role incongruities
2. Resource scarcities
3. Perceptual differences
4. Expectational differences
5. Decision domain disagreements
6. Goal incompatibilities
7. Communication difficulties

1. Role incongruities: Members of the marketing channel have a series of roles they are expected to fulfill. If a member deviates from the given role, a conflict situation may result.
2. Resource scarcities: Sometimes conflict stems from a disagreement between channel members over the allocation of some valuable resources needed to achieve their respective goals. A common example is between manufacturers and retailers over “house accounts”. Another example involves site selection in franchised channels.
3. Perceptual differences: Perception refers to the way an individual selects and interprets environmental stimuli. The *way* such stimuli are perceived are often quite different from objective reality.
4. Expectational differences: Various channel members have expectations about the behavior of other channel members. These expectations are predictions or forecasts concerning the future behavior of other channel members. Sometimes these forecasts turn out inaccurate, but the channel member who makes the forecast will take action based upon the predicted outcomes – thus channel conflict.
5. Decision domain disagreements: Channel members explicitly or implicitly carve out for themselves an area of decision-making that they feel is exclusively theirs. Hence, conflicts arise over which member has the right to make what decisions.

The area of pricing decision has traditionally been a pervasive example of such conflict.

6. Goal incompatibilities: Each member of the marketing channel has his or her own goals. The opening vignette of the chapter concerning Amazon.com is an example of such incompatible goals.

Amazon is trying to sell as much merchandise as possible from *whatever* sources provide the most revenue and profits to them. The CD, book or electronics firm who advertises through Amazon.com wants Amazon.com to sell *their new* products.

7. Communication difficulties: Communication is the vehicle for all interactions among channel members, whether such interactions are cooperative or conflicting. Any foul-up or breakdown in communications can quickly turn cooperation into conflict.

### **C) Channel Conflict and Channel Efficiency**

#### **Key Term and Definition**

- Channel efficiency: The degree to which the total investment in the various inputs necessary to achieve a given distribution objective can be optimized in terms of outputs.

The greater the degree of optimization of inputs in carrying out a distribution objective, the higher the efficiency and vice versa.

**i. Negative Effect – Reduced Efficiency**

*Figure 4.1 shows that as the level of channel conflict arises the level of channel efficiency declines.*

**ii. No Effect – Efficiency Remains Constant**

*Figure 4.2 shows that the existence of channel conflict has had no change in channel efficiency.*

This type of relationship is thought to exist in channels that are characterized by a high level of dependency and commitment among channel members.

**iii. Positive Effect – Efficiency Increased**

*Figure 4.3 shows where conflict causes an increase in channel efficiency where both parties examined their respective positions and agreed to modify key attributes in order to achieve their respective distribution objectives.*

The result of this two-party reappraisal is a reallocation of inputs based upon the comparative advantages of each channel member for performing the distribution tasks necessary to achieve their respective distribution objectives.

**iv. Conflict and Channel Efficiency – General Curve**

*Figure 4.4 shows an example of the combination of all three curves and the possible effect on channel efficiency. Note to students that once a threshold is reached ( $C_2$ ) additional channel conflict will result in decreased channel efficiency.*

**D) Managing Channel Conflict**

There are four generalizations regarding channel conflict:

1. Conflict is an inherent behavioral dimension in the marketing channel.
2. Given the numerous causes from which conflict may stem, it is a pervasive phenomenon in marketing channels.
3. Conflict can affect channel efficiency.
4. Various levels of conflict may have both negative and positive effects on channel efficiency, or possibly no effect.

Channel managers must:

1. Detect conflicts or potential conflicts
  2. Appraise the possible effects of conflicts
  3. Resolve channel conflict
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1. Detect channel conflict: Channel managers can detect potential conflict areas by surveying other channel members' perceptions of his or her performance. Such surveys can be conducted by outside research firms, or trade associations.

*Table 4.1 shows an excerpt from Industrial Distribution Magazine.*

The *marketing channel audit* is another possible approach of uncovering potential conflict between channel members. The term channel audit suggests a periodic and regular evaluation of key areas of the relationship of a given channel member with other members.

Distributors' advisory councils or channel members' committees offer another approach to early conflict detection. These groups consist of top management representatives from each level of the channel distribution system.

The common theme of early detection of channel conflict is this: channel managers need to make a conscious effort to detect conflict or its potential if they expect to deal with it before it develops.

2. Appraising the effect of conflict: A growing body of literature has been emerging to assist the channel manager in developing methods for measuring conflict and its effect on channel efficiency.

For the present, most attempts to measure conflict and appraise its effects on channel efficiency will still be made at a conceptual level that relies on the manager's subjective judgment.

3. Resolving conflict: When conflict exists in the channel, the channel manager should take action to resolve the conflict if it appears to be adversely affecting channel efficiency.

Three techniques are suggested:

- A channelwide committee, a sort of "crisis management team"
- Joint goal setting by committee
- A distribution executive position created for each major firm in the channel. The individual(s) filling this position would be responsible for exploring the firm's distribution-related problems.

Another approach to resolving channel conflict is by arbitration.

What is more important than the specifics of any of these particular approaches is the underlying principle common in all of them: *creative action on the part of some party to the conflict is needed if the conflict is to be successfully resolved. Conversely, if conflict is simply "left alone" it is not likely to be successfully resolved and may get worse.*

## Power in the Marketing Channel

### Key Term and Definition

- Power: When we use this term in a marketing channel context, we are referring to “the capacity of a particular channel member to control or influence the behavior of another channel member(s)”.

### 1. Bases of Power for Channel Control

- A) Reward
- B) Coercive
- C) Legitimate
- D) Referent
- E) Expert

#### A) Reward Power

This source of power refers to the capacity of one channel member to reward another if the latter conforms to the influence of the former. This power base is present in virtually all channel systems.

Channel members – whether at the producer, wholesale, or retail levels – will in the long-run remain viable members only if they can realize financial benefits from their channel membership.

#### B) Coercive Power

Coercive power is essentially the opposite of reward power. In this case, a channel member’s power over another is based on the *expectation* that the former will be able to punish the latter upon failure to conform to the former’s influence attempts.

The firms that are able to use it are either large or in a very advantageous position – one resulting from a near monopoly or formal contractual status.

#### C) Legitimate Power

This power base stems from internalized norms in one channel member which dictate that another channel member has a legitimate right to influence the first, and that an obligation exists to accept that influence.

Given that many channels are comprised of independent business firms, there is no definite superior-subordinate relationship, and there are no clear-cut lines of authority or chains of command. It is only in contractually linked channels that anything approaching an organizational structure based on legitimate power exists.

In general, then, the channel manager operating a loosely aligned channel cannot rely on a legitimate power base to influence channel members.

**D) Referent Power**

When one channel member perceives his or her goals to be closely allied to, or congruent with, those of another member, a referent power base is likely to exist.

Hence, when this situation prevails, an attempt by one of the channel members to influence the behavior of the other is more likely to be seen by the latter as beneficial to the achievement of his or her own goals.

**E) Expert Power**

This base of power is derived from the knowledge (or perception) that one channel member attributes to another in some given area. In other words, one channel member's attempt to influence the other's behavior is based upon superior expertise.

Expert power is quite common in the marketing channel.

In franchised channels, expertise is a crucial power base for the franchisor to influence franchisees.

**2. Using Power in the Marketing Channel**

From the standpoint of the channel manager in the producing or manufacturing firm, power must be used to influence the behavior of channel members toward helping the firm to achieve its distribution objectives.

The questions facing the channel manager are: which power bases are available and which base or bases should be used?

**A) Identifying the Available Power Bases**

This issue is usually straightforward because they can be readily identified. Generally, they are a function of the size of the producer or manufacturer relative to channel members, the organization of the channel or a particular set of circumstances surrounding the channel relationship.

With respect to size, typically a large producer or manufacturer dealing with relatively small channel members at the wholesale or retail level has high reward and coercive power bases available and vice versa.

Such difference in the amount of power available does not mean that automatically they will take advantage of this power. It merely indicates that they have the *potential* to do so.

**B) Selecting and Using Appropriate Power Bases**

Which bases should be used to exercise power in the marketing channel is a more difficult and complex issue for the channel manager to deal with than the previous issue.

So, in order to use power to enhance rather than inhibit channel relationships, the channel manager needs to know how effective the various power bases are in influencing channel members to carry out the firm's distribution objectives, what possible reactions the channel members might have to the use of different power bases, and how the use of various power bases will affect the overall channel relationship.

Although no exact channel management implications on the use of power in the marketing channel are available, several general inferences can be derived:

- Some form of power must be exercised.
- The effectiveness of the various power bases in influencing channel member behavior is probably situation-specific.
- The exercise of power as well as how it is used can affect the degree of cooperation, conflict and satisfaction within channel relationships.
- The use of coercive power appears to foster conflict and promote dissatisfaction to a greater degree than other power bases.
- The use of coercive power can reduce the stability and viability of the channel and is likely to increase the probability that the coerced channel members will seek outside assistance.

While not "carved in stone" these generalizations do offer the channel manager some degree of research-based guidance on the use of power in the marketing channel.

## **Role in the Marketing Channel**

### **Key Term and Definition**

- **Role:** A set of prescriptions defining what the behavior of a position member should be.

Roles in the marketing channel do not necessarily stay the same.

From the channel manager's standpoint, the key value of role concept is that it helps to describe and compare the expected behavior of channel members and provides insight into the constraints under which they operate.

Channel managers can use the concept of role to formulate such questions as:

- What role do I expect a particular channel member to play in the channel?
- What role is the member (potential or existing) expected to play by his/her peers (other firms of a similar type)?
- Do my expectations for this member conflict with those of his/her peers?
- What role does this member expect me to play?



## Communication Processes in the Marketing Channel

Communication has been described as “the glue that holds together a channel of distribution”.

Communication activities undertaken by channel members create a flow of information within the channel, which is necessary for an efficient flow of products or services throughout the channel.

Consequently, the channel manager must work to create and foster an effective flow of information within the channel.

### 1. Behavioral Problems in Channel Communications

- A) Differences in goals between channel members
- B) Differences in the kinds of language used to convey information

#### A) Differing Goals

Corporate management in large manufacturing firms is characterized by a growth psychology, which translates into aggressive effort to build sales volume. This growth goal may not be shared by small to medium size retailers and/or wholesalers who might be more static orientated in their approach to sales volume.

Channel members should attempt to understand the goals of their channel members to learn whether they are much different from those of their own firms.

#### B) Language Differences

The other basic communication problem between the manufacturer and channel members stems from the terminology or jargon used by professional corporate management.

The channel manager has to ensure that the language used in channel communications is well understood by *all channel members*.

### 2. Other Behavioral Problems in Channel Communications

Three other behavioral problems that can inhibit effective channel communications are:

- A) Perceptual differences among channel members
- B) Secretive behavior
- C) Inadequate frequency of communication

#### A) Perceptual Differences

Perceptual differences may occur among channel members on a wide variety of issues. It is therefore important that channel managers spell out such issues as delivery time, margin and discounts, return privilege, warranty provisions and so forth, so that channel members have the same understanding as the channel manager.

Avoiding such phrases as: “everybody knows” or “standard industry practice” will enhance channel communications and minimize potential conflicts.

**B) Secretive Behavior**

By not divulging information, such as an upcoming promotional plan, manufacturers fail to get potentially valuable feedback from channel members (middlemen) on whether or not the plan will be effective.

A certain amount of secrecy is often necessary because a firm needs the element of surprise or members of the channel are also members of competing channels or stock competing items.

A channel manager must decide these issues on an individual basis.

**C) Inadequate Frequency of Communication**

The association of infrequent communication with *lower quality* communications applies. A channel manager must ensure that they communicate as frequently as necessary with all channel members to ensure that quality of communication is not compromised.