Managing Channel Dynamics

Channel Dynamics

Like any other concept, channel systems do change according to the development and the need of the hour. With consumers becoming conscious of where they buy and how they want things to be delivered there has emerged different systems namely the vertical, horizontal and multichannel marketing systems.

The conventional or the traditional marketing channel encompasses a producer, one or few wholesalers and one or few retailers. The objective of theses different players is to see that they make enough profits, they are highly independent and don't have control over other channel members.

In contrast, the **Vertical Marketing System (VMS)** has the three members acting as one unified team, there is one channel member who owns the other members or allows franchising but ensures a greater role in the execution. Many organizations have started to operate in this format as strong channel members try to dictate terms for the producer as well as when they found the objectives of different channel members differ from that of the producer.

There are three variants of vertical marketing system namely corporate, administered and contractual vertical marketing system. In case of corporate the organization combines the production and the distribution under one roof. Organizations like Asian paints, Amul are not only involved in the production of the products but they also own a considerable no of outlets. An administered vertical marketing system coordinates the production and distribution efficiencies but use their size as a dominant influence.

HLL commands a greater shelf space or Samsung gets better displays in retail outlets purely because of their size and the reputation they carry with them. The third variant namely contractual vertical marketing system coordinates the activities of individual firms at different levels integrating their programs at contractual levels. Firms like McDonalds, KFC use this type of vertical marketing systems for the integration of their businesses.

Channel Power

The Channel Power refers to the ability of any one channel member to alter or modify the behavior of other members in the distribution channel, due to its relatively strong position in the market.

Generally, the manufacturers are seen, dominating the behavior of other channel partners and influencing their actions according to its requirements.

Types of Channel Power

In this article, we will discuss the powers of the manufacturer that he can use in order to control the behavior of other channel partners.

1. Coercive Power:

The manufacturer threatens to terminate the relationship with other channel partners or withdraw the resources deployed with them. With this power, the manufacturer can dominate the others and keep them under his control.

But the negative side is the channel partners may lose their faith in the manufacturer and may enter into inter-conflicts.

2. Reward Power:

The manufacturer provides several additional benefits to the intermediaries, with the intention to motivate them to perform certain activities as required.

This power is very useful since it brings in the maximum efforts from each channel partner, but this may sometimes be negative as the channel partners may always seek for the benefits in case, they are required to do some other activity.

3. Legitimate Power:

Here the manufacturer reminds the channel partner to carry out their activities in accordance with the contract they have entered into at the time they became the channel partners.

The manufacturer may find it convenient to keep a check on the channel partners in terms of their signed agreement, but the partners may feel humiliated for the continuous reminder for their code of conduct.

4. Expert power:

The manufacturer has the expertise that he transfers to the channel partners, and once they acquire it, the power of expertise reduces. Thus, the manufacturer should focus on creating the new expertise, thereby keeping the channel partners updated with the day to day operations.

The manufacturer uses this power to retain the interest among the channel partners to work, but the intermediaries may not feel to learn any new things apart from what they have learned.

5. Referent Power:

The manufacturer should develop its image in such a way, that the intermediaries must feel proud to be associated with it. The manufacturer with the influential image can get varied options with regard to the channel partners.

But if the manufacturer is weak then intermediaries may not like to get associated with it because that might spoil their market image.

Thus, the manufacturer is the one who provides the goods and services to be sold via intermediaries and, therefore, the channel partners are dependent on the manufacturer for their individual businesses.

Channel Conflict

Channel conflict can be explained as any dispute, difference or discord arising between two or more channel partners, where one partner's activities or operations affect the business, sales, profitability, market share or similar goal accomplishment of the other channel partner.

As we know that every manufacturing company needs to plan its distribution and marketing channel appropriately, to ensure market captivity and customer satisfaction along with growth and profitability.

In the process of the constant supply of products in the market, several channel partners and intermediaries join the supply chain of the brand. Any clash and disturbance among these trading partners can be considered as a channel conflict.

Types of Channel Conflict

The channel conflict can be classified majorly into the following four categories depending upon its flow and the parties involved:

Vertical Level Conflict

In the vertical level conflict, the channel partner belonging to a higher level enters into a dispute with the channel member of a lower level or vice-versa.

For instance, channel conflict between dealers and retailers or wholesalers and retailers.

Horizontal Level Conflict

The conflict among the channel partners belonging to the same level, i.e., issues between two or more stockists or retailers of different territories, on the grounds of pricing or manufacturer's biases, is termed as horizontal level conflict.

Inter-type Channel Conflict

These type of conflicts commonly arise in scrambled merchandising, where the large retailers go out of their way to enter a product line different from their usual product range, to challenge the small and concentrated retailers.

Multi-channel Level Conflict

When the manufacturer uses multiple channels for selling the products, it may face multi-channel level conflict where the channel partners involved in a particular distribution channel encounters an issue with the other channel.

Vertical versus Horizontal Conflict

The conflicts we've described so far are examples of vertical conflict. A vertical conflict is conflict that occurs between two different types of members in a channel—say, a manufacturer, an agent, a wholesaler, or a retailer. By contrast, a horizontal conflict is conflict that occurs between organizations of the same type—say, two manufacturers that each want a powerful wholesaler to carry only its products.

Horizontal conflict can be healthy because it's competition driven. But it can create problems, too. In 2005, Walmart experienced a horizontal conflict among its landline telephone suppliers. The suppliers were in the middle of a price war and cutting the prices to all the retail stores they sold to. Walmart wasn't selling any additional phones due to the price cuts. It was just selling them for less and making less of a profit on them (Hitt, et. al., 2009).

Channel leaders like Walmart usually have a great deal of say when it comes to how channel conflicts are handled, which is to say that they usually get what they want. But even the most powerful channel leaders strive for cooperation. A manufacturer with channel power still needs good retailers to sell its products; a retailer with channel power still needs good suppliers from which to buy products. One member of a channel can't squeeze all the profits out of the other channel members and still hope to function well. Moreover, because each of the channel partners is responsible for promoting a product through its channel, to some extent they are all in the same boat. Each one of them has a vested interest in promoting the product, and the success or failure of any one of them can affect that of the others.

Flash back to Walmart and how it managed to solve the conflict among its telephone suppliers: Because the different brands of landline telephones were so similar, Walmart decided it could consolidate and use fewer suppliers. It then divided its phone products into market segments—inexpensive phones with basic functions, midpriced phones with more features, and high-priced phones with many features. The suppliers chosen were asked to provide products for one of the three segments. This gave Walmart's customers the variety they sought. And because the suppliers selected were able to sell more phones and compete for different types of customers, they stopped undercutting each other's prices (Hitt, et. al., 2009).

One type of horizontal conflict that is much more difficult to manage is dumping, or the practice of selling a large quantity of goods at a price too low to be economically justifiable in another country. Typically, dumping can be made possible by government subsidies that allow the company to compete on the basis of price against other international competitors who have to operate without government support, but dumping can also occur due to other factors.

One goal of dumping is to drive competitors out of a market, then raise the price. Chinese garlic producers were accused of this practice in the early 2000s, and when garlic prices soared due to problems in China, other countries' producers were unable to ramp back up to cover the demand. U.S. catfish farmers have recently accused China of the same strategy in that market. While there are global economic agreements that prohibit dumping and specify penalties when it occurs, the process can take so long to right the situation that producers have already left the business.