The evolution of distribution channels

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This article deals with the evolution of the theory concerning channels of distribution. Although distribution strategy is an important element of the marketing mix, one can argue that it is the element least thought or written about. The reasons for this are not clear. Perhaps distribution channel is the least glamorous part of marketing theory and yet the most problematic. The authors deal with the evolution of distribution channels in this article as well as co-operation and conflict in the channel of distribution. It is hoped that some research will be stimulated as a result of some of the issues raised in this article.
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Hierdie artikel handel oor die evolusie van die teorie wat ten basis van kanaalverspreiding lê. Alhoewel die verspreidingstrategie 'n belangrike element van die bemarkingsresep is, word dit algemeen verontagsaam in denke en skrywe. Alhoewel die redes hiervoor nie bekend is nie, is dit duidelik 'n minder aantreklike aspek en tog terselfdertyd 'n meer problematiese een. Die skrywers hanteer die evolusie van die verspreidingsteorie sowel as samewerking en konflik binne verspreidingskanale. Geskilpunte word bespreek en die moontlikheid aan verdere navorsing bevestig.
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Introduction

There are almost as many definitions of a channel of distribution as there are writers on the subject. Walters defines a channel as 'a team of merchant and/or agent institutions that function to create and distribute assortments of products to specific markets or market segments. (Walters, 1982:3) According to Pride and others, 'a marketing channel, or channel of distribution, is a group of interrelated intermediaries who direct products to customers.' (Pride, 1983:208) Kotler offers a very similar definition. 'We define distribution channels as the set of firms and individuals that take title, or assist in transferring title, to the particular or good or service as it moves from the producer to the consumer.' (Kotler, 1983:334) What is really meant by the channel of distribution concept is the chain along which goods pass from the original manufacturer to the final user.

The main objective of this paper is to provide the reader with a review of the conceptual development of channels of distribution over time. It also discusses the important aspects of co-operation and conflict in channels of distribution.

A historical view

It was not before the early twentieth century that the concept began to take shape, despite the hundreds of years that merchants have been roving the world, taking their wares to the people who need or wanted them and who, one way or another, were prepared to pay for them. The concept emerged as a usable notion in the early days of American marketing theory soon after the turn of the century, when some academics were turning their attention to the question of selling goods effectively in the face of competing products.

It was no accident that the first concepts of marketing channels appeared at this time, growing out of the analyses of marketing by the pioneer writers of the early 1900's (Shaw 1915; Weld, 1917:306 – 318 & Cherington 1920). They looked at marketing in terms of a series of identifiable, discrete and indespensable functions. It was only in the 1950's that Vaile and others (1952) conceived of the marketing process as a continuous flow rather than a set of functions. They defined a channel of distribution as 'the combination and sequence of agencies through which one or more of these marketing flows moves.'

These early social science-based views were given a new perspective when Staudt (1958:385 – 395) developed a list of marketing management functions. At about the same time Ridgeway (1957:464 – 467) and Alderson (1957) argued that 'a marketing channel is an operating system with an identifiable and distinctive pattern of behaviour'. McCammon and Little (1965) advanced five advantages of viewing a channel as an organized behaviour system.

(a) This approach recognizes the fact that a channel is a 'purposive and rational assemblage of firms.'
(b) There can be co-operative as well as antagonistic behaviour within the channel.
(c) The channel is seen as a 'social organism that reflects the hopes, goals and aspirations of its participants'.
(d) The marketing channel is recognized as a basic 'unit of competition' and a firm might fail simply because of being a member of the wrong channel.
(e) The view of a channel as an operating system allows one to identify 'dysfunctions that are system generated'.

However, as Alderson (1965) and McVey (1960:65) point out, channels of distribution are 'derivative operating systems' in that the firms making up a channel are primarily concerned with internal operations and their own rate of growth: and hardly concerned with the channel's growth or even its survival. Thus, the channel is clearly 'not an institution that inspires strong entrepreneurial loyalties or that serves as a source of inspiration' McCammon and Little (1965).

The idea of channel management

These observations lead one to conclude that the firms involved in a particular channel can change quickly and quite dramatically and as a result of that, a channel can benefit from 'purposive direction and executive leadership' (McCammon & Little 1965).

This naturally led to attempts to define the responsibilities of the 'channels manager'. An example of this is supplied by Cox and Schutte, (1969:99 – 105).

Systems management:

- reviewing the existing structure of specific flows (of ownership, physical movement, information and money);
- developing an inventory of the needs and each agency within the channel;
- modifying and adjusting the channel to meet the needs for change.

Channel relations:

- informing channel members of marketing programmes and changes in any facet of marketing and non-marketing programmes;
- receiving information and questions from trade customers relative to any fact of marketing and non-marketing programmes.

Internal co-ordination of distribution as affected by:

(a) Manufacturing,
(b) Finance,
(c) Marketing.

Also in the early 1960's Aspinwell (1961) published his theories of marketing channels which were generally viewed as excellent marketing tools. The one he called the 'Characteristics of Goods Theory' defined a continuum along which all marketable goods could be placed in terms of five characteristics:

(a) replacement rate,
(b) gross margin,
(c) the amount of 'Adjustment' needed to make the goods meet the exact needs of the customer,
(d) time span over which the goods are used up, and
(e) the searching time involved in acquiring the goods.

This theory allowed one to go beyond the simplistic (but useful) concepts of convenience goods, shopping goods and specialty goods. He then extended a 'color-coding' idea to enable visualization of the continuum from red through orange to yellow, according to the mix of characteristics of each particular product.

The other notable theory is his 'Parallel Theory' which depends on the fact that often there is a parallel relationship between the physical distribution needs of a product and the kind of promotion it should be getting. It uses the color-coding of the former theory to enable the marketer to decide on the most appropriate channel length and type of promotion for a particular product.

Louis P. Bucklin (1965:26 – 31) has been a prolific writer and a major force in the area of distribution channels. Starting off from the work of Alderson (1957) and Knight (1921:238 – 258), he developed his theory of how 'postponement' of differentiation of the product to the latest possible point in time *vs* the 'speculation' of the institution by making the earliest possible changes in form and the movement of goods to forward inventories could be used to predict where in channels one would expect to find inventories: this is because of the distribution time requirements and the respective cost implications for the seller and buyer of the goods.

During the latter half of the 1960's work on channels of distribution began to focus on the behavioural views of distribution channels as social systems. Bruce Mallen (1967:124) proposed the view that there

> 'exists a dynamic field of conflicting and co-operating objectives; that if the conflicting objectives outweigh the co-operating ones, the effectiveness of the channel will be reduced and efficient distribution impeded.'

He pointed out that in the nineteenth century wholesalers dominated the distribution channels because

> 'somebody had to perform all the various marketing functions between production and retailing.'

This was because the consuming population, and therefore the retailers serving them, were widely scattered geographically.

As people concentrated in urban areas, as spending power increased as cars became common, the power in the channels of (retail goods) distribution moved towards the manufacturers' hands and was clinched by the advent of the era of heavily branded and marketed consumer goods.

He then suggested that because of the various weapons manufacturers could use in attempting to control channels (such as heavy promotion, resale price maintenance, franchise, vertical integration and refusal to supply certain organizations) and the weapons that retailers can wield in their attempts to dominate the channels (such as promotion, branding, backward integration or the threat of it) channel chaos could easily result. And, clearly, co-operation would be necessary to avoid it.

The emphasis on co-operation led to the view of the channel as 'an extension of one's own internal organization' and that a supplier can 'project his organization into the channel' by doing things for his resellers that he does for his own organization: for example planning, advertising, training and promotion.

Justification of this view even went so far as the suggestion that this 'extension concept' is, in fact, synonymous with the marketing concept.

> 'It is particularly important that customer orientation motivate all relations between a manufacturer and his customer — both immediate and ultimate. It must permeate his entire channels-of-distribution policy' (Lazo & Corbin, 1961).

Channels and behaviour

Later, Sturdivant and Granbois (1968:61 – 68) put forward a series of propositions on distribution channels drawn from institutional and behavioural literature that set the new direction for channel theory which has lasted until the present. They reviewed and summarized the previous discourses on conflict and power in institutional literature and concluded that 'conflict is a prevailing characteristic of interaction within an institutional economy'. As they point out Mallen (1967) noted the 'autocratic' channel relationship

> 'exists when one channel member controls conflict (by means of power) and forces the others to co-operate. A democratic relationship exists when all members agree to co-operate without a power play. An anarchistic relationship exists when there is open channel conflict, with no member able to impose his will on the others.'

Sturdivant and Granbois (1968) list boycotts, private branding and vertical integration as some of the major weapons which get used in channel conflict. In the second half of their article they highlighted theoretical inputs from the behavioural literature, focussing on the buyer-seller dyad. Recent work by Alderson and Martin (1965:172) offered a rule for routinization of transactions based on Alderson's (1965) view that both parties in a transaction tend to 'routinize transaction behaviour as a means of conserving resources.' Their rule states (rather wordily) that

> 'firms will routinise if the cost of rule negotiation plus the cost of negotiating the routinised transactions while the rule holds is less than the total cost of negotiating the individual transaction without the rule'.

They went on to give brief insights into the nature of bargaining and bargaining behaviour based on what little research material was available at that stage. They concluded that in order to facilitate the evolution of an integrated theory of channel structure and behaviour, the analytical approaches discussed in their paper would have to be used.

Who 'Should' control the channel of distribution?

Louis P. Buklin's (1965) authoritative paper reviewed the literature concerning the locus of channel control and suggested that economic power alone is an inappropriate basis for understanding the bases of control: factors such as market access, functional suitability and stability of levels of supply and demand must also be taken into account when posing the vexed question of who should control the channel of distribution.

For a time, there was considerable academic debate in the literature as to who should control or lead the channel (for example, Little, 1970:31 – 38), but this later gave way to more realistic views that have attempted to define and measure channel behaviour.

Rosenberg and Stern (1970:40 – 46) proposed a descriptive model of the variables and interrelationships in the process of channel conflict, viewing the channel of distribution as a behavioural system. They looked simply at a feedback loop of (i) causes of conflict which would generate (ii) a measurable level of conflict leading, variously, according to the behavioural reactions, to (iii) outcomes relating to performance results of member firms of the channel. They concluded that the implication of the model was that management who want to minimize channel conflict need to create closer co-ordination with other channel members.

The future

It appears that most writers view channel systems from the manufacturers point of view. They argue that the channel problems faced by middlemen are similar to those of a manufacturer. They are indeed. Furthermore, the control of the channels used by manufacturers and the freedom of choice regarding these channels may actually rest with middlemen. In South Africa there is evidence of this when one looks at the buying power of the large retail chain organizations.

Many authors including Stanton (1981:329) state that a channel of distribution should be treated as a unit — a total system of action. Manufacturers and middlemen alike should understand that each of them is one component of a total systematic organization that is designed to maximize marketing effectiveness in selling to the final customer. We suggest that one way of achieving this is to look at channels of distribution from the retailers point of view and develop channel systems both from their point of view as well as the retailers. The retailer must get involved in channel decisions in order to increase his understanding of the manufacturers policies. We offer no way of doing this. Obviously much work is still to be done in this area.

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