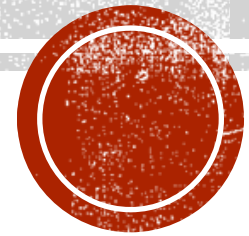


CHANNEL MANAGEMENT DECISIONS



CHANNEL MANAGEMENT DECISIONS

Once the company has reviewed its channel alternatives and determined the best channel design, it must **implement** and **manage** the chosen channel.

Marketing channel management calls for **selecting**, **managing** and **motivating** individual channel members and **evaluating their performance** over time.

SELECTING CHANNEL MEMBERS

Success in the marketplace requires strong channel members who can efficiently perform the distribution tasks necessary to implement the channel strategy.

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members while others have to work hard to line up enough qualified intermediaries.

For example consider;

- ❖ Crown Beverages Ltd.
- ❖ Roasted groundnut snacks.

The Selection Process:

The channel member selection process consists of the following three steps:

1. Finding prospective channel members
2. Applying selection criteria to determine the suitability of prospective channel members
3. Securing the prospective channel members as actual channel members

FINDING PROSPECTIVE CHANNEL MEMBERS

A wide variety of sources are available to help the channel manager find prospective channel members. They may include:

1. Field salesforce
2. Trade sources (e.g. trade associations, trade directories)
3. Reseller inquiries
4. Customers
5. Advertising
6. Trade shows
7. Other sources

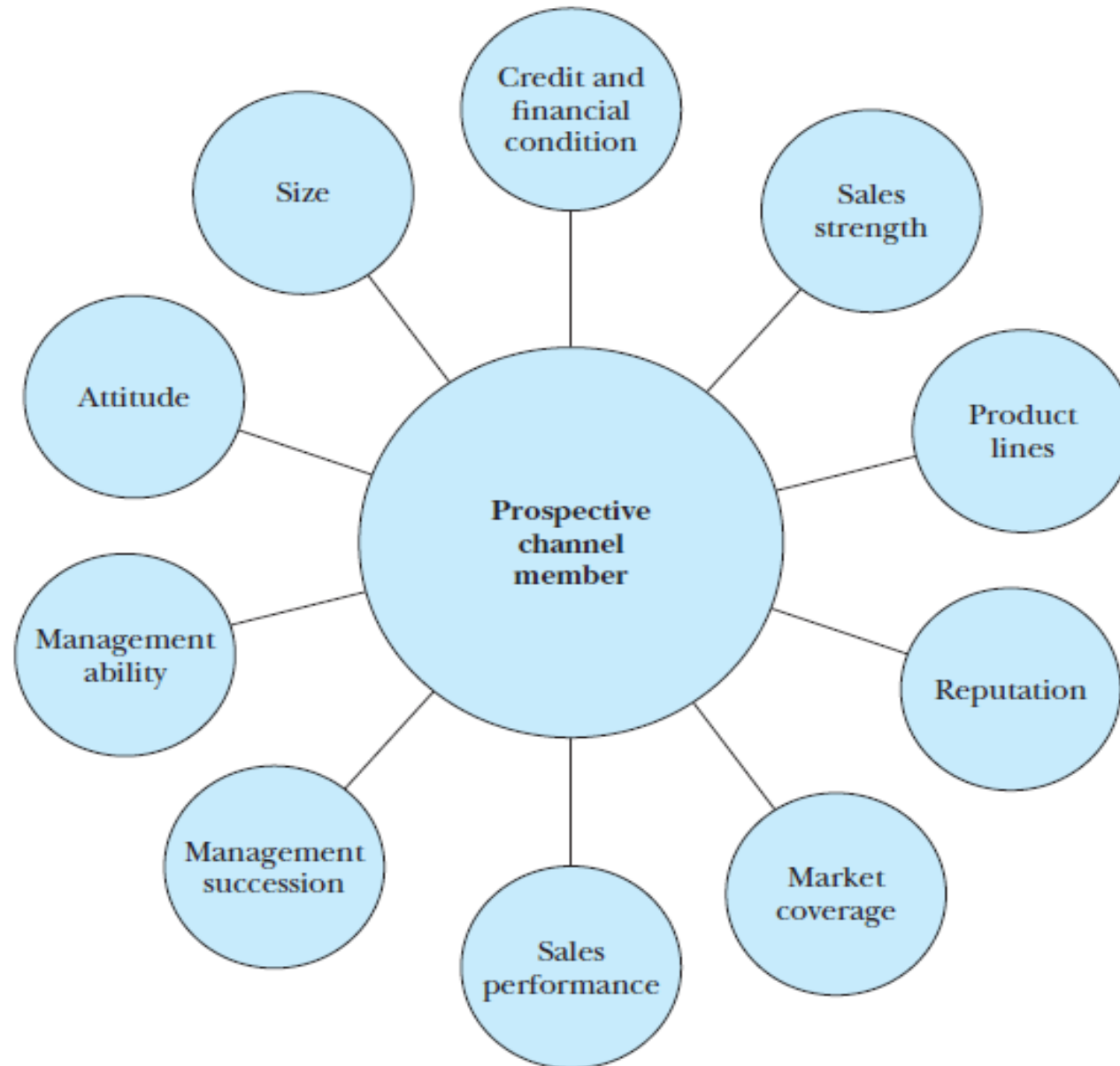
APPLYING SELECTION CRITERIA

Having developed a list of prospective channel members, the next step is to appraise these prospects in light of selection criteria.

Several channel analysts have developed generalized lists of criteria. However, each firm must develop its own specific set of selection criteria based on its own objectives and policies

No list of criteria, no matter how carefully developed, is adequate for a firm under all conditions. Changing circumstances may require the firm to alter its emphasis; so the channel manager should be flexible in the use of selection criteria to allow for such conditions.

KEY CRITERIA TO CONSIDER WHEN SELECTING CHANNEL MEMBERS



Other criteria that may be considered:

- ❖ Conflicting or other lines of products carried by a channel member
- ❖ Growth and profit record of channel member
- ❖ Market coverage
- ❖ Customer service capabilities
- ❖ Cooperativeness of the channel member
- ❖ Level of well trained personnel existing
- ❖ Whether the aspiring channel member has plant, equipment and technical capabilities needed for handling the line of products
- ❖ Possession of other products that are complementary with the company's products.

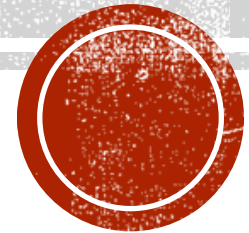
SECURING CHANNEL MEMBERS

It is important to remember that the selection process is a two-way street. It is not only the producer or manufacturer who does the selecting, but also the intermediaries at both the wholesale and retail levels.

Examples of incentives a channel manager may use to secure channel members:

- ❖ Good, profitable product line
- ❖ Advertising and promotional support
- ❖ Management assistance
- ❖ Fair dealing policies and friendly relationships.

MANAGING & MOTIVATING CHANNEL MEMBERS



MANAGING & MOTIVATING CHANNEL MEMBERS

Channel management can be defined as the administration of existing channels to secure the cooperation of channel members in achieving the firm's distribution objectives.

Motivation refers to the actions taken by the manufacturer, producer or franchisor to foster channel member cooperation in implementing the distribution objectives.

Once selected, channel members must be continuously managed and motivated to do their best. This can be done by:

- ❖ Finding out the needs and problems of channel members
- ❖ Offering support to the channel members that is consistent with their needs and problems
- ❖ Providing leadership through the effective use of power

FINDING OUT THE NEEDS AND PROBLEMS OF CHANNEL MEMBERS

Before the channel manager can successfully motivate channel members, an attempt must be made to learn what the members want from the channel relationship.

The channel manager needs to be sensitive to channel member needs and develop practical and effective approaches for finding out what problems channel members face as they attempt to survive and prosper in a highly competitive environment.

FINDING OUT THE NEEDS AND PROBLEMS OF CHANNEL MEMBERS

The channel manager may use any of the following approaches to find out needs of channel members:

- ❖ Research studies of channel members conducted by manufacturers.
- ❖ Research studies by outside parties.
- ❖ Marketing channel audits.
- ❖ Distributor advisory councils.

PROVIDING LEADERSHIP THROUGH THE EFFECTIVE USE OF POWER

Left alone, most channel members will not cooperate to achieve system-level goals, it is usually necessary to develop and use **power** wisely for the channel to work together to generate value and to enable each player to claim its fair share of that value.

Power is the ability of one channel member (A) to get another channel member (B) to do something it otherwise would not have done. The sources of power are; **Coercive power, Reward power, Legitimate power, Expert power, Referent power**



BASES OF POWER

Reward power – A reward is a benefit, given in return for a channel member's agreement to alter its behavior. It is based on the belief by B that A has the ability to mediate rewards for party B. It rests on party A's possession of some resource that party B values and believes he/she can obtain by conforming to A's request.

Coercion – coercive power stems from party B's expectation that he/she will be punished by party A if he/she fails to conform to A's influence attempt. Coercion involves any negative sanction or punishment that a firm is perceived to be capable of, e.g. reduction in margins or withdrawal of rewards previously granted.

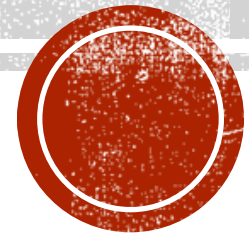
Expertness – expert power is based on B's perception that A has special knowledge or skills in a certain area and therefore will conform to A's requests in order to attain the special skills.

Referent power – the referent power of A over B has its basis in the identification of B with A. This is where party B needs to feel close to or associated with party A and to maintain this relationship, party B will conform to A's requests.

Legitimate power – legitimate power stems from values internalized by B that give him or her a feeling that party A "should" or "has right" to exert influence and party B has an obligation to accept it.



CONFLICT RESOLUTION



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CONFLICT MANAGEMENT:

Channel conflict is a situation in which one channel member perceives another channel member(s) to be engaged in behaviour that is preventing or impeding him from achieving his goals. It is in essence, a state of frustration brought about by a restriction of role performance.

Causes of channel conflict include:

- **Communication difficulties** - Communication is the vehicle for all interactions among channel members therefore breakdown in communication can quickly turn a cooperative relationship into a conflicting one.



- **Goal incompatibility** - Each channel member has a set of goals and objectives that are very often incompatible with those of other channel members. E.g. Conflict may arise between manufacturers and industrial distributors about the following:
 - How to handle large accounts
 - Required inventory stocking levels for the distributor
 - Size of the distributors margins
 - Overlapping distributor territories.



	Supplier Viewpoint	Reseller Viewpoint	Expression of Clash
Financial Goals	Maximize own profit by • Higher prices to reseller • Higher sales by reseller • Higher reseller expenses • Higher reseller inventory • Lower allowances to reseller	Maximize own profit by • Higher own-level margins (lower prices from our supplier and higher prices to our customer) • Lower expenses (less support) • Faster inventory turnover (lower reseller stocks) • Higher allowances from manufacturers	Supplier: You don't put enough effort behind my brand. Your prices are too high. Reseller: You don't support me enough. With your wholesale prices, we can't make money.
Desired Target Accounts	Focus on: • Multiple segments • Multiple markets • Many accounts (raise volume and share)	Focus on: • Segment corresponding to resellers' positioning (e.g., discounter) • Our markets only • Selected accounts (those that are profitable to serve)	Supplier: We need more coverage and more effort. Our reseller doesn't do enough for us. Reseller: You don't respect our marketing strategy. We need to make money too.



- **Domain definition and role performance** - Conflicts may arise when for example a manufacturer has his own outlets which compete with his other channel members. Conflicts on role performance may occur when a channel member is assigned a role that he does not have the capacity to fulfill, or when demands are made upon a channel member that are more than can be expected from the position within the channel that the member holds.
- **Differing perceptions of reality** - These are potential sources of conflict, because they indicate that there will be different bases of action in response to the same situation.



CONFLICT MANAGEMENT STRATEGIES:

It is important for channel members to acknowledge that conflict will often exist and that it can affect channel efficiency, therefore they must find ways to deal with the conflict. Some strategies to manage conflict may include:

- **Diplomacy** – channel diplomacy is the method by which interorganizational relations are conducted, adjusted and managed by ambassadors, envoys or other persons operating at the boundaries of member organisations. The functions of channel diplomat may be to :
 - a) To conduct negotiations with channel members to whom he is assigned
 - b) To shape policies he is to follow
 - c) To observe and report on everything that may be of interest to the firm employing him
 - d) To provide information concerning his firm to the operatives in counterpart channel organisations.



CONFLICT MANAGEMENT STRATEGIES:

- **Joint memberships in trade associations** – this is important in fostering relationships between various channel members
- **Exchange of persons** – this involves a bilateral trade of personnel for a specified time period. Similar to role reversal where the participants are able to view each other's view point and create a greater understanding of each party's position.
- **Mediation** – this is a process whereby a third party attempts to secure settlement of a dispute by persuading the parties either to continue their negotiations or to consider procedural or substantive recommendations that the mediator may make.



CONFLICT MANAGEMENT STRATEGIES:

- **Arbitration** – arbitration can be compulsory or voluntary; when compulsory it is a process wherein the parties are required by law to submit their dispute to a third party (usually the government or the court) whose decision is final and binding. Voluntary arbitration is a process wherein parties voluntarily submit their dispute to a third party whose decision will be considered final and binding.
- **Adopting super ordinate goals** – super ordinate goals are those ends greatly desired by all those caught in dispute or conflict, which cannot be attained by the resources and energies of each of the parties separately, but which require the concerted efforts of all parties involved. E.g. such goals can be used as a defender strategy to block competition.



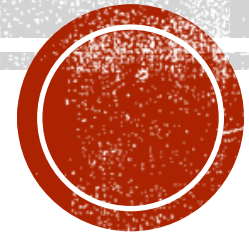
CONFLICT MANAGEMENT STRATEGIES:

Interdependent members in a marketing channel, seek to acquire power and use it wisely for the channel to work together to generate value and to enable each player to claim its fair share of that value.

Power is the ability of one channel member (A) to get another channel member (B) to do something it otherwise would not have done. The sources of power are; **Coercive power, Reward power, Legitimate power, Expert power, Referent power**



EVALUATING CHANNEL PERFORMANCE



EVALUATING CHANNEL PERFORMANCE

The success of the firm in meeting its objectives is dependent on how well the firm's independent channel members perform. It is therefore important for a firm to regularly check channel member performance against pre set standards.

The channel member performance audit is a periodic and comprehensive review of channel member performance. The audit may be done for one, several or all of the channel members at the wholesale and/or retail levels.

The channel member performance audit consists of three phases:

- (1) Developing criteria for measuring channel member performance
- (2) Periodically evaluating the channel members' performance against the criteria
- (3) Recommending corrective actions to reduce the number of inadequate performances.



DEVELOPING CRITERIA FOR MEASURING CHANNEL MEMBER PERFORMANCE

Most manufacturers use a combination of the following:

- (1) Sales performance of channel members
 - ❖ Gross sales
 - ❖ Sales growth over time
 - ❖ Sales made/sales quota
 - ❖ Market share
- (2) Inventory maintained by channel members



1. What is the total level of the channel member's inventory?
2. How much shelf or floor space is being devoted to the inventory?
3. How much shelf or floor space is being provided relative to competitors' inventory?
4. What is the breakdown by particular products in units and dollars?
5. How do these figures compare with the channel member's estimated purchases of related and competitive lines?
6. What is the condition of the inventory and inventory facilities?
7. How much old stock is on hand and what efforts have been made to move it?
8. How adequate is the channel member's inventory control and record-keeping system?



DEVELOPING CRITERIA FOR MEASURING CHANNEL MEMBER PERFORMANCE

But most manufacturers use a combination of the following:

- (3) Selling capabilities of channel members
 - ❖ Total number of salespeople
 - ❖ The number of salespeople the channel member assigns to the manufacturer's product line
 - ❖ The technical knowledge and competence of the channel member's salespeople
 - ❖ Salesperson interest in the manufacturer's products.
- (4) Customer service and technical support capabilities of channel members
- (5) Attitudes of channel members
- (6) Competition faced by channel members
- (7) General growth prospects of the channel members



1. Does the channel member's past performance indicate that sales of the manufacturer's products are likely to keep pace with those projected for the channel member's region, district, or trade area?
2. Has the channel member's overall performance been in keeping with the general level of business activity in the area?
3. Is the channel member's organization expanding or showing signs of improvement in facilities, capitalization, inventory maintained, and quality of lines represented?
4. Are the channel member's personnel not only growing in number but also becoming more highly qualified?
5. Is the channel member, and with it the manufacturer's representation in the area, likely to some day be in jeopardy because of the channel member's management, age, health, or succession arrangements?
6. Does the channel member have the adaptability and the overall capacity to meet market expansions that may occur in its area?
7. What are the channel member's estimates of its own medium- and long-range outlooks?

DEVELOPING CRITERIA FOR MEASURING CHANNEL MEMBER PERFORMANCE

- (8) Financial status of channel members
- (9) Their character and reputation
- (10) The physical facilities of channel members
- (11) Channel member satisfaction.

EVALUATING PERFORMANCE ACCORDING TO CRITERIA DEVELOPED

Once the criteria has been developed, the channel members performance needs to be assessed to determine whether it meets the criteria.



RECOMMENDING CORRECTIVE ACTIONS

In general, manufacturers should try to recommend corrective actions to improve the performance of channel members who are not meeting minimum performance standards. Terminations of these channel members should be used only as a last resort.

They can:

- (1) Building a formal channel communications network
- (2) Conducting marketing channel audits
- (3) Forming distributor advisory councils
- (4) Utilizing research conducted by outside parties
- (5) Understanding the needs of channel members

