Exploring the channel conflict

How and under which circumstances can a
manufacturer develop a successful
direct marketing channel strategy

by

Roald J.P. Tichelaar

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STATEMENT OF AUTHENTICITY

I have read the University Regulations relating to plagiarism and certify that this project is all my own work and does not contain any unacknowledged work from any other sources.

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Roald J.P. Tichelaar
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i. Keywords and abstract

Keywords:

- Direct marketing channel
- Marketing channels
- Channel conflict
- Integrated strategy
- Management capacity

Abstract:
Due to fear of channel conflict, manufacturers of business to consumer goods are cautious to get involved with a direct marketing channel. This management project is exploring the circumstances under which a manufacturer can develop a direct marketing channel strategy next to their existing channels and how to implement this strategy.

Channel conflict can be monitored, assessed and managed; therefore other circumstances appear to have more influence on a direct marketing channel strategy by manufacturers.

Various aspects relating to the products, the organisational structure and the ability to adept to a changing environment are important determinants regarding the circumstances. A direct marketing channel would be most successful if it was developed as an integral part of corporate strategy and the organizsational structure, however difficult that may be to achieve.

Therefore, management capacity is the most important prerequisite to provide the strategy, resources, structure, procedures and commitment required for successful implementation of an integrated direct marketing channel by a manufacturer of business to consumer goods.

ii. Preface

Ever since I started with e-business over 12 years ago, first as an entrepreneurial and later as an interim consultant, I have been grasped by the potential of the Internet. During 2008, I was accountable for the re-introduction of the direct marketing channel at Sony Benelux. The possibility of channel conflict was one of the main reasons for extremely cautious behaviour regarding the direct channel within the Netherlands, while the opportunities were abundant. The idea that a renowned brand as Sony does not act from its own strength but as if kept hostage by its distribution channel, has intrigued me ever since.

This report is written under supervision of Thuiswinkel.org which is the Dutch national trade association for distance-selling and home shopping, focused on online retailing since 2000. As a trade organisation, Thuiswinkel does not just represent the branch on a (inter)national level, but also looks after the interests of the consumer. Thuiswinkel.org presents itself as knowledge partner for the associated businesses, who benefit from this knowledge through workgroups, organised events, research and publications.

The research conducted by order of Thuiswinkel focuses on market developments and trends, and is performed by specialised businesses, partners or students. Research and results are regularly published in Twinkle Magazine. By commissioning this Management Project, Thuiswinkel.org will gain further insights into the challenges business to consumer manufacturers face when introducing a direct marketing channel, which they share through a publication in Twinkle Magazine.

The observant reader will note that in the project proposal the term ‘direct sales channel’ has been used, which has been replaced with ‘direct marketing channel’ in the management project itself. As ‘marketing channel’ is a wider term than ‘sales channel’, the insights obtained through the research conducted expanded my focus to ‘marketing channels’, as there are functions within a marketing channel that are relevant to this management project. Additionally, academic perspective predominantly uses ‘marketing channel’, therefore by using ‘marketing channel’ this project remains consistent with this academic perspective.

This Management Project represents the conclusion of the two year part time MBA program of TiasNimbas/Bradford Business School, Utrecht, started in September 2008. However tough this MBA program and Management Project have been, combining it with family, social life and work, it has been a fantastic experience that has enriched my thinking, (theoretical) knowledge and circle of friends.

I would like to thank Prof. Christoph Wamser, my project supervisor, for his ideas, insights and helpfulness during this Management Project. Appreciation goes out to Paloma van der Put at Thuiswinkel.org, Evert-Jan van Schuppen at Sharp Netherlands and Martijn Lehman at Fatboy for their cooperation.

I would also like to thank Bas van Ulzen for the providing the window of opportunity and my family Joop, Mibeth and Remco for their support, reviews and comments throughout the program.

Without a question, most thanks is in order for my lovely wife Marije for her understanding, patience and sacrifices she had to endure while I was doing this MBA program: Kuipers, could not have done it without you.

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1 Introduction to the topic

This chapter will serve as an introduction to the topic of this Management Project, which is to explore how and under which circumstances a business to consumer manufacturer can implement a successful direct marketing channel strategy.

1.1 Project background

Since the mid 1990's, the Internet became an accepted medium by the general public (Griffiths, 2002), providing the modernised world tremendous opportunities and challenges, for individuals, (local) businesses and (multi)-national corporations (Tsay & Agrawal, 2004).

Because of the Internet, new business models are being explored, new markets have become available (Porter, 2001; Gilbert & Bower, 2002), marketing as a whole has changed (Clemons, 2007; Court et al., 2006), worldwide networks and connections are made (Jarvis, 2009), and the end-consumer has received a powerful voice (Jarvis, 2009; Godin 2007).

New businesses have erupted due to the Internet, with new business models, challenging the incumbents; a situation similar to the industrial revolution (Godin, 2007; Schoenbachler & Gordon, 2002). Not only retailers, but also manufacturers should recognise the potential of the Internet and should be looking into ways of combining the physical and virtual worlds in their strategies (Gulati & Garino, 2000; Tsay & Agrawal, 2004).

The Internet has made it possible to reach a large audience without the requirements of a physical presence (Jarvis, 2009; Godin, 2007), making location and time irrelevant for both seller and buyer (Pitt et al., 1999). These factors are combined in a unique platform for buying and selling, named e-commerce. E-commerce can be described as the process of buying, selling or exchanging goods, services and information via the Internet (Goldkuhl, 2005).

Although direct sales has always been around, not requiring a physical presence to reach a large audience and the potential and benefits of e-commerce provide additional ingredients for (incumbent) manufacturers of business to consumer goods to get involved with selling direct to their end-consumers.

Potential advantages for direct selling include higher profit margins, direct (two-way) communication and relationship building with the end-consumers, targeted segmentation and control over how the products are distributed, presented and sold (Grayson & Berry, 1999). Additionally, e-commerce and the Internet include some unique characteristics that provide additional benefits for direct selling: the ability to inexpensively store, search, organise and disseminate vast amounts of information (Goldkuhl, 2005); combined with interactivity and superior customer experience (compared to printed catalogues) (Jarvis, 2009; Goldkuhl, 2005).

Once a manufacturer has decided to add direct selling to its portfolio of distribution channels, there is the potential of (additional) channel conflict as the distributor and retailer feel the manufacturer will act as a direct competitor (Gilbert & Bacheldor, 2000; Goldkuhl, 2005; Twinkle, 2008; Greenberg, 2010).

Channel conflict as a result of a direct sales channel has been around since direct selling itself (Stern & Heskett, 1969; Gaski, 1984; Magrath & Hardy, 1989), and is not a new phenomenon because of the emergence of e-commerce. However, the relative low entry and set-up cost of e-commerce has made the direct sales channel a renewed strategic option for manufacturers (Goldkuhl, 2005) which subsequently has resulted in renewed interest in channel conflict (Cullotta, 2007; Wootten, 2003; Webb & Hogan, 2002; Dumronngsiri et al., 2008; Tsay & Agrawal, 2004; Bengtsson, 2007).

A sales channel is the route that products take between manufacturer and end-consumer. This route is also defined as a distribution channel. However, as the distribution channel also performs certain marketing flows, namely physical possession, transference of ownership, promotion, negotiation, financing, risking, ordering and payment, academic perspective uses distribution and marketing channel interchangeably (Goldkuhl, 2005; Coughlan et al., 2006). Although this report has no specific focus on these marketing flows, to remain consistent with academic perspective, the term marketing channel will be used throughout this report, conform the definition of Goldkuhl (2005):

> *A marketing channel is defined as a system involved with the task of, either directly or indirectly, making anything of value available for use or consumption.*

Next to channel conflict, there are other challenges a manufacturer must overcome by operating both direct and indirect marketing channels (Goldkuhl, 2005). A business to business environment has different requirements with regards to procurement, invoicing, systems, support and market approach than a business to consumer environment (Brown et al., 2006). Additionally, knowledge about the Internet medium, potential internal conflicts, product and company positioning; all have an influence on how a direct marketing channel[1] strategy can be developed and implemented (Bendix et al., 2001a)

1.2 Project objective and limitations

This report, written as the final paper of the TiasNimbas Bradford MBA program, will provide insight to managers of business to consumer manufacturers who are contemplating a direct marketing channel, by exploring under which circumstances a manufacturer can develop a direct marketing channel strategy and how this strategy can be successfully implemented. Therefore, managers of consumer good manufacturers can be regarded as primary stakeholders.

By commissioning this research, Thuiswinkel.org, the Dutch trade association for distance-selling and home shopping (Thuiswinkel, 2010), is a secondary stakeholder. They can use the findings of this Management Project for knowledge sharing among their associated businesses.

[1] The term direct marketing channel in this Management Project refers to a direct marketing channel using the Internet and e-commerce.

This Management Project will assist both stakeholders in identifying a variety of aspects that could be taken into account when developing and implementing a direct marketing channel.

The limitations of this Management Project are in the generalisation of the problem, available time and the project guidelines. Therefore, identifying every management and organisational aspect, describing these in depth and to be applicable to every manufacturer of business to consumer goods is impossible, as specific aspects and circumstances will differ per manufacturer.

1.3 Research problem

As described in the project background, the Internet offers great opportunities for manufacturers. However, actually developing and implementing a (successful) strategy for a direct marketing channel is reluctantly done by (incumbent) business to consumer manufacturers as they fear channel conflict with their existing marketing channels will do more harm then good (Twinkle, 2008; Tsay & Agrawal, 2004; Goldkuhl, 2005; Greenberg, 2010).

Manufacturers create the brand and carry out the research and development required to innovate existing products, develop new technologies and products. They invest marketing funds in their brand to create (global) awareness and stimulate demand for their products (Moenaert et al., 2008; Jarvis, 2009; Godin, 2007). However, a manufacturer is reliant on its distribution channel to get the coverage required to sell their goods. These intermediaries provide amongst others the geographical coverage required to present the manufacturer's products to as many potential customers as possible (Coughlan et al., 2006).

Over time, some retailers became large retail corporations, using their buying power to get the best deals possible as a result of their scale. These organisations have become extremely powerful in their position towards manufacturers. But retail organisations are not exclusive to a manufacturer, and sell a wide variety of competing products in the same shop, providing extensive choice to the consumer, competing mostly on price, while service and product knowledge is deteriorating (Frank et al., 2003; Navarro & Ripsam, 2007; Fisher et al., 2007).

The Internet will never fully replace brick and mortar retail (Blauw Research, 2009; Broekhuizen, 2006; Vos, 2009; Molenaar, 2009), and retailers themselves are looking into ways of combining e-commerce into a multi-channel strategy (Berman & Thelen, 2004; Yulinsky, 2000; Gulati & Garino, 2000; Purola, 2010; Schoenbachler & Gordon, 2002).

However, if a manufacturer is keen to start a direct marketing channel next to their existing marketing channels, their traditional distribution channel threatens to act (Goldkuhl, 2005; Webb & Hogan, 2002). This paradigm limits the manufacturer to pursue strategic opportunities, like a direct marketing channel (Gaski, 1984; Magrath & Hardy, 1989).

Although there has been extensive research on how to deal with channel conflict (Goldkuhl, 2005; Webb & Hogan, 2002; Digital River, 2000; Tsay & Agrawal, 2004; Bendix et al., 2010b; Bengtsson, 2007), most manufacturers are influenced by the prospect of channel conflict, which prevents them from starting a direct marketing channel. The uncertainty of both the impact of the channel conflict on the regular business and the success of the direct marketing channel paralyses the manufacturers.

It might be that (incumbent) manufacturers use channel conflict as an excuse not to get involved with a direct marketing channel. By not getting involved, manufacturers miss out on the benefits, potential and, most important, ignore their end-consumers wants and desires (Molenaar, 2009; Vos, 2009; Godin, 2007). There are some manufacturers who are successful in combining their direct and indirect marketing channels, for instance Apple (InsideCRM, 2008), albeit they too have channel conflict issues (Moltzen, 2007).

In order to provide guidance for manufacturers to add a direct marketing channel, this Management Project will revolve around the following research problem:

> *Under which circumstances can a direct marketing channel strategy be created by business to consumer manufacturers*?

Not only the *circumstances* are of interest in this Management Project, but also *how* the strategy can be implemented, which is therefore the second part of the research problem:

> *How can the created direct marketing channel strategy be successfully implemented?*

1.4 Disposition

Chapter 1 has served as an introduction to the topic and the research problem. Chapter 2 will review relevant literature and insights that corresponds with the research problem. The used methodology and research questions will be described in Chapter 3. The findings regarding the circumstances are presented in Chapter 4, while the findings regarding the implementation will be presented in Chapter 5. Chapter 6 will discuss these findings and Chapter 7 will present the conclusions and recommendations.

2 Literature review

This chapter will review relevant and recent literature related to the topic of this Management Project. Topics discussed are related to the changing customer behaviour, (multiple) marketing channels and channel choice. Channel conflict and how to manage it will be discussed, as well as channel power. The chapter ends with a review of strategic and operational implications of a direct marketing channel.

2.1 Changed customer behaviour

The Internet has made it easy to browse and compare products (Jarvis, 2009; Broekhuizen, 2006). Because of the unique characteristics of the internet, namely inexpensive storage, searching and organising vast amounts of information, (Goldkuhl, 2005; Jarvis, 2009), the ability to make worldwide connections (Jarvis, 2009) and as the Internet is permanently and widely available, through PC and recently also by mobile device (InternetWorldStats, 2010), consumer's access to, and use of, information has changed dramatically (Clemons, 2007). Additionally, marketing and advertising can be specifically targeted (Jarvis, 2009) and the consumer can provide permission to be approached for marketing purposes (Godin, 2007).

Most consumers are no longer merely aware, but enjoy a high level of 'informedness' (Clemons, 2007), expect transparency and have received a powerful voice in which to review, promote or challenge products and brands (Jarvis, 2009); described by Clemons (2007) as "word of mouse"[2].

Companies and customers can engage in a dialogue in which useful information is exchanged so that both parties benefit from the relationship (Bloemendal, 2008).

[2] According to MediaPost, word of mouth action has shifted from 67% in 1977 to 92% in 2003 (Bloemendal, 2008).

Online orientation has become an essential part of the purchase decision process of the modern consumer (Blauw Research, 2009; Molenaar, 2009). Consumer attention and time have become the new scarce commodities, not distribution and shelf space (Porter, 2008a). Online shoppers are generally motivated by the convenience, wide selection, availability of relevant information and control offered through the Internet (Broekhuizen, 2006). The Internet offers more detailed product information other than price information and product comparison; shopping in a physical environment serves to see and feel the product and verify that it fulfils the customers need (Blauw Research, 2009). In offline stores, the Internet is now used via consoles and mobile devices to obtain service and information about products (Molenaar, 2009; Purola, 2010).

This changed customer behaviour results in a change of expected service outputs and requires adjustment of the marketing channel mix (Coelho & Easingwood, 2007[3].

2.2 Marketing channel

Before the Internet, manufacturers made products, which were advertised through mass media and sold through a network of distributors and retailers to get the products available to as many potential customers as possible (Godin, 2007). The importance of distribution is evident: customers must have access to the products in order to purchase them (Bengtsson, 2007). This network of distributors and retailers can be described as a marketing channel, as they perform more tasks than just distribution and sales. Goldkuhl (2005) has defined a marketing channel as '*a system involved with the task of, either directly or indirectly, making anything of value available for use or consumption'.*

[3] The current economic downturn has deliberately been unmentioned as that has a (relatively) short term impact on customer behaviour (Kraus & Pinto, 2009).

An indirect marketing channel consists of various channel members[4], such as distributors and retailers, whereby each member adds value in their own right. Most manufacturers choose to use indirect marketing channels that already sell into specific markets (Cullotta, 2007) to provide the geographical coverage and additional services required to present the manufacturer's products to as many potential customers as possible (Coughlan et al., 2006).

In a direct marketing channel, the manufacturer engages in direct contact with his end customer, which can be achieved through telephone, sales force, catalogue or the Internet (Coughlan et al., 2006). Additionally, a direct marketing channel attracts customers with a different buying behaviour (Broekhuizen, 2006; Cullotta, 2007).

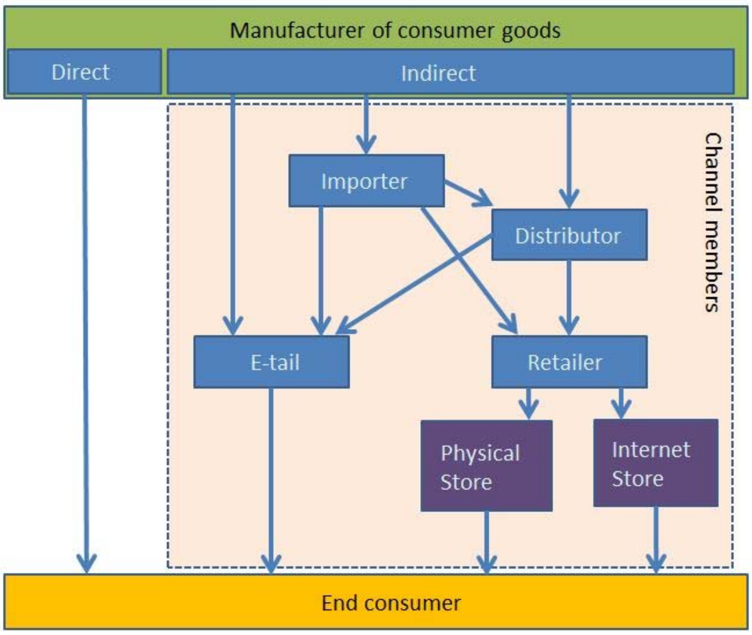


Figure 2.1: Schematic representation of direct and indirect channels and channel members

Channel members are in the business of acquiring and selling manufacturer products, whatever the underlying conditions, and are in principle not exclusive to only one manufacturer (Coughlan et al., 2006). Resellers will primarily stock only those products that will help them obtain their financial goals (Shervani et

[4] From here on the term channel member will be used to describe any indirect marketing channel member, i.e. importer, distributor, reseller or any other intermediary.

al., 2007). This means that, unless a manufacturer has a (very) limited product range, per definition not all products offered by a manufacturer (or brand) will be available through the channel members (Goldkuhl, 2005).

Channel members perform a number of activities that are difficult to duplicate by manufacturers, such as warehousing, providing immediate availability, offering assortments constituted from different manufacturers that allow one-stop shopping and providing services, including personal assistance, dressing rooms and repair and return services (Goldkuhl, 2005).

2.3 Multiple marketing channels

Multiple marketing channels are defined as using more than one channel to reach the customer (Goldkuhl, 2005). Multiple marketing channels are used as different customers, with different buying behaviours, will flexibly use the channel that best serves their needs (ibid.).

Offering multiple marketing channels to consumers may have both competitive and complementary efforts: competitive as it might lead to channel preference, complementary as it might lead to higher customer satisfaction (Broekhuizen, 2006).

According to Wilkinson (1973), channels require to operate as an integrated whole to attain efficiency, which can only be accomplished with effective cooperation and coordination between members. Technological change, new products introduced and the changing nature of the environment are the forces that make cooperation and coordination important (ibid.).

Channel integration, for instance, allows a customer to gather product information through the online channel, purchase in a physical outlet and obtain service again online. Channel integration is most likely to occur within one channel member’s domain, i.e. if a retailer uses various physical shops, aimed at different customer segments, or even in combination with an Internet store.

However, a manufacturer can also integrate with his indirect marketing channel, for instance by providing detailed product information and availability at a certain channel member. Alternatively, a manufacturer can also integrate forward, meaning a reduction in channel members between the manufacturer and the end-customer (Porter, 2008b).

Although an integrated channel can provide a superior customer experience, highly integrated channels are costly to establish and operate in terms of investments in personnel, equipment, facilities, software and inventory (Shervani et al., 2007, Berman & Thelen, 2004).

2.4 Channel choice

Nelson (1970) contrasted *search good* and *experience good*. A *search good* is a product or service with features easily evaluated before purchase and is more subject to substitution and price competition by nature. Branding and detailed product specifications are characteristics of a search good. An *experience good* on the other hand, is difficult to compare before purchase. Characteristics are reputation and lower price elasticity[5] then a search good (ibid.). The internet has made it easier to source and compare products, resulting in price as the prime differentiator for search goods (Cullotta, 2007).

Although it is thought that consumers go to a shop for information and then go back home to purchase the same item for a lower price online, Blauw Research (2009) has found that actually the reverse is true. The number of consumers who switch from store orientation to Internet purchase is far lower the other way around. Price appears not to be the greatest denominator for online shopping; availability is (Broekhuizen, 2006; Blauw Research, 2009).

[5] Price elasticity refers to influence price has on sales volume. High elasticity means that a lower price means more units sold, while with a low elasticity price itself has less influence on the number of units sold (Begg & Ward, 2007).

The end customer's choice for a channel depends on the following factors: *consumer factors* (e.g. shopping orientations, life style, past behaviour), *retail factors* (e.g. trust and reputation, service), *product factors* (e.g. complexity, product risk), *channel factors* (e.g. ease of use, service) and *situational factors* (e.g. time availability, weather, mood) (Broekhuizen, 2006).

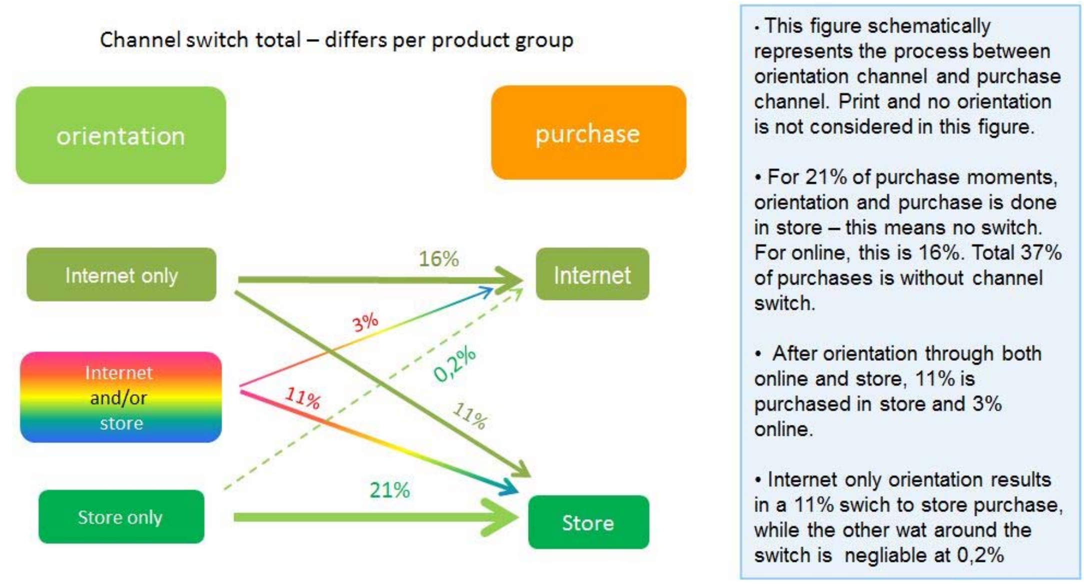


Figure 2.2: Channel switch (adapted from Blauw Research, 2009)

Blauw Research (2009) has also found that the prime channel choice for purchase remains the physical location, although the Internet has become a significant channel of choice for consumers. Buying direct from manufacturers is not significant channel choice; possibly because not all manufacturers offer or promote a direct marketing channel.

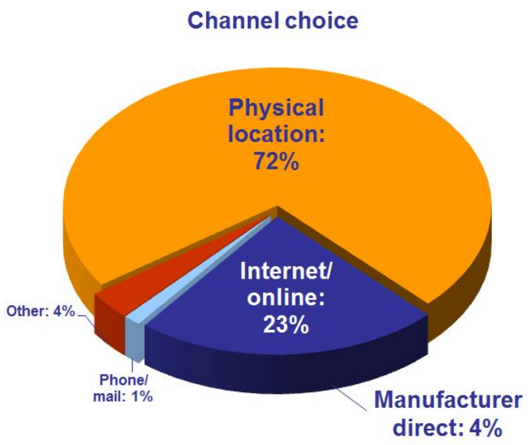


Figure 2.3:
Channel choice (adapted from Blauw Research, 2009)

Channel members using one particular channel are perceived as similar to others in terms of their offerings (Broekhuizen, 2006); building more outlets offering the same inventory has been tapped out as a strategy and has resulted in (fierce) price competition (Rigby & Vishwanath, 2006). The end-customer does not necessarily experience a difference between the purchased product and the place of purchase (Blauw Research, 2009). To remain competitive, manufacturers must develop new channel opportunities (Bengtsson, 2007).

End-customer’s needs change with the product life cycle and maturity of the market. This requires a change of channel mix (Cullotta, 2007). Direct is the norm for new technology. Growth levels off in a maturing market as potential buying segments and applications become saturated (ibid.). In maturity and declining stages of the product life cycle, online offerings are likely to cannibalise sales through existing channels according to Webb (2002).

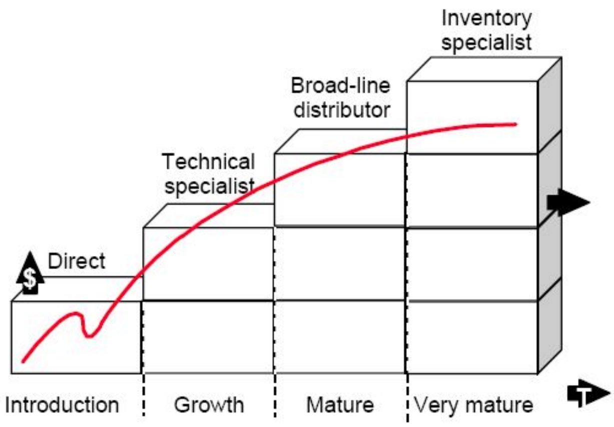


Figure 2.4:
Product life cycle and distribution method (Cullotta, 2007)

In mature markets, heavy competition has a commoditising effect which fixates consumers on price, diminishes the difference between offerings, and creates consumers who will be less receptive to innovation and marketing (Bertini & Wathieu, 2010).

The type of product can strongly influence the preference for a channel (Broekhuizen, 2006), even though it might be in a mature market. Products that are more expensive, risky and complex require physical examination and are more suited to be sold through the offline channel (Broekhuizen, 2006). The Internet is particularly preferred for relatively commoditised products and repeat purchases (ibid.), which Blauw Research (2009) has presented in the following figure:

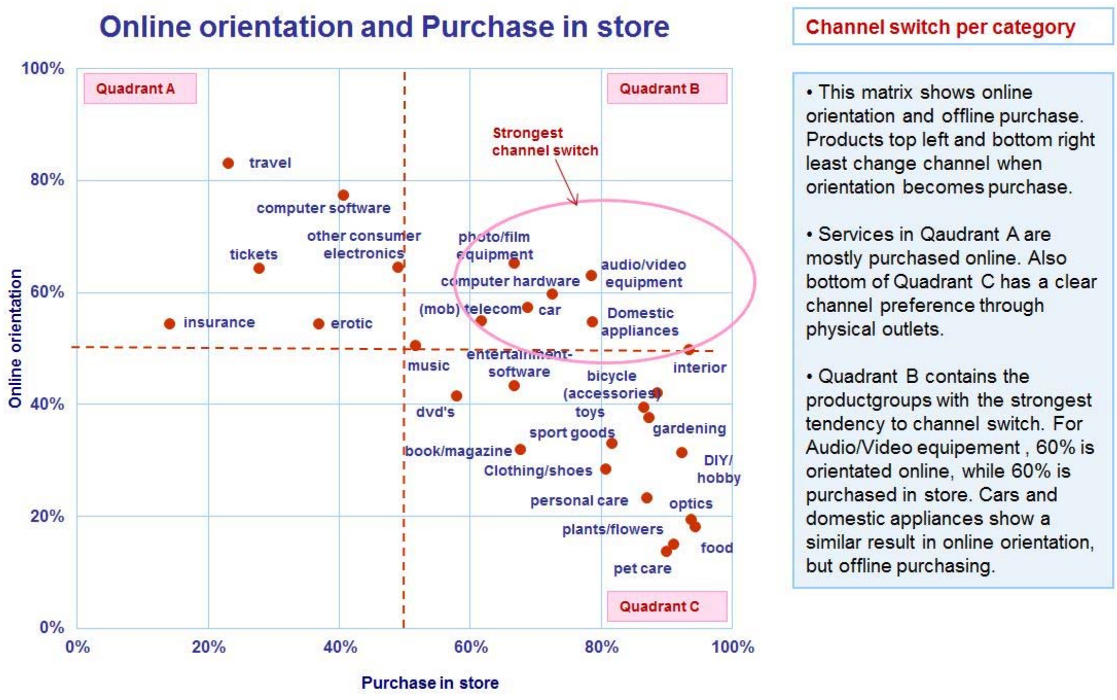


Figure 2.5: Product category and channel choice (adapted from Blauw Research, 2009)

The marketing channel mix used by a manufacturer should be changed accordingly to fit the requirements of the market. Manufacturers should determine for each of their offerings whether exclusive, selective or wide distribution is most suitable for their products (Coughlan et al., 2006).

2.5 Direct marketing channel drivers and barriers

Incumbent manufacturers have become dependent on their indirect marketing channel to offer (a selection of) their products. The Internet provides the opportunity to directly engage with and sell to end-customers; not only for channel members, but also for manufacturers.

Indirect marketing channels have benefits which cannot be easily copied by manufacturers themselves or any direct marketing channel. It is therefore unlikely that direct marketing channels will be a complete substitute for indirect channels (Blauw Research, 2009; Broekhuizen, 2006; Vos, 2009; Molenaar, 2009).

However, the potential benefits for any business to get involved with an Internet marketing channel (e-commerce) are: a reduction of costs, improved supply chain operation, increased customer service, obtain customer knowledge, find new markets (Saleh, 2009; Goldkuhl, 2005; Broekhuizen, 2006) and take advantage of the 'long tail' (Anderson, 2004).

Through physical outlets, only a small concentrated inventory is available, whereby usually 20% of products are responsible for 80% of revenue (Anderson, 2004). As shelf space is not limited on the Internet, an unlimited inventory is possible, providing unlimited choice to consumers. This unlimited inventory is described as the 'long tail' (ibid.). The potential total value of the 'long tail' is assumed to be larger than the 'head' (ibid.)[6].

Figure 2.6:
The long tail (Anderson, 2004)

[6] From the more than 1 million items that Amazon.com lists, 95% is sold at least once a month (Smits et al., 2008).

Channel members are exploring the Internet as a direct marketing channel as that enables them to offer a wider range of products and the potential of integrated channels, thereby serving (other) customer's needs (Yulinsky, 2000; Gulati & Garino, 2000; Schoenbachler & Gordon, 2002; Coelho & Easingwood, 2007; Webb & Hogan, 2002; Zhang et al., 2010). Multi-channel retailing has become an essential strategy for success (Freshminds, 2010).

Informed customers are not willing to pay more for commodities, but are willing to pay premium for what they really want (Clemons, 2007; Godin, 2007). Customers also value customised products more than standard products, which results in a higher purchase intention and justifies premium pricing (Delleart & Stremersch, 2005; Franke et al., 2009). Customisation and personalisation is usually not offered through indirect channels and thus a great differentiator from the indirect channels.

Manufacturers are likely to increase their use of direct channels when distribution costs in serving end users are relatively low (Shervani et al., 2007). However, manufacturers are reluctant to get involved with a direct marketing channel, if they fear for channel conflict (Goldkuhl, 2005; Lee et al., 2003; Greenberg, 2010; Webb & Hogan, 2002; Tsay & Agrawal, 2004; Cullotta, 2007).

2.6 Channel conflict

According to Goldkuhl (2005), channel conflict 'exists within the channel if one channel member perceives another channel member to be engaged in behaviour that prevents or impedes from attaining its goal(s)'.

Channel conflict is not a new phenomenon because of the introduction of the Internet (Gaski, 1984; Magrath & Hardy, 1989). It has been suggested that conflict is virtually inevitable in marketing channels, as this is due to the functional interdependence between channel members (Gaski, 1984).
Channel conflict is not necessarily dysfunctional; it can be constructive when it leads to more dynamic adaptation to a changing environment and keeping the

channel members focussed and responsive. However, too much channel conflict is dysfunctional (Kotler, 2005).

Channel conflict can occur *horizontally* and *vertically* (Kotler, 2005). *Horizontal* channel conflict exists when there is conflict between channel members at the same level within the channel. *Vertical* channel conflict exists when there is conflict between different levels within the same channel, which will be the case if a manufacturer adds a direct marketing channel next to existing marketing channels.

According to Wilkinson (1973) conflict arises in channels as members have incompatible goals and differing perceptions of reality. Etgar (1979) describes the causes of channel conflict to be of *attitudinal* or *structural* nature. *Attitudinal causes* are associated with disagreements about channel *roles, expectations, perceptions* and *channel communications*. *Structural causes* consist of three sets of factors: *goal divergence, competition for scarce resources* and *drive for autonomy.* Conflict appears to be primarily generated by attitudinal factors (ibid.).

If the *role* of the channel member has not been well defined, conflict may occur. Differences in information availability, information processing capacities, or experience among channel members can result in varying *expectations*. Channel members can also have different *perceptions* of the channel and its market conditions. Within a marketing channel there has to be constant *communication* between the manufacturer and the channel members (vice versa) about new products, promotions, market conditions and stock levels. If that flow of communication is not working properly, misunderstandings will occur, incorrect strategies will be implemented, and mutual feelings of frustration will arise (Etgar, 1979).

Goal divergence is a result of different strategic objectives between channel members and the manufacturer. They both want to maximise profits, which may lead to a conflict of interest (Etgar, 1979). In reality, however, it is not goal divergence itself that is fuel for conflict, but the perception that the goals diverge

(Coughlan et al., 2006). *Competition for scarce resources* occurs when the demand in a channel exceeds the available supply, e.g. if there is limited availability of a new product. *Drive for autonomy* means that one party tries to exercise control of another party (Etgar, 1979); which is similar to the definition of power (Gaski, 1984).

Magrath & Hardy (1989) describe the following four variables within channel design and channel mix that affect channel conflict: *channel length, channel variety, channel density* and *channel autonomy*.

Channel length refers to the number of channel members between the manufacturer and the end-consumer, whereby short channels are least associated with conflict for manufacturers. *Channel Variety* refers to different types of channels used. Conflict appears to be least likely with either very low or very high channel variety (Magrath & Hardy, 1989).

Channel Density refers to the amount of channels used and can either be exclusive, selective or intense. Channel density tends to have a relation with the product life cycle, however, channel members prefer less channel density at increased product life, while manufacturers prefer to increase density at that stage. *Channel Autonomy* refers to the independence of the channel members to each other. The more independent the channel members are, the more conflict is likely to occur (as a result of *goal divergence*) (Magrath & Hardy, 1989).

The fundamentals of the channel mix (identifying customers, creating value propositions and determining how to deliver goods and services to the market place) has not changed because of new technologies, but has become more complicated (Bendix et al., 2001a). By adding the Internet to the marketing channel mix, Webb (2002) found that pricing is the single most important generator of channel conflict. Conflicting channels put emphasis on price as a differentiation between channels (Cullotta, 2007). Wide price dispersion could be the result of the immaturity of the direct marketing channel (Broekhuizen, 2006), as businesses are not yet capable of adding value through their direct marketing channel (Moenaert et al., 2008). This ‘constant price undercutting can damage brand equity and erode profit margins. Meanwhile, customers develop low expectations and become disengaged’ (Bertini & Wathieu, 2010). Kraus & Pinto (2009) also argue that added value should be offered in order not to ‘squander years’ worth of brand equity for a few quarters of sales’.

As markets evolve and mature, manufacturers are required to add new, lower cost channels to cover all major market segments (Cullotta, 2007). Many manufacturers find a change in channel mix difficult to manage, which can increase channel conflict (Coelho & Easingwood, 2007). Magrath & Hardy (1989) also found that when a manufacturer uses both direct and indirect marketing channels (dual-distribution), conflict is a likely result, as the perception is that the manufacturer is competing with his traditional marketing channels for the same customer.

2.7 Managing channel conflict

In order to manage channel conflict, it is required to validate the reality of the conflict, otherwise it stays a perception. Therefore a diagnosis of the true level of conflict is essential (Goldkuhl, 2005). Magrath & Hardy (1989) state that conflict can be measured by the *frequency* and *intensity* of disagreements, weighted by the *importance* of the issue. By keeping track of reported issues, management can create insight into the existence of channel conflict. Management needs to establish which level of conflict is acceptable (Bendix et al., 2001a). Perceived conflict can also become real conflict if it is not managed properly (Coughlan et al., 2006).

If channel conflict has been established to be real, the destructiveness of the conflict can be assessed (Cullotta, 2007). In principle some level of conflict will always exist and conflict is not immediately destructive (Cullotta, 2007; Bendix et al., 2001a). Destructive conflict becomes evident through market share and price erosion, harming the manufacturer’s brand (Cullotta, 2007).

Channel conflict can be managed by a combination of *economics* and *structural controls* (Cullotta, 2007). Economics are used to motivate the channel to avoid conflict, i.e. compensation schemes. Structural controls relate to the channel design and the terms of the channel agreement. Structural controls are only effective if enforced (ibid.).

Both Goldkuhl (2005) and Coughlan et al. (2006) have established that communication about the chosen distribution strategy between the manufacturer and the channel members is key to minimising conflict.

Kotler (2005) states that perhaps the most important mechanism to manage channel conflict is the adoption of superordinate goals, i.e. appeal to mutual goals relating to survival, market or customer satisfaction.

Working together to develop joint solutions is another option to manage channel conflict (Bengtsson, 2007). Weiss (2000) also states that it is important that manufacturers work together with their channels to resolve the resulting channel conflicts and to create a superior value-delivery network.

2.8 Channel power

Drive for autonomy is one of the structural causes of channel conflict according to Etgar (1979) and resembles power. Power can be described as the ability to get someone to do something he/she would not have done otherwise (Gaski, 1984). The power holder is the party that can influence the other party (ibid.).

Most research acknowledges that there is a causal relationship between power and conflict between channel members and that it can, and does, proceed in either direction (Goldkuhl, 2005).

Wilkinson (1973) states that ‘in order to prevail in the struggle for survival, a firm must act in such a way as to promote the power to act’. Shervani et al. (2007) state that power is commonly accepted to provide its holder the ability to achieve a high level of influence or control on the behaviour of others he has contact with. According to Gaski (1984) it appears that the nature and sources of the power possessed by a channel member may affect the presence and level of conflict within that channel.

Power sources for a manufacturer are for example a strong brand name, market intelligence, substantial financial and marketing resources and market power. Market power could vary between various product-markets served as market power is based upon market position (market share) and level of product differentiation (Shervani et al., 2007).

The extent to which end-customers are aware of individual brands and their preference for those is critical to the channel member. Channel members will go out of their way to keep manufacturer brands with high market share as that helps to obtain their financial goals (Shervani et al., 2007). Leading brands are easier for channel members to market and sell because of the end-customer’s perceived value of these products (Coughlan et al., 2006). Leading brands are typically heavily advertised, employ premium pricing strategies and frequent new product line introductions. Brands in this group are frequently described as market leaders and/or pioneers (Cullen & Whelan, 1999). Incumbent manufacturers should take advantage of their established brand name and value (Markides, 2009).

For channel members, market power is for instance based on geographical coverage, high volume and low cost structure to make most use of economies of scale (Shervani et al., 2007). Surprisingly, there is little evidence to support a strong relationship between power and dependence in marketing channels (Gaski, 1984).

However, bargaining power of buyers is one of the five competitive forces that shape strategy (Porter, 2008b). Buyer power is the impact that the buyers (channel members) have on the producing industry (manufacturers). Buyer power can be regarded strong if buyers are concentrated or purchase a significant proportion of the produced output (ibid.). Buyer power can be regarded weak if buyers are fragmented (i.e. many, different buyers); the buyers don't have any particular influence on product or price. This appears to be the case for most consumer products, allowing forward integration or a direct marketing channel as a strategic option (ibid.).

Figure 2.7: Model of the five competitive forces that shape strategy (Porter, 2008b)

However, consumer product retailers are becoming larger and thus more powerful (Koehn, 2005). Distribution access to these key retailers becomes critical for a manufacturer's survival: if market share is lost because one of these main retailers, this will have a direct impact on the strategic options open to such manufacturer and will determine a certain course of action (Cullen & Whelan, 1999). On the other hand, although providing extensive choice to the consumer, these large retailers appear to compete mostly on price while service and product knowledge is deteriorating (Frank et al., 2003; Navarro & Ripsam, 2007; Fisher et al., 2007).

2.9 Strategic implications of channel decisions

To have success in any business environment strategy must have continuity, but the environment can change (Porter, 1996). The mix of marketing channels used and their level of integration are factors that need to be adapted to the changing environment. The channel mix is a vital part of a manufacturer's strategic position and it can help to create competitive advantages (Coelho & Easingwood, 2007). Also according to Kotler (2005), marketing channel decisions are among the most important management face.

Porter (1996) describes strategy as the creation of a unique and valuable position, involving different sets of activities. Strategy is about combining those activities into a sustainable and valuable position. The activities need to fit and reinforce one another, become integrated, whereby the whole matters more than any individual part. Product life cycle and industry life cycle are determinants to an integrated strategy (Harrigan, 1983). The benefits of integration overwhelm the advantages of separation (Gulati & Garino, 2000). The entire system of activities, including channel design and channel mix, can create competitive advantage. As the essence of strategic positioning is to choose activities that are different from rivals (Porter, 1996), a manufacturer that chooses to integrate a direct marketing channel into its strategy and channel mix can therefore create an advantage over its rivals, as this is currently not common practice.

Porter (1996) argues that a sustainable strategic position requires trade-offs, which is a result of incompatible activities. Trade-offs occur because of inconsistencies in image or reputation arises from the activities themselves (inability to do something else) and limitations on internal coordination and control. Conventional wisdom within an industry is often strong; the channel member is regarded as the customer, not the end-consumer, with the manufacturer responding to every request from the channel member (Porter, 1996). With this practice, there is no focus on what the real customer - the end-consumer - wants and how this fits with the manufacturer’s reputation.

Managers of manufacturers become focused on meeting tight operational targets, that experimentation that leads to attractive new products, services and processes is often avoided (Rigby & Vishwanath, 2006; Porter, 1996). Operational excellence, however important, is not a strategy (Porter, 1996). Gulati & Garino (2000) also state that the very nature of traditional business (protectiveness over current customers, fear of cannibalisation and general myopia) will smother any new initiative, like a direct marketing channel. However, these new initiatives can improve the competitive position if they are related to the existing business (Markides, 2009).

Manufacturers need to reconnect with strategy and focus on those customers, channels or purchase occasions that are the most profitable. The challenge for a manufacturer is to recover its distinctiveness; standardisation has become commoditised, resulting in low growth and profitability which deteriorates their company value (Rigby & Vishwanath, 2006).

Manufacturers will need to develop and implement a wide range of new strategies to deal with the collapsing value of their existing business, whereby the (marketing) strategies and channel mix will have to reflect changes in consumer behaviour (Clemons, 2007).

Bendix et al. (2001b) have developed a channel conflict strategy matrix. The matrix uses market power and channel value to determine which of four core strategies, *compete, forward integrate, lead* and *cooperate,* can be adopted to determine channel mix strategy.

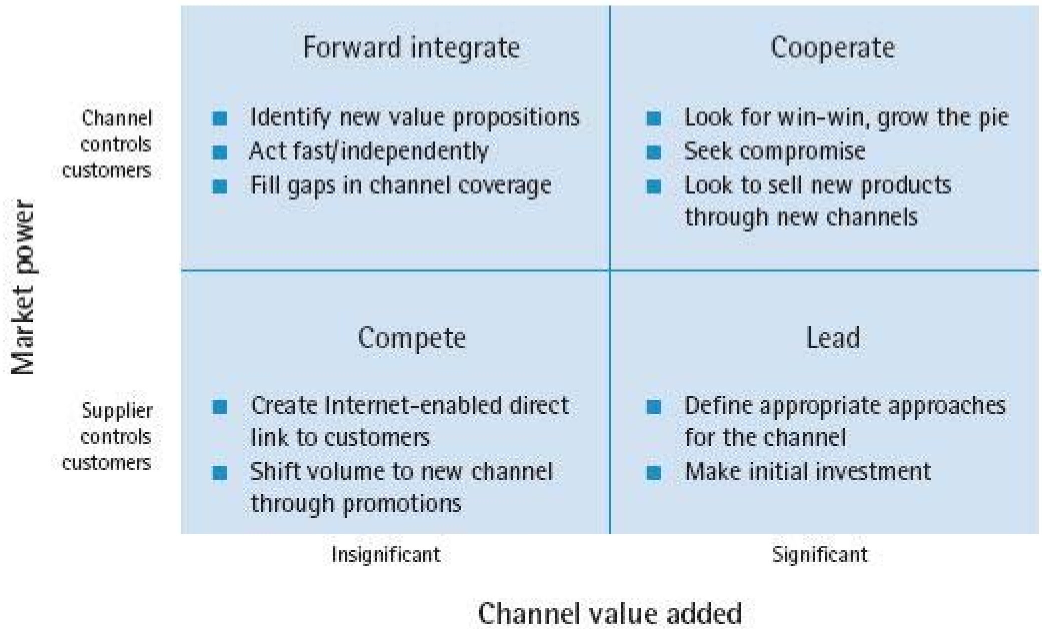


Figure 2.8: Channel conflict strategy matrix (Bendix et al., 2001a)

Competition is a strategy when the channel adds low value and the manufacturer controls the customer, for instance with standardised services like commoditised insurance types or airline tickets.

Forward integration as a strategy is suitable when the channel adds low value, yet hold considerable market power. The manufacturer can then create offerings that are difficult to duplicate by the channel to minimise conflict. A manufacturer can take a *lead* strategy if channel value is high, but market power is low; a result of a fragmented channel. The manufacturer can force change on its channel members.

Cooperation is the strategy to choose when both market value and market power are strong within the channel, the situation which potentially leads to most conflict. Compromises can be found on new customer segments that do not conflict with the traditional channel members, for instance by offering a selection or customisable products in the direct channel (Bendix et al., 2001a).

2.10 Organisational implications

Most manufacturers employ a one-size-fits-all organisation strategy, whereby organisational processes and organisational values are the same for each business unit, with a focus on operational excellence (Christensen & Overdorf, 2000). Markides (2009) and Brown et al. (2006) argue that any organisation or business unit should be organised according to suit what they are doing.

Manufacturers sell their products to channel members, which is therefore a business to business approach, even though they manufacture business to consumer products. A business to business environment has different requirements with regards to procurement, invoicing, systems, support and market approach than a business to consumer environment; selling 1.000 items to 1 business client is not the same as selling 1.000 items to 1.000 consumer clients (Brown et al., 2006; Markides, 2009). Adding a direct marketing channel for a manufacturer has therefore significant organisational implications.

Large companies introduce less change in their marketing channel mix than small companies; increased company size can lead to organisational rigidities (Coelho & Easingwood, 2007). Sophisticated products require a more carefully crafted distribution channel, and this seems to exacerbate the rigidities associated with firm size (ibid.). The phase of the company life cycle, as well as the organisational structure must have an influence on these decisions. An incumbent manufacturer with a global headquarters and sales country organisations is less flexible then a start-up company (Brown et al., 2006). Autonomy to decide on channel mix is the key determinant in that respect.

Preserving the status quo becomes a natural obstacle to adding a new channel; the real issue is not whether a new channel is needed, but how it can be achieved with minimal loss to the traditional base (Cullotta, 2007). The further away the business is strategically developing from its status quo, the more management capacity in terms of change, ingenuity and entrepreneurship is required (Paul, 2010).

Although there are similarities between the physical and virtual worlds, managing a direct marketing channel requires specific skills and knowledge (Bloemendal, 2008). Parting Unilever CMO Mr. Clift has expressed his fear for a' lost generation' of marketers as those over 40 'don't understand and don't dare the Internet' (Bradshaw, 2010). Changes to the channel mix is a matter of resources (Coelho & Easingwood, 2007) and can only be realised with sound backing in terms of management commitment, staff and financial resources (Saleh, 2009). The addition of a direct marketing channel can also create internal conflict regarding allocation of resources, sales and objectives (Cullotta, 2007).

Those companies who will have a cohesive and aligned management team with a clear strategy will be the companies that will survive (Kraus & Pinto, 2009). It is therefore important that the right people are available, those who are not only able to develop an integrated indirect and direct strategy, but who are also capable of implementing and managing this strategy (ibid.).

3 Methodology

This chapter will describe the methodology used in order to answer the research problem and will end with detailed research questions.

3.1 Research methodology

Research methodology determines how the research problem and questions are answered. The methodology consists of research purpose, approach, strategy, data collection and reliability.

3.1.1 Research purpose

Marshall & Rossman (1999) describe the purpose of research as being exploratory, descriptive or explanatory. Exploratory research is used to formulate problems more precisely, establish priorities or clarify concepts. Descriptive research is used to describe characteristics of certain groups, make estimates about behaviour of a proportion of people or make specific predictions. Explanatory research is used to provide evidence of causal relationships between variables.

This Management Project is about clarifying concepts relating to the introduction of a direct marketing channel by a manufacturer. Additionally, the research provides evidence of causal relationships between variables. Therefore the research purpose is both exploratory and explanatory.

3.1.2 Research approach

According to Easterby-Smith et al. (2002), research has a deductive or inductive nature. Deductive research is based on methods from natural science and develops hypotheses on existing theory. Data is collected through surveys, questionnaires or observation. Deductive research develops theory through confirmed or rejected hypothesis and results are generally replicable (Müller, 2007). Inductive research is about understanding a new or unknown phenomenon, whereby the data is collected through for instance interviews. The analysis has a more holistic approach, is about pattern recognition and tends to be subjective. Theory is developed through induction of the collected data. Inductive research is more difficult to replicate (ibid.).

Data collection for research can either be of quantitative or qualitative nature (Easterby-Smith et al., 2002). Quantitative data collection involves measurements, numbers or counts and is most suitable for statistical analysis used within deductive research (ibid.). However, for inductive research qualitative data collection is best used, as there is no statistical analysis required, and thoughts and ideas are gathered through interviews.

Applied research is about (improved) understanding of a particular business or management problem, whereby the findings result in solutions to the problem and are of practical relevance to managers (Easterby-Smith et al., 2002).

The phenomenon of channel conflict has regularly been topic of research (Shervani et al. 2004; Gaski, 1984; Magrath & Hardy, 1989), as well as channel conflict as a result of a direct internet marketing channel (Webb & Hogan, 2002; Goldkuhl, 2005; Coelho & Easingwood, 2007; Tsay & Agrawal, 2004; Wootten, 2003; Cullotta, 2007), although most research on channel conflict is from a retailer’s perspective and not from a manufacturer’s perspective.

There is also research and (academic) literature available about power balance within a marketing channel (Wilkinson, 1973; Gaski, 1984), development and implementation of strategy (Grant, 2008; Porter, 1996; Porter, 2001) and the impact of the Internet on consumer behaviour (Vos, 2009; Molenaar, 2009; Jarvis, 2009; Godin, 2007).

However, none of these studies combine these factors to present a general overview applicable to manufacturers of business to consumer goods. By providing a holistic view on this problem within this Management Project, a practical solution to a business problem is provided. The research approach for this Management Project can therefore be assessed as inductive, qualitative and applied research.

3.1.3 Research strategy

The research strategy used within this Management Project is a result of the research approach. With the research problem as a basis, literature review was performed (see Chapter 2). Based on the gained perspective on various aspects that could be of influence to develop a direct marketing channel, interviews with managers of selected companies were held. The purpose of these interviews has been to confirm developed thinking and gain new insights from the perspectives of managers at business to consumer manufacturers.

The selected companies are Sharp Electronics Netherlands and Fatboy. Sharp Electronics is an incumbent manufacturer of amongst others consumer electronics and domestic appliances and is contemplating a direct marketing channel. The interview was held with the CEO of Sharp Electronics Netherlands. Fatboy, established in 2002, is a manufacturer of lifestyle products. They operate a direct marketing channel since two years. The interview was held with the e-commerce manager of Fatboy. Additionally, the author’s professional experience from his Sony Benelux assignment is used (Tichelaar, 2010).

3.1.4 Research data collection

Qualitative research typically relies on the following methods for gathering information: analysis of existing documents and materials, and a choice of various types of interviews (Müller, 2007).

This Management Project is based upon insights obtained through existing documents and materials which are sources of primary and secondary information. Existing primary information is research material from Blauw Research (2009) provided by Thuiswinkel.org. Secondary information is obtained through academic and management literature, publications, journals and articles and various internet sources.

There are various types of interviews that can be conducted: structured, semi-structured and unstructured (Müller, 2007). A structured interview uses a predetermined sequence of questions which are asked exactly the same way in each interview. An unstructured interview is followed without any predetermined sequence whereby the researcher and interviewee engage in a free and open discussion on the related topic. In a semi-structured interview, there is a predetermined structure and direction, however, it allows for unanticipated questions that were not originally included (ibid.).

The chosen interview style for this Management Project is semi-structured, whereby some questions formed the basis of the discussion, but allowing to veer off into unanticipated directions[7].

3.1.5 Research reliability

Research can be regarded reliable once the observations or measures are consistent or stable (Müller, 2007). In other words, would another researcher obtain similar results? The research approach has been established as

[7] See Appendix B for the base structure of the interviews conducted

inductive research which is subjective by nature and is therefore difficult to replicate (ibid.).

However, this report is based upon a combination of various existing empirical studies and professional experience. Findings and thoughts have been referenced through interviews with key managers. It is therefore legitimate to state that the findings presented in this report are of use and interest to companies who face a similar challenge.

3.2 Objective

The objective of this Management Project is to explore under which circumstances and how a business to consumer manufacturer can create a direct marketing channel. By looking at both the circumstances that are applicable as well as how to implement a direct marketing channel, a pragmatic and holistic view is presented.

3.3 Research questions

In Paragraph 1.4 the research problem has been defined as a two tier issue:

> *Under which circumstances can a direct marketing channel strategy be created by business to consumer manufacturers*?

and

> *How can the created direct marketing channel strategy be successfully implemented?*

Each tier is further developed into research questions.

3.3.1 Research questions relating to the circumstances for creating a direct marketing channel strategy

A circumstance is a condition that accompanies or influences some event or activity (Princeton WordNet, 2010). Conditions that influence a manufacturer's activity regarding development of a direct marketing channel are amongst others channel conflict (Tsay & Agrawal, 2004; Greenberg, 2010; Webb & Hogan, 2002), power position within the channel (Gaski, 1984; Cullotta, 2007) organisational knowledge and structure (Brown et al., 2006), management capacity (Paul, 2010), product portfolio (Wootten, 2003) and the customers (Broekhuizen, 2006; Bloemendal, 2008; Vos, 2009; Molenaar, 2009; Jarvis, 2009; Godin, 2007).
Following the above, the research questions regarding the circumstances under which a direct marketing channel strategy can be developed have been formulated as:

- Is the product portfolio suitable for a direct marketing channel strategy?
- What are end-consumers expectations concerning the manufacturer's product availability?
- How to determine if the (perceived) channel conflict is really harmful to either the manufacturer or the indirect channel?
- What organisational setting is required to develop a direct marketing channel strategy?

3.3.2 Research questions relating to how to implement a direct marketing channel strategy

A strategy can only be considered successful if it is implemented successfully (Grant, 2008). Success is determined by the achievement of the objectives of the strategy (ibid.). Both internal and external stakeholders contribute to obtaining the strategic objective of a direct marketing channel. The following research questions have been formulated to cover internal and external factors:

- What operational consequences need to be overcome?
- Which key factors are required for successful implementation?
- How can the indirect channel members accept a manufacturer’s direct marketing channel initiative?
- How can the impact of a direct marketing channel on the other marketing channels be assessed?

The findings relating to the research questions regarding the circumstances will be presented in Chapter 4 and the findings relating to how to implement will be presented in Chapter 5.

4 Circumstances to develop a direct marketing channel

This chapter starts with a brief background of the manufacturers used as reference, namely Sharp Netherlands, Fatboy and Sony Benelux. The findings from the interviews and the author's professional experience are structured around the research questions relating to the circumstances to develop a direct marketing channel strategy for a manufacturer of business to consumer goods.

4.1 Brief background of the reference manufacturers

4.1.1 Sharp Netherlands

Sharp is a Japanese manufacturer of consumer and business electronics, ranging from televisions to microwaves and photocopiers. Sharp is an established company with a reputation for innovative and high quality products, however their market position in the Netherlands (and Europe) is by far not as prominent as it is in Japan. Sharp Netherlands is a sales and marketing organisation of Sharp Corporation and is contemplating a direct marketing channel. The recorded interview was held with Mr. Van Schuppen, CEO, on 18 June 2010[8].

4.1.2 Fatboy

Fatboy, established in 2002, is a Dutch manufacturer of high quality life style products. Fatboy became renowned for rejuvenating the beanbag into an over-sized, trendy version. Later, they also introduced other life style items, like lamps and pouches. Their products are sold through selected life style, fashion and interior design retailer outlets. Since 2008, Fatboy is operating a direct marketing channel, shop.fatboy.com, where their whole range of products is

[8] See Appendix C for key findings of the Sharp interview.

available. The recorded interview was held with Mr. Lehman, e-commerce manager, on 18 June 2010[9].

4.1.3 Sony Benelux

Sony is a Japanese manufacturer of consumer electronics, ranging from digital still cameras to television sets and game modules. Sony has an excellent reputation for high quality, innovative products. Sony Europe is organised as a matrix organisation, with various product category headquarters with the sales country organisation responsible all the product categories. Since 1999, Sony is operating with a direct marketing channel, www.sonystyle.com, which initially was only for their laptop range and is currently offering all their products. The direct channel is regarded as a separate sales country organisation. The author was accountable for the direct marketing channel of Sony Benelux between January 2008 and February 2009.

4.2 Is the product portfolio suitable for a direct marketing channel strategy?

As reviewed in Paragraph 2.4, the products offered have to be suitable for a direct marketing channel. The product category[10], product type, product portfolio and the product life cycle all are relevant aspects regarding the product suitability for a direct marketing channel.

Sony produces a wide variety of high quality consumer electronics. These types of products enjoy a high level of online orientation (Quadrant B, Figure 2.5). Therefore these products can mostly be regarded as search goods; similar products by other manufacturers are easily compared. In order to be compared, the products need to be offered online. Sony has an extensive product portfolio with over 3.000 products and accessories in its catalogue. Only a small selection of this catalogue is available through the indirect channel; offering the

[9] See Appendix D for key findings of the Fatboy interview.
[10] See Figure 2.5, page 14.

total product range is ideal for a direct channel, enjoying long tail benefits. Almost all products from Sony are available in their direct marketing channel since 2009. Sony regularly introduces products with new technologies, like Blu-ray and eReader, which appeal to early adopters and are at the introduction phase of the product life cycle. However, some of these technologies quickly become commoditised. The majority of Sony's products are in (very) mature, even declining, markets. Combined with the search good characteristics for these products, the market tends to differentiate on price.

Sharp has a divers range of products in consumer electronics and domestic appliances (both in Quadrant B, Figure 2.5). Sharp's television sets are high-end and innovative, either introducing or using the latest technology, and sell at above average price level. Sharp considers its televisions to be experience goods. A specialised retailer can explain the quality and technological difference; according to Sharp it would be difficult to (sufficiently) distinguish their television products in an online environment. Sharp's other consumer and domestic products can be regarded, like Sony, as search goods. Sharp's product portfolio is extensive, but far less in numbers and coherency than Sony's. Not all products are widely available through the indirect channel and their market share differs per product category. As the availability through the indirect channel is limited, offering these products through a direct channel seems to be a feasible option to create awareness. Although the television market is mature, Sharp constantly offers the latest technology, thereby appealing to early adopters. The other consumer products Sharp offers, like music systems, microwaves and mobile air-conditioning, operate in mature, even declining markets.

Fatboy offers life style and fashionable items (Quadrant C, Figure 2.5), which do not (yet) enjoy high online orientation. Fatboy makes experience goods; the customer wants to assess the texture, quality, colour intensity or size of these products, like clothing. Coherent with experience goods, their life style items are not as price sensitive. Fatboy's products are connected through a common concept: remarkable, sustainable and fun products that provoke and lift your spirit, but the products themselves are very diverse and range from beanbags, to dog baskets, lamps, relaxation items and luxurious pouches. Most of the Fatboy products are available in a variety of colours and sizes, making the full range impossible to stock for any indirect channel. As these products are so different and attract different consumers, they cannot be offered in the same type of specialised (life style) shops, therefore their channel mix is divers; it therefore makes sense offering the complete portfolio through a direct channel.

Fatboy has indicated their concern whether the current channel mix suits their product range. Consumers are not necessarily aware of the variety of products Fatboy offers; most consumers only know the beanbag. The combination of the large variety of products as well as the unawareness of their product range make the Fatboy items suitable for a direct marketing channel.

All the manufacturers offer items that in principle have a life span of several years. Products, which can be purchased on a repeat basis, like cartridges or content, are not offered. Sony and Sharp instigate that in their opinion one of the reasons Apple is successful is the availability of a wide collection of music, movies and applications for their products through Apple’s own digital environment.

Sony offers customisation and personalisation options on selected products, like custom build laptops and engraving. This customisation and personalisation is not available through the indirect channel, providing the direct channel with a clear distinction. This distinction provides a justification to ask higher prices than in the indirect channel. Fatboy’s products are fashionable items and thus well suited for customisation or personalisation, however, this feature is not offered. Sharp’s product range appears less suited to customisation and personalisation.

To conclude, the product category, type, life cycle and portfolio are important determinants regarding the circumstances required for a direct marketing channel. Customisation and personalisation provides distinction to the standardised offering of the indirect channel. Availability of repeat business items would be of additional interest[11].

4.3 What are end-consumers expectations concerning the manufacturer's product availability?

Aspects regarding consumer expectations relate to the way the brand, its products and relevant information is presented, as well as providing the purchasing options.

According to the manufacturers subject, consumers expect an inspiring online presence with a direct marketing channel, next to indirect channel availability. Consumers will search for information and purchase where they want and use the channel that best serves their needs. To accommodate those needs, manufacturers are aware they need to present their products online with product features, benefits, product availability and purchasing options.

All three companies have a website that provides information on product and retail outlets. Product information is not linked to stock levels, nor is there a difference made which products are available in which shop. Additionally, product information at Sharp and Sony is mostly about features and specifications, very technical in nature and not inspiring. Sharp regards it difficult to be noticeable and distinguishable in an online environment. While Sony and Fatboy already offer a direct channel, Sharp indicated that it is more a matter of when, not if, they will start with a direct channel. Although consumers want to be engaged and be able to enter into a dialogue with the manufacturer about their products, the current online presence offered by the manufacturers subject is one-dimensional, transmitting information to the consumer, whereby dialogue and communication is limited or unavailable.

[11] See Appendix E for an overview of the presented product portfolios

The three manufacturers all appreciate that the market is very dynamic, with new technologies and interaction becoming available all the time. However, they are rather (slow) followers instead of leaders in creating an online presence and channel mix that matches with the changing environment and their reputation. For the manufacturers, the presence they currently have is considered as participating, which they deem for now as sufficient. However, they do follow the developments of exemplary online retailers, like Pixmania, Amazom and Apple with great interest.

To conclude, the manufacturers acknowledge that consumer behaviour has changed and that at some point they will need to provide what is desired to keep customers engaged with their brand and products.

4.4 How to determine if the (perceived) channel conflict is really harmful to either the manufacturer or the indirect channel?

The concentration of the indirect channel members, their Internet focus and the maturity of the Internet as a channel to add are factors that contribute to potential channel conflict.

As reviewed in Paragraph 2.7, channel conflict is only real if it is monitored and assessed. Although none of the three companies subject has implemented a system that systematically monitors and assesses issues relating to channel conflict, they have experienced related issues.

Fatboy indicated they did not have significant conflict with their indirect channels when they launched the webshop, bar one. Fatboy assumes this is due to the fact that the life style shops are very fragmented not Internet minded.

Although Sharp has no direct channel, they have received concerns from primarily specialised retailers about the existence of direct marketing channels in a general sense. Sharp indicated that the maturity of the Internet as a channel is a factor in why retailers are anxious as some e-tailers fiercely compete just on price. According to Sharp, this price competition from these ‘cowboys’ harms the total market and manufacturer’s brand value. Another point Sharp made is that when indirect channel members themselves start a webshop, they too tend to compete on price to counterbalance the ‘cowboys’. Sharp indicated that the system of discounts and compensation the channel members receive contributes to this price competition. If the initial discount is too high, it allows a retailer to lower the prices, while they still make sufficient margin. However, some manufacturers like Bose and Apple can keep price levels steady by giving a much smaller initial margin and an ‘end of year’ commission based on sales. As long as the Internet appears to be only about price competition, the perception of conflict will exist, also towards the manufacturers, even though the direct channels of Sony and Fatboy only offer their products at their own catalogue prices.

At Sony, channel members raised few issues regarding the direct channel and these were mostly about discrepancies with catalogue prices published online. Sony has issues with other Sony sales countries who sell large volumes of products to traders to meet their local targets, which at the same time floods the other Sony sales country regions. The traders receive a large discount, which is reflected in the price for which they can advertise the products online. This practice is also acknowledged by Sharp as a threat to price level management. Although Sony has procedures and agreements in place, similar to Bose and Apple, to prevent price erosion these are not enforced.

Sharp uses primarily specialised retailers for distributing their televisions, while Sony uses primarily the larger chains for their products. If a conflict would escalate and their brand would no longer be stocked, it would harm Sony’s market share. This to some extend explains their cautious behaviour with regards to their direct channel. On the other hand, the market share of Sony is so significant, not stocking their products would harm the objectives of the channel member. Sony has a high market share in the Netherlands in some of its product categories, for instance 50% in camcorders and 18% in televisions. These products categories contribute highly to the channel member’s objectives. However, over 25% of consumers have a buying intention for a

Sony television, which is significantly higher than the actual market share. The retail channel appears unable to capitalise on the buying intention. Sharp on the other hand benefits from their retail channel, as their actual market share in televisions is higher then the buying intention.

Fatboy has grown to what they are now because of the retail channel specialised in life style products, benefiting from the fact that consumers browse these shops and can experience the products. As margin is high and price is not a differentiator for these products, retailers are pleased to stock Fatboy items. It thus differs per channel member and product whether channel members can add value for the manufacturer.

Another circumstance manufacturers should take into account is whether their current channel mix is reaching all consumer segments desired, or whether a direct marketing channel will indeed reach new markets. Sharp explained that Bose boldly changed their channel mix about ten years ago, with great success. Bose now uses selective distribution for those products that require personal selling, wide distribution for the popular, yet commoditised, products and Internet only for their other products. Both Sharp and Sony could benefit from a similar approach.

To conclude, the manufacturers do not structurally monitor and assess channel conflict. The addition of a direct channel itself has not caused serious conflict. Although a manufacturer’s direct channel does not compete on price, the prices of the Internet channel is reason for concern as that affects their brand value, whereby the manufacturer’s system for discounts and compensation of channel members can contribute to the online price competition. The added value of channel members differs per product and manufacturer; the indirect channel not necessarily adding value. The channel mix should match the product portfolio and consumer segments.

4.5 What organisational setting is required to develop a direct marketing channel strategy?

The corporate structure, strategic focus, autonomy and Internet mindset are factors that determine whether the organisational setting is suitable for a direct marketing channel strategy.

Sony Consumer Electronics has a matrix structure within Europe, whereby a European headquarters is responsible for an entire product line, while various sales countries are responsible for the total portfolio in their region. All European activities have to be approved by Japan. The various Sony business units and sales countries have their own targets, which are unrelated from the other business unit. The direct channel is funded through the various European business units and sales countries, while these do not directly benefit from the direct channel. Sony also offers mobile telephones, game modules and content in the form of games, music and movies, but these are all separate business entities and do not work (seamlessly) together with Sony Consumer Electronics.

At Sony, all effort is focussed on sales derived through the indirect channel. As there is no benefit, management of sales countries does not demand collaboration from their sales and marketing staff to provide assistance to the direct channel. This results in the fact that the direct channel is seen as a separate entity, even as an internal competitor, being a potential hazard to personal bonuses.

Sharp has a similar matrix structure. For Sharp, the mother company decides on the steps and direction regarding any direct marketing channel. Sharp Netherlands would like to experiment with online and integrated channels, but is restricted by the corporate structure and the resources available. According to Sharp, Japan has no interest in direct channel initiatives. Sharp would also like to change their channel mix as Bose has done, but miss the autonomy to do so.

Both Sharp and Sony already exist for a long time and have management systems and layers that have evolved, resulting in a corporate strategy focussed on manufacturing, operational excellence and product development, combined with relative slow decision making processes. Within Sony and Sharp, there are hardly any professionals who have experience with Internet as that has not been a strategic focus.

Top management of Sony and Sharp is of an older generation, who tend to find it difficult to adapt. Fatboy on the other hand is a relatively young company with a less hierarchical management structure. Even though their management does not understand the Internet, they recognise the potential and provide full support. If Fatboy makes a strategic decision, they can realise it relatively quickly. They learn in practice and are not afraid to make mistakes. Fatboy's organisation has an entrepreneurial vibe; if they notice an opportunity or a changing environment, they act on that.

To conclude, the more hierarchical or complex a manufacturer's organisational structure is, the more difficult it appears to provide the structure and resources to adapt to the changing environment and implement or integrate a direct marketing channel in its strategy. The Internet mindedness of top management is another important organisational factor.

5 How to implement a direct marketing channel strategy

In this chapter, findings from the interviews with the reference companies and the author's professional experience are structured around the research questions relating to how to implement a direct marketing channel strategy.

5.1 What operational consequences need to be overcome?

As described in Paragraph 2.10, dealing directly with end-consumers through a direct marketing channel requires different operations for a manufacturer than dealing with indirect channel members. This has implications to the systems used and methods of working.

Generally speaking, through a direct marketing channel, the number of clients served is much larger, while each order processed is much smaller compared to dealing with indirect channel members.

The systems used need to be able to accommodate a direct marketing channel. To be successful, manufacturers need to offer a satisfying customer experience that maximises ease for their customers. Manufacturers have to bring the back-end processes in line with the customer facing elements to provide this satisfying experience. For instance, procedures and systems regarding interdepartmental collaboration, online marketing and content management are activities that need to be adjusted to suit the direct marketing channel. The requirements for speed and accuracy are also different; end-consumers expect an instantaneous and satisfying answer in order to fulfil his service expectancy.

As customisation and personalisation requires individual handling which differs from mass production, this also requires attention if implemented. It has taken Sony two years to add engraving on selected products and customisation of their laptops as an option to their direct channel.

Sony Europe has set up a complete separate business unit: Sony Style Europe. However, Sony Style has to use the same IT system as the manufacturing company. This system lacks the flexibility required to manage a webshop and provide the customer service required. Insight in delivery or payments is difficult to obtain as it takes too much time to be processed in the system. The webshop cannot have features that are generally regarded valuable, like reviews and product ratings, as the system does not facilitate that. As Sony Style is organised as separate business entity, product information and national prices are not shared through the system, but need to be added manually by the Sony Style content management team, potentially resulting in errors.

At Sony Netherlands, information with regards to products and promotions had a focus on the indirect channel, which usually meant that the material provided was not suited for Internet (for instance PDF instead of PSD file formats) and available only last minute. Departments were not working together as there was no common interest or goal. As an example, Apple has their new product online and in the shops just minutes after launch in all the countries applicable.

Fatboy, being a smaller company, has less difficulty to adapt their systems and way of working. Fatboy has changed their IT system to provide the required flexibility for both the direct and the indirect channels used. Fatboy has invested in human resources to facilitate their direct channel, as they realised that consumers have different questions than channel members and that the Internet requires different marketing methods.

Sharp realises the complexity of operating, managing and marketing a direct channel. Sharp fears that a corporate system, like Sony, would not provide sufficient flexibility and that there will be insufficient investment available for continuous development ad resources required.

To conclude, the operational impact should not be underestimated and it takes learning and careful planning to obtain the required flexibility for future developments, manufacturing processes and marketing activities with regards to a direct marketing channel, certainly within larger and complex organisations.

5.2 Which key factors are required for successful implementation?

In Paragraph 2.3, the potential benefit of an integrated strategy has been reviewed. In Paragraphs 2.10 and 5.1, the organisational setting has been addressed to accommodate a direct marketing channel. In Paragraph 2.6, various methods regarding channel conflict have been described.

An integrated strategy, whereby all internal departments and channels work seamlessly together, share information and operate from an end-consumer perspective, is what Fatboy, Sony and Sharp all envisage, however, they find it difficult to accomplish. The manufacturers do not yet treat their direct channel as an extension of their brand and marketing activities. Sony is restricted by it's resources and corporate structure while Fatboy is taking its direct channel one step at the time, allowing it to develop and grow within its organisation. Sony and Fatboy might contemplate integration with their indirect channel, but would do so only when they have the impression the direct channel has sufficiently developed on its own.

Management should make the direct channel objectives part of all department's objectives. Fatboy is attempting to accomplish this by making the direct channel sales part of the objectives of marketing, service and account management. Sony on the other hand does not have business unit transcending objectives, thereby keeping the business units acting as independent entities.

As managing a direct marketing channel requires skills and resources that manufacturing companies not necessarily posses, these skills and resources need to be obtained and/or learned. The organisation needs to get accustomed to how a direct channel affects the organisation, understand the impact on processes, business, marketing and people. The organisation needs to continually monitor, improve and develop the skills, resources and structure required. Fatboy has taken this approach, by incrementally developing the direct channel. Sony has obtained specific knowledge and skills within its Sony Style organisation, however, the inflexible system and limited resources prevents them achieving optimal performance. Additionally, potential internal conflict needs managing, as conflicting objectives between organisational departments can prevent organisational acceptance and integration. Therefore a key success factor is providing the resources, structure and the speed of organisation learning.

Monitoring and measuring various organisational, financial and environmental metrics provides insight in the position and performance of the company and its products as well as the potential of channel conflict. However, measuring alone is not sufficient; performance and conflict should be managed actively based upon these metrics. For Sharp, a key success factor would be to manage the price level of their products. This would require enforcing price systems, not giving too much immediate discount to the channel members and providing additional reward in the bonus structure.

To conclude, an integrated strategy would be regarded as a key success factor, albeit difficult to achieve. This would include making the direct channel objectives part of all departments objectives. Another prerequisite is having the right skills, resources and procedures available. Finally, monitoring and measuring various organisational, financial and environmental metrics by which to actively manage the company’s performance is another key success factor.

5.3 How can the indirect channel members accept a manufacturer’s direct marketing channel initiative?

In Paragraph 2.7, communication about chosen strategy and intention as well as having mutual benefits and goals are indicated as methods to minimise conflict.

Sony and Fatboy’s approach to channel member’s acceptance of the direct channel initiative is by trying not to harm their business and avoid, not manage, conflict. Sony and Fatboy do not actively communicate about their direct channel strategy and intentions with their indirect channel members, therefore

the manufacturers are unaware of the perspective of channel members and who might be interested in some form of cooperation.
Sony Benelux is not actively promoting the direct channel to end-consumers. Fatboy operates the direct channel only in those countries where they are already established to prevent issues entering new markets.

Sony and Fatboy offer all items in their direct channel for their own suggested retail pricing to avoid price competition with the indirect channel. Neither Sony nor Fatboy offer ‘web only’ products, again not to challenge the indirect channel. Although Sony has implemented customisation and personalisation on selected items to differentiate the offering compared to the standard product range, this is also not actively promoted to end-consumers.

The direct channels of Sony and Fatboy are not beneficial to the indirect channel members, nor have they indicated they are contemplating to do so. They have made no arrangements with their channel members to use the full online catalogue, for example as an extension of their stock or as an ordering tool, nor have they made arrangements with (specific) channel members about compensation, pick-up, return or service policies for direct channel purchases.

Sharp would favour an approach whereby the indirect channel would benefit from the direct channel, acting more integrated. However, Sharp is aware that some form of integration with indirect channel members requires systems and procedures regarding compensation and to share and use information which is different to what they currently have available and are accustomed to.

To conclude, by not competing on price, not actively promoting the direct channel and offering personalisation and customisation, manufacturers avoid their channel member’s position instead of working on acceptance through communication and collaboration.

5.4 How can the impact of a direct marketing channel on the other marketing channels be assessed?

Measuring and monitoring channel performance provides insight on how specific channels contribute to the manufacturer's objectives upon which can be acted if necessary. Performance can for instance be indicated by financial results, market share, price erosion and number of disagreements or conflicts. A performance monitor can be used as a benchmark when a direct marketing channel is part of the channel mix of the manufacturer.

The three manufacturers subject measure channel performance, mostly on a year-on-year modus regarding market share, sales and other financial measures. Higher gross margin is regarded as a main reason to get involved with a direct marketing channel. At Sony, the target for gross margin for the direct channel was set at 28%, compared to approximately 10% for the indirect channel. Fatboy has indicated that for them the margin is reasonably similar in either channel. The direct channel contribution to the total revenue is not yet extremely significant; less than 5% for Fatboy, less than 1% for Sony.

Sony monitors the price positioning of their direct channel compared to local (web)shops. However, this monitor is used to discuss lowering the prices in the Sony webshop and not to manage price erosion in the indirect channel. Fatboy has indicated that their product's prices remain reasonably consistent as a result of agreements with channel members and the nature of their products.

Additionally, Sony uses the Net Promoter Score[12] to measure the customer satisfaction of customers who register their product and they are in the process of making this metric an overall performance measure.

[12] Net Promoter Score is both a loyalty metric and a corporate discipline for using customer feedback (Net Promoter Score, 2010).

As indicated in Paragraph 4.4, channel conflict related issues are not systematically monitored and measured by the manufacturers subject, however, doing so would provide insight in how the indirect channel functions and reacts to a direct channel initiative.

To conclude, by monitoring and measuring various aspects of channel performance, including other than purely financial performance metrics such as customer satisfaction, conflicts and price erosion, manufacturers can assess the impact the various channels deployed on their business performance, including the impact of a direct marketing channel on the channel mix.

6 Discussion

This chapter will discuss the findings presented in Chapters 4 and 5 and the literature reviewed in Chapter 2 on how and under which circumstances a direct marketing channel can be implemented by a manufacturer.

6.1 Dealing with channel conflict

The existence of channel conflict is generally undisputed, however, the severity and impact of the conflict on a manufacturer and its channel members can only be established if it is actually measured and monitored, otherwise it remains a perception.

None of the three manufacturers subject in this project measure channel conflict, even though there are methods available (Magrath & Hardy, 1989), thereby accepting the perception of channel conflict as a reality. This finding is coherent with that of Goldkuhl (2005).

By not measuring channel conflict and assessing its reality and impact, it is also not possible to manage conflict. There are various options and methods available to manage conflict, as Cullotta (2007), Bendix (2001a), Bengtsson (2007) and Kotler (2005) have described. However, none of the manufacturers subject in this research actively manage their channel to control potential conflict. The channel design (Magrath & Hardy, 1989) is not used to suit the product portfolio or to manage conflict.

Fatboy hardly experiences channel conflict as their channel mix is predominantly fragmented, which is in line with theory about channel variety (Magrath et al. 1989) and bargaining power of buyers (Porter, 2008b). As a result, Fatboy appears ambiguous about measuring and managing conflict and whether their channel members accept or benefit from the direct channel.

Sony Benelux is using channel conflict as a reason not to provide full support to the direct channel. Their reluctance appears to be more a result of the corporate structure, whereby Sony Style is operated as a separate entity without benefit to the sales countries, while these sales countries have to provide resources for the direct channel. This is in line with findings of Cullotta (2007).

Shervani et al. (2007) indicated that indirect channel members are in the business of acquiring and selling products from manufacturers and will only stock those products that will help them in achieving their financial objectives. The products that the manufacturers subject offer all contribute to achieving those objectives, be because of for instance high market share (Sony camcorders and digital still cameras) or experience goods (Sharp televisions and Fatboy items). It is therefore unlikely that repercussions from the indirect channel will occur, as that will equally harm their own objectives.

Pricing has been established as an important generator of channel conflict by Webb (2002). Competing on price, and not adding value, happens irrespective of channel in mature markets where products have become commoditised and channel density is high, which harms the manufacturer’s brand equity. Therefore, it can be concluded that those indirect channels harm the manufacturer by competing on price. Sony has difficulty maintaining a steady price level for a large part of their product portfolio; as a result of not enforcing their price policy and agreements as well as due to the channel density they operate. This is in line with findings of Magrath & Hardy (1989).

6.2 Product portfolio suitability

The product portfolio is an important determinant with regards to a direct marketing channel. Cullotta (2007) indicated that the product life cycle determines the channel mix as consumer’s needs change with maturity of product portfolio. However, none of the manufacturers adapt their channel mix to the product life cycle. In mature markets, products become commoditised.

This again differentiates products on price and increases online orientation and purchasing. The product category, as presented in Figure 2.5, page 14, (Blauw Research, 2009) is related to maturity of the market and whether the product can be classified as a search or experience good.

Most of Sony's products can be classified as search goods and are subject to price competition; search goods enjoy online orientation and purchasing.
Fatboy on the other hand offers mostly experience goods. This is also a reason Fatboy experiences little conflict: as their products are generally bought in physical stores, their direct channel does not offer a significant threat.
Sharp's product range contains both search and experience goods, but none are offered in a direct channel. Sharp could benefit from a direct channel as their search goods are difficult to find in physical stores as some product range market share is low. Sharp's televisions (experience goods) on the other hand benefit from the indirect channel.

The size of the product portfolio can be regarded as another important determinant for a direct marketing channel. As the indirect channel only has interest in a selection of products that helps them achieve their (financial) objectives, all the other items can benefit from the long tail benefits, as described by Anderson (2004). Additionally, conflict could be minimised if the indirect channel would be able to benefit from this option as an extension of their stock. Sony indeed offers all their consumer electronic products in its direct channel, but does not offer benefits of this catalogue to their indirect channel members. Fatboy is similar in its approach: all products in all varieties are available in their direct channel, but with no benefit to their indirect channel.

Broekhuizen (2006) has indicated repeat business to be suitable for a direct channel. However none of the manufacturers offer products that are suitable for repeat business.

Rigby & Vishwanath (2006) discuss customisation and personalisation to provide distinctiveness to the products. Franke et al. (2009) indicate that with personalisation or customisation consumers are willing to pay premium prices.

However, not all products are suitable to customisation and personalisation. Sony and Fatboy offer (some) products that are very well suited, for instance specific colour combinations or embroidery for the Fatboy beanbags or build to specification Sony laptops. Fatboy does not offer this feature. does offer personalisation and customisation on selected products in its direct channel. Being able to personalise or customise the product offering, means a clear distinction to the indirect channels, which helps to reduce potential conflict.

6.3 Corporate structure

The right corporate structure will provide the flexibility, procedures and resources required to develop and implement a direct marketing strategy.

The lack of change to and integration of the marketing channel mix from Sharp and Sony is coherent with findings of Coelho & Easingwood (2007) about corporate rigidity. The way Sony has organised their direct marketing channel, using the same organisational structure and systems, is coherent with Christensen & Overdorf (2000) regarding a one-size-fits-all organisation strategy instead of adopting the structure that suits the purpose as Brown et al. (2006) and Markides (2009) argue. Incumbent manufacturers tend to have hierarchical and rigid structures which have evolved form a focus on operational excellence.

Additionally, both Sharp Netherlands and Sony Benelux as sales countries have no autonomy on deciding how and when to add a direct marketing channel. The structure is provided through a higher echelon, which may have different interests than the sales countries involved.

Fatboy, being a (much) smaller and younger operation with less rigidity and no complex structure, has the autonomy on strategic decisions and thus has been able to provide the structure and resources required for their direct channel.

The procedures and how they are enforced are additional circumstances relating to the corporate structure. Procedures can relate to amongst others channel agreements regarding compensation, price level management, communication with channel members and internal allocation of sales and resources.

6.4 Ability to adapt to changing environment

Porter (1996) stated that strategy needs to have continuity but needs to be adapted to the changing environment, which affects amongst others the marketing channels used. Coelho & Easingwood (2007) indicated that it is difficult to manage channel mix changes, and Bendix et al. (2001a) indicated that channel design is indeed complicated.

The manufacturers subject in this project acknowledge that the Internet has changed the environment and consumer behaviour, as described by Jarvis (2009), Clemons (2007), Broekhuizen (2006) and Godin (2009). Dealing with a changing environment requires management skills (Cullotta, 2007).

Not only changes in consumer behaviour require adaptation, also change in product life cycle should have an impact on the channel mix employed. Although Sony and Fatboy operate a direct channel, neither has integrated the channel in their core strategy.

Part of an integrated strategy, a direct channel can also be of benefit to the indirect channels, for instance as means of stock extension, or as an extension to provide service. Mutual benefits contribute to acceptance of a direct channel by the channel members.

Corporate structure may also prevent the ability to adapt; however, management is responsible for the strategy and structure of the organisation. The willingness, (corporate) ability and commitment from management to adapt or integrate their channel mix is determined by management capacity.

6.5 Management capacity

A strategy can be developed that provides sustainable competitive advantage, based on added value, distinction and customer focus (Porter, 1996). The channel mix is a vital part of such a strategy (Coelho & Easingwood, 2007); the channel mix and level of integration can be managed to suit the product portfolio, product life cycle, changing environment and consumer behaviour. Changes to the channel mix, however difficult, can be managed (ibid.). Existence and severity of potential channel conflict can be measured (Magrath & Hardy,1989); and conflict can be (pro-actively) managed (Cullotta, 2007).

Implementation and integration of a direct marketing channel strategy requires the resources, structure and flexibility to suit the activity and learn to improve (Coelho & Easingwood, 2007); conditions that management can provide. Measuring, monitoring and developing procedures is one thing; using these tools to manage the organisation is another.

All these factors increase complexity and complicate the management task. The operational impact of an integrated direct marketing channel strategy should not be underestimated and is not easy to realise and accomplish, as illustrated in the following figure:

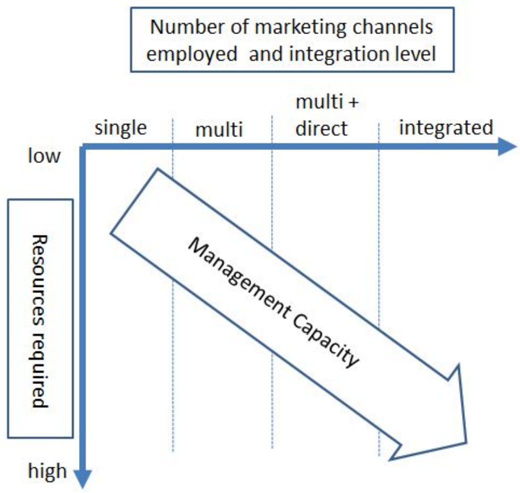


Figure 6.1: Management capacity (adapted from Paul, 2010)

Developing an integrated strategy, integrating the various channels and providing the resources and structure all put pressure on management capacity and commitment. The management capacity required to accomplish this, and not so much the channel conflict phenomenon, might be a more valid reason why incumbent manufacturers are reluctant to get involved with a direct marketing channel.

7 Conclusion and recommendations

This chapter will provide an overall conclusion over the conducted research. The chapter will end with recommendations for future research.

7.1 Conclusion

The focus of this management project has been on how and under which circumstances a manufacturer of consumer goods could develop a direct marketing channel strategy.

Channel conflict can be monitored and assessed to determine whether it is a real threat or a perception and then managed. However, manufacturers subject in this project indicated they do not monitor or manage channel conflict and no indication was provided that adding a direct marketing channel resulted in serious repercussions to the manufacturer.

Therefore, it can be concluded that other circumstances are more determinant for a manufacturer regarding the decision to (not) add a direct marketing channel to its channel mix.

These circumstances are related to the suitability of the product portfolio, the corporate structure and the ability to adapt to the changing environment. If circumstances are favourable, then management capacity and commitment are the important determinants for successful direct marketing or integrated strategy formulation, implementation and providing the resources required.

All aspects relating to the product portfolio are key determinants. The product type, product category, product portfolio and life cycle, as well as the applicability of personalisation and customisation, are important factors to determine if the product portfolio is suitable for a direct marketing channel.

Autonomy to make strategic decisions about adding, and flexibility about integrating, a direct marketing channel in the corporate structure is a prerequisite. Additionally, the presence of flexible (information) systems and procedures and how these procedures are enforced, for instance relating to pricing, are also circumstances relating to corporate structure.

The ability to adapt to the changed environment because of the Internet is another determinant, which is a combination of corporate structure and management capacity.

Specific knowledge and skills are required to operate a direct marketing channel. Instead of operating as an isolated department, the direct marketing channel should be integrated in the organisation and coordinated with the indirect channel. However, doing so will require a different way of thinking by management and the selection and utilisation of right people, systems and resources. The number of marketing channels employed, their integration level as well as providing the resources and structure required, complicates the organisational environment. This all puts additional pressure on management.

Management capacity is required to develop a strategy that suits the manufacturer brand and products. A strategy other than operational excellence, but an integrated strategy based upon added value, distinction and customer focus, where all departments and channels work closely together and are interlinked, providing the options and choice in products, service and channels that the end-customers expects. Management capacity and commitment will ensure persistence on the chosen strategy and the right organisational setting and resources are indeed made available.

> Being able to adapt to the changing environment is a journey for a manufacturer, which requires management capacity and commitment. As Darwin (1859) said, it is not the strongest, but those who are best able to adapt who will survive.

7.2 Recommendations for future research

This report has indicated a number of factors that influence a manufacturer's decision to operate a direct marketing channel next to their existing marketing channels. An obvious extension of this project would be to either test the factors presented in this thesis through quantitative research or establishing other factors that influence a manufacturer's position on a direct marketing channel.

Research on what the consequences would be on the strategic position and competitive advantage if a manufacturer would not introduce a direct marketing channel, would also be interesting topic for future research.

An important determinant indicated is management capacity. This provides the manufacturer the willingness and ability to adapt to the changing environment. Further research could be done on how to assess management capacity and, for example, how a manufacturer's position regarding a direct marketing channel strategy is influenced by the capacity of managers of pre and post Internet generations.

A. APPENDIX: Management Project proposal

University of Bradford Number:	08025917
Name Student:	Roald Tichelaar
Project Title:	Exploring the channel conflict: How can a manufacturer develop a successful direct sales strategy.
Supervisor:	Prof. Christoph Wamser
Company:	Thuiswinkel.org
Planned Submission Date of the Report:	9 September 2010

1 BACKGROUND

As an independent online business consultant, the author was hired for the re-launch of the Sony webshop within the Benelux in 2008. One of the main issues encountered was the resistance of local management to really push forward. Although management proclaimed to be supportive of the direct channel and that it had their strategic focus, in reality they feared the potential conflict with their retail channel.

This became a bizarre position: a global well recognised and appreciated brand as Sony was basically kept hostage by the retailers distributing their products, or at least they acted like they were. This behaviour was not exclusive to the Benelux management; almost the entire Sony Europe structure acted similar.

The position of the retailer has always been necessary and thus quite dominant: they owned the distribution network required for the manufacturers (both product and service) to get their products available to a large customer base.

However, business to consumer manufacturers have also always been looking at ways to deal direct with the end user of their products – the real customers.

This would not only mean potentially higher margins, it is also a way to gain important customer and marketing information.

The internet has had a massive impact on the existing power balance between manufacturer and retailer. Dedicated e-tailers emerged, market and product transparency improved and the reliance on distribution through retailers diminished. Manufacturers got the opportunity to start a direct sales channel with relative little investment and it created fantastic new business models, like customisation and long-tail product portfolios.

Some manufacturers have taken advantage of this new medium, while others consciously have not. Consumer electronics, insurance, travel and tickets, telecom: there are various (successful) initiatives from the manufacturers cutting out the middle man. Some of these initiatives are embraced by the consumers, hence their success, while others are flagging behind.

Not utilising these opportunities by the manufacturers as a result of this channel conflict has intrigued the author ever since.

2 OBJECTIVES

The aim of this management project is to explore under which circumstances and how a business to consumer manufacturer can create a direct sales channel strategy without jeopardising the (necessary?) relationship with its retailers.

3 RESEARCH QUESTIONS

The research will be guided by the following questions and thoughts:

1. Under which circumstances can a direct sales channel strategy be created?
   - 1.1 How can the power balance within the existing channel be shifted?
   - 1.2 Under which circumstances is the (perceived) channel conflict harmful to either the manufacturer or the retailer?
   - 1.3 Is the perceived conflict of any relevance?
   - 1.4 How can the channel accept a manufacturer's direct sales initiative?

2. How can a direct sales channel strategy be implemented successfully?
   - 2.1 Which key strategic factors are required for successful implementation?
   - 2.2 What operational consequences need to be overcome?
   - 2.3 How do consumers fit in the strategy?

4 METHODOLOGY

The objective of the project is to provide some guidance into the development of a direct sales channel within the constraints of an existing distribution network.

The research will be predominantly of qualitative nature. Academic literature, journals, various publications, the internet and trade literature will be used as sources of information. Expert interviews with individuals on either side of the distribution channel, who either are or have been confronted with this problem, will be held. The interviews will be based around the developed insights as a result of the literature research conducted.

The literature review will cover the latest developments on e-business, (dual) strategy, the distribution channel, marketing and brand value, and consumer/shopping behaviour.

The author will have access to research material from Thuiswinkel.org, who regularly conducts research on the position and the use of e-commerce within The Netherlands.

> Thuiswinkel.org is the Dutch organisation that represents all ‘long distance selling’ parties and protects the interests of their customers. Thuiswinkel.org will supervise this project, providing relevant research data, and introductions for interviews if required.

5 DATA SOURCES

Primary information:
• Multichannel research, performed by Blauw Research for Thuiswinkel.org
• Interviews with manufacturers, retailers and experts
• Optional: online survey to obtain feedback on developed insights

Secondary information:
• Publications, amongst others
- Game-changing Strategies (C. Markides, 2009)
- The New Shopping (C. Molenaar, 2009)
- Visionary Marketing (R. Moenaert et al, 2008)
- Marketing Channels (A. Coughlan et al, 2006)
- The Channel Advantage (L. Friedman et al, 1999)

• Theses, amongst others
- Multi channel conflict with internet focus (Goldkuhl, 2005)
- Competitive forces in the retail channel (M. Vos, 2009 (Dutch))
- Bol.com site strategy 2008-2011 (A. Bloemendal, 2008)

• Journals, academic articles, sourced through
- Harvard Business Review
- McKinsey Quartely
- Metalib

• Articles from professional magazines, amongst others
  - Twinkle
  - Emerce

• Internet sources, amongst others
  - Wikipedia
  - Expert blogs

6 ASPECTS OF MBA SYLLABUS USED

The project will involve aspects of the following MBA modules:

• Strategic Management
• Marketing
• Operations Management
• Change Management

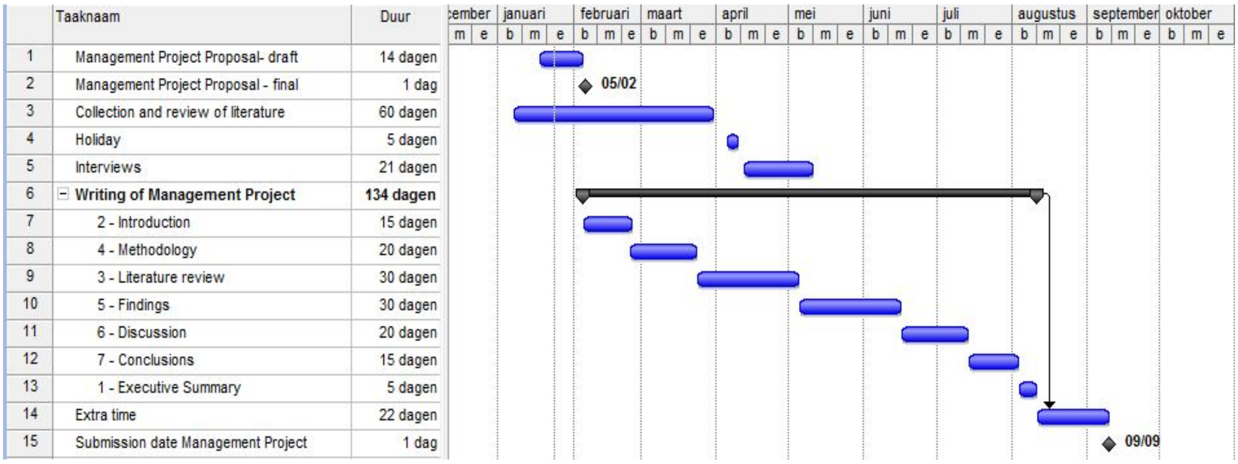
7 PROPOSED CHAPTER HEADINGS AND SUBHEADINGS

• Executive Summary

1. Introduction
   1.1 Introduction to the topic
   1.2 Project background
   1.3 Terms of reference
   1.4 Approach
2. Literature review
   2.1 Scope of review
   2.2 The distribution channel and channel conflict
   2.3 Game-changing strategies
   2.4 E-Business developments and trends
3. Methodology
   3.1 Research Methodology
   3.2 Objectives
   3.3 Research questions

4. Circumstances to create a direct sales channel
5. How to implement a direct sales channel
6. Discussion
7. Conclusions & Recommendations
    7.1 Conclusions
    7.2 Recommendations
- Appendices
- Bibliography

8 WORK PROGRAMME



	Taaknaam	Duur
1	Management Project Proposal- draft	14 dagen
2	Management Project Proposal - final	1 dag
3	Collection and review of literature	60 dagen
4	Holiday	5 dagen
5	Interviews	21 dagen
6	**Writing of Management Project**	**134 dagen**
7	2 - Introduction	15 dagen
8	4 - Methodology	20 dagen
9	3 - Literature review	30 dagen
10	5 - Findings	30 dagen
11	6 - Discussion	20 dagen
12	7 - Conclusions	15 dagen
13	1 - Executive Summary	5 dagen
14	Extra time	22 dagen
15	Submission date Management Project	1 dag

B. APPENDIX: Interview guideline

How can a manufacturer develop a successful direct sales strategy?

Sub questions:

- Which circumstances are required to develop a strategy that can be successful?

- How to implement this developed strategy?

Issues that play a part:

- Channel conflict
  - internal
  - external
- Product and organisation life cycle
- Management commitment and capacity
- Organisational structure and knowledge
- Market developments
- General corporate strategy
- Other?

What have been reasons to (not) get involved?

Is Channel Conflict used as an excuse?

How do you deal with internal conflict, specifically sales?

How do resellers experience the intiative?

Which methods are used to satisfy resellers?

C. APPENDIX: Interview notes Sharp Netherlands

Interview held on 18 June 2010, Sharp Netherlands office (Houten) with CEO Mr. Evert-Jan van Schuppen. Recording (in Dutch) available on request.

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Sharp is innovative, not necessarily commoditised products. Sharp is not a desired brand in the Netherlands. Sharp has a selective product range available, which are high-end and innovative and sell well through independents and trade specialists – these products do not suit direct marketing. Sharp products difficult to differentiate in online environment

Internet channels are owned by 'cowboys' who destroy value – market for our products on the Internet is immature. Expected is that 25% of business will be online. Price should not be the instrument to compete on.

Difficult channel members are buying groups and parallel trade imports (unsold items from other countries dumped here – disrupts the market). Channel conflict: most arguments are not legitimate, but are because of fear or blinkers. Also tension between indirect channels: specialists and large retailers. Traditional retail is also moving towards multi-channel retail, including direct sales – also the small independent and specialist traders

Traditional retail is expensive for what they offer. Bonus structure and other compensation should be altered: reward later, not immediately

Sharp controls distribution through registration of serial numbers: know which item is sold to which retailer. Bought through authorised dealer: registration offers extended warranty (3 years instead of 1) – added value for those dealers

Strategy:
What do we want to be as a brand?
Be a global player or a Japanese manufacturer that sells globally?

In Europe, image brand position is very different then in Japan: there Sharp is AAA brand with 45% market share
Japan does not see Europe as differentiated region. Sharp top management does not care to much about outside Japan – other interests.
Tension between what local countries want and how HQ acts

HQ Organisation:
Mother company would decide e-commerce direction and retail
HQ is afraid it would cost more than it would add revenue
Politics, traditional thinking: company is over 100 years old

Local organisation:
Younger staff: normal to have a direct channel and are surprised Sharp has none; older staff recognise the phenomenon and would understand online activity. Retail chains are getting stronger and depending on their e-commerce developments, develop own shop. Distribution should be strict and enforced – add benefit to your selected partners.
E-commerce: depends on how visible you can make yourself without traditional retail. Sharp is experimenting with closed channel for online sales: what would you encounter. Not trying to invent the wheel yourself, but outsource or work together with established parties. Use of customer data would be very interesting – now database is not used at all. Not if, but when is the question Sharp will start with a direct marketing channel.

D. APPENDIX: Interview notes Fatboy

Interview held on 18 June 2010, Fatboy office (‘s Hertogenbosch) with e-commerce manager Mr. Martijn Lehman. Recording (in Dutch) available on request.

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Fatboy has grown due to retail. Only 2 years ago decided to start with online sales, as a result of declining sales in retail (not only due to the crisis). Retail themselve do not much via Internet.

Now € 17 mio turnover, with € 1 mio in online sales. Margin is similar, not really an advantage because of Internet.

Online because no choice: the consumer asked. Many questions were asked from consumers why no Internet sales. Retail does not offer all products, thus other channels needed. Does the current distribution fit the product? Online fits with Fatboy image. Every manufacturer will start with online sales at some point.

When there is real conflict, then company parts with retailer. Happened in Germany with 1 retailer. Now, no pressure on Fatboy from retailers. Fatboy wants to cooperate with retailers, but they are very traditional and not cooperative or do not see advantage.

Price level is consistent in all channels, and promotions/discounts are monitored closely. Fatboy can cancel the reseller agreement when there are discrepancies. Price is not so much an issue with lifestyle products.

Working on serial number registration system. Copycats are problematic, as relatively simple product.

System is amended to handle small sized shipments. Call Centre activity had to be changed, as consumer has different questions then retailers. Web development, design and online marketing had to be sourced. Implementation went too slow as result is first required. Operational bit loose in the organisation, but part of branding strategy: experience is number 1.

Management lacks experience and knowledge of e-commerce, but they do have commitment and trust in this direction.

Account managers see the advantage; online sales also contributes to their targets.

E. APPENDIX: Product portfolio overview

	Sharp	**Fatboy**	**Sony**
Product category	Consumer electronics - televisions - audio systems - beamers Domestic appliances - portable airconditioning - microwaves - air purifiers	Lifestyle & fashion - beanbags - rugs - hammocks - seats/sofas - lamps - pouches	Consumer Electronics - audio systems - portable audio - laptops - televisions - digital cameras - video cameras - peripherals
Product type	Televisions: Experience goods Rest: Search goods	Experience goods	New innovative items: experience goods Rest: Search goods
Product portfolio	Moderately extensive	Moderately extensive, mostly because of variety in sizes and colours No cohesion between the products except for concept	Very extensive, over 3.000 items, including the accessories.
Product lifecycle	Television: growth Rest: Mature – very mature	Mature	Innovative items: introduction, growth Rest: mature to very mature
Customisation and personalisation	Not applicable	Products suitable, but not offered	Offered on selected items: customisation on laptops; personalisation on camera's and MP3 players
Repeat business	Not applicable	Not applicable	Not applicable, although within the Sony concern there is a wide variety of content available

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