The impact of the internet as a direct sales channel on established distribution channels and the management of channel conflict: an exploratory study in the Taiwanese IT industry

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Abstract

The internet has had a profound effect on communication, entertainment, buying, and selling (Webb 2002) and, in particular, as a distribution channel (Van den Poel and Leunis 1999). Increasingly companies in a variety of industries have established their own online direct sales channels instead of merely relying on conventional intermediaries (Coughlan et al 2006). Hence, multi-channel distribution strategies, combining both off- and online channels are being adopted. Frazier (1999:232) argues: "The utilization of multiple channels of distribution is now becoming the rule rather than the exception". Companies which combine physical and web channels have been referred to as "clicks and mortar," "bricks and clicks," "surf and turf," "cyber-enhanced retailing," or "hybrid e-commerce," (Gulati and Garino 2000; Steinfield et al 2002 a b; Agatz et al 2008; Sharma and Mehrotra 2007). Despite the apparent popularity of internet channels, adding an internet channel to the distribution mix creates potentially significant challenges for channel managers (Webb 2002). A major concern is that by going multi-channel, a firm might face 'channel conflict' between channel members (Sharma and Mehrotra 2007). As Rosenbloom (2007:7) claims: "Perhaps the most significant obstacle to building successful multi-channel strategies is the emergence of conflict between the different channels used for reaching customers".

The main objective in this study is to explore the impact of the internet as being a distribution channel within the multi-channel system. Three research issues which have seldom been discussed in previous literature are explored in this study. These three questions are: Q1: What are the factors encouraging manufacturers to develop the internet channel, especially manufacturers with a well established distribution channel? Q2: What are the channel design patterns of the multi-channel structure? Q3: How can channel conflict arising from the development of the internet channel be minimized? Interview was utilized as a main data collection method in this research. A total of 25 interviews were conducted and the majority of interviewees are managers in Taiwanese IT companies. The main product lines in their firms included wireless equipment, DRAM module, motherboard, and scanner. In addition, a wide range of documents were examined as a secondary data source and compared with data from the interviews.

According to the statements from interviewees, six main factors were identified as encouraging the manufacturer to develop the internet channel. These are: (1) customer information management, (2) retailer management issue, (3) launching a new product, (4) to be a secondary channel, (5) management support, and (6) me-too strategy. Furthermore, it seems that when firms are at the different stages of the product life cycle, managers would design their multi-channel structure into different patterns. In addition, a further two conflict resolution styles, communication and differentiation, were found in the sample of firms studied which have seldom been mentioned in previous research and firms appear to adopt different conflict resolution styles according to stage in the product lifecycle.

Key words: Channel conflict, multi-channel systems, distribution, internet, IT industry, Taiwan

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"Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning." ---- *Sir Winston Churchill, 1942*

Declaration

I declare the thesis is my own work, which has been completed by myself. This work has not been submitted for any other degree or any professional qualification.

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Chapter 1

Introduction

1.1 Introduction

This chapter serves as an introduction to this thesis. The purpose of this thesis is to explore the impact of the internet on established channels in the context of a multi-channel structure, focusing in particular on conflict management from the manufacturers' perspective. This chapter provides an overview of the thesis, its purpose and structure. The chapter begins with an overview of the background to the research, followed by the three research questions guiding the thesis, a short overview of the methodology and ends with an outline of the structure of the thesis.

1.2 Research background

1.2.1 The development of a multi-channel structure

The internet has changed the way people all over the world view communication, entertainment, buying and selling (Webb 2002). The concept that describes this process of buying, selling, or exchanging goods, services and information via computer networks, including the internet, is called electronic commerce or *e-commerce* (Turban et al 2002). The internet is now considered as a new distribution channel (Van den Poel and Leunis 1999). Furthermore, Clemons et al (2003:2) state that "the recent emergence of e-channels offers the possibility of dramatic transformations of the current distribution systems for many goods and services". It means that the internet has a significant impact on the whole distribution channel system. For example, as Hanson (2000) notes, traditional distribution channels, such as a physical retailer, gradually perceive the threat from the online channel. This is because manufacturers now can circumvent intermediaries by using the internet and communicate with end-users directly. Manufacturers have discovered that, with the expanding role of the internet in consumer and business procurement activity, companies can access consumers quicker and easier than before.

More and more enterprises in a variety of industries (e.g., Nike, Estee Lauder, Mattel, Eastman Kodak, IBM, Cisco system, etc.) have recently established their own direct sales channels instead of merely relying on conventional intermediaries (Coughlan et al 2006). These direct channels are frequently being added to an existing distribution mix, hence, multi-channel distribution strategies are being adopted[1]. Companies now can receive orders directly from consumers through the internet while, at the same time, still attempting to maintain the physical distribution channel with the assistance of intermediaries to serve the end customer. Frazier (1999:232) claims that "The utilization of multiple channels of distribution is now becoming the rule rather than the exception". Some electronic commerce researchers call those companies which combine physical and web channels "clicks and mortar," "bricks and clicks," "surf and turf," "cyber-enhanced retailing," or "hybrid e-commerce," (Gulati and Garino 2000; Steinfield et al 2002 a b; Sharma and Mehrotra 2007 ;Agatz et al 2008).

1.2.2   Challenges with the multi-channel structure

E-commerce also introduces potentially significant challenges for the whole distribution channel system (Webb 2002). A major concern is that by developing the multi-channel distribution system, a firm might face 'channel conflict' between channel members (Coelho et al 2003; Coelho and Easingwood 2004; Sharma and Mehrotra 2007). When the same good or service is sold simultaneously in online and offline channels, "The internet is often viewed as an inherently cannibalistic channel" (Coughlan et al 2006:143). In other words, the manufacturer could be regarded as a direct competitor by its channel partners. Steinfield et al (2005) note that channel conflict is a particular challenge for clicks and mortar firms because of a) price competition: end consumers can compare prices across different channels, online and offline, and will ultimately extract the surplus created by lower costs and b) non-excludability: there is no reliable method for manufacturers to segment the market.

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[1] In here, the multiple channels mean the combination of online and offline channel.

"The tendency in developed economies is for manufacturers to add multiple types of channel in the hope of connecting with ever-more-finely segmented consumers. In so doing manufacturers raise the variety of their coverage, though not necessarily its overall level. …... However, consumers may refuse to stay in their expected channels. The result is often cannibalization" (Coughlan et al 2006:142). As a result, it is fairly easy for consumers to switch channels in order to extract the greatest benefit. Besides, free riding happens when one channel member takes advantages from the actions and efforts of a competing channel member without paying for, or sharing the costs, of those efforts (Rangaswamy and Van Bruggen 2005). For example, "this is typically relevant when customers use a salesperson to understand the product but use the cheaper internet channel to buy the product" (Sharma and Mehrotra 2007:23). Hence, channel conflict may be an inevitable issue concerning manufacturers when they adopt a multi-channel strategy.

1.3 Research objective and questions

- **Research objective**

The main objective in this study is to explore the impact of the internet as a direct distribution channel within the multi-channel system. Although the development of multi-channels seems to be a trend (Frazier 1999) and this kind of channel structure might have several advantages[2], conflict issues between channel members seems to be inevitable. How to minimize conflict arising from the development of the internet channel is an emerging research issue that has been suggested by several scholars (i.e. Sharma and Mehrotra 2007; Webb and Lambe 2007). Although channel conflict is not a new concept, the vast majority of previous channel conflict research has addressed conflict between two organizations under a single channel structure and very little empirical research puts emphasis on exploring the issue of conflict in a multi-channel system (Webb and Hogan 2002).

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[2] See section 2.5.2

Furthermore, what are the motivations encouraging manufacturers to development their own internet channel, especially when they have established distribution channels and conflict between channel members is predictable? This issue seems seldom to be mentioned in previous literature. As Coelho and Easingwood (2008:32) claim, "The number of companies using multiple channels in the distribution of each of their products is increasing steadily. Despite this popularity, the drivers of these channel strategies remain virtually unknown". Consequently, after the development of the internet channel, a reasonable prediction is that the original channel structure might be affected to a certain degree. The original channel structure might be redesigned. However, the channel design issue regarding the multi-channel system has seldom been discussed. As Porter (2001:64) notes, "The key question is not whether to deploy internet technology—companies have no choice if they want to stay competitive—but how to develop it".

Hence, this study seeks to investigate the impact of the internet channel on established distribution channels and conflict management from the manufacturers' perspective. The three main research questions in this study are to explore the factors affecting manufacturers' development of a multi-channel structure, how they design a multi-channel system, and how managers resolve any conflict arising from the development of the internet channel.

- **Research questions**

The three research questions therefore are:

1. What are the factors encouraging manufacturers to develop the internet channel, especially manufacturers with a well established distribution channel?
2. What are the channel design patterns of the multi-channel structure?
3. How can channel conflict arising from the development of the internet channel be minimized?

Question (1): Choice of channel represents a long-term commitment (Stern and Reve 1980). Although the multi-channel system has several advantages, it is not

without disadvantages such as channel conflict. Therefore, what are the motivations for manufacturers to develop an internet channel, when they already have a well-established distribution channel? As Rangaswamy and Van Bruggen (2005:7) suggest, "Although many managers are seeking information and insights on multi-channel marketing, few academic studies have been devoted to systematically investigating the drivers and consequences of multi-channel marketing". Following this suggestion, this research seeks to explore the motivations for manufacturers to develop the internet channel in the context of a multi-channel strategy.

Question (2): The design and implement of a multi-channel structure is the second research question. The issue of channel design seems seldom to be discussed in the literature of multi-channel systems. As Hughes (2006) mentions, the structural issues regarding multi-channel systems are ill defined. Steinfield et al (2002 a b) offer a channel design pattern— a synergistic channel structure[3]. This design pattern is based on an assumption that online and offline channels can be cooperative and highly integrated with each other and provide a seamless service to the end customer (Payne and Frow 2004). However, Steinfield et al (2005) agree that this pattern is uncommon. A reasonable prediction is that although several companies might simultaneously have online and offline channels, they might design their channel structure in different patterns. Coelho and Easingwood (2008) predict that several factors such as transaction costs or marketing considerations might influence the pattern of clicks and mortar e-commerce strategies. Several authors (e.g. Steinfield et al 2005; Rosenbloom 2007; Coelho and Easingwood 2008) suggest that more research to explore the design patterns of multi-channel systems and possible influencing factors is necessary.

Question (3): How to resolve conflict arising from the development of the internet channel is the third research question in this research. "Perhaps the most significant obstacle to building successful multi-channel strategies is the emergence of conflict between the different channels used for reaching customers" (Rosenbloom 2007:7). Moreover, "Because the intensity and frequency of channel conflicts continue to

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[3] See figure 2.4 in section 2.5.2.1

increase, channel conflict management is an urgent issue in the e-business era. Since internet channel conflict has not received proportionate focus from researchers, stakeholders are at a loss, since they do not have the know-how to cope with their Internet channel conflicts" (Lee et al 2003:138). It seems that little empirical research discusses conflicts arising from the development of the internet channel and the conflict resolution strategies. This research seeks to offer an empirical base for studies of channel conflict in the multi-channel system.

1.4 The methodology of the research

Webb and Lambe (2007:29) note: "Conflict is a critical concern with multi-channel strategies. While there has been little academic research that examines conflict in a multi-channel context…..there may be important structural differences between the dynamics of single channel and multi-channel conflict". Hence, conflict in the context of a multi-channel system seems to have received relatively limited attention and requires further investigation. When the objective of the research is an exploratory understanding of a new phenomenon or the development of new theory, qualitative research methods of enquiry arguably are more suitable than quantitative research methods (Bryman 2004). According to Ritchie and Lewis (2005:50): "qualitative research can contribute by exploring how the reasons for, or explanations of, phenomena, or their different impacts and consequences, vary between groups". Moreover, the research questions guiding this research are not expressed as precise, testable, closed yes/no propositions or hypotheses, but rather as general broad, open research issues, because channel conflict and conflict resolution occurs in the context of a complex interplay between channel structures, processes and human behaviour and requires rich context-specific data in order to understand the behaviour of firms. Hence, qualitative research, in the form of semi-structured interviews with managers responsible for channel management, was considered appropriate.

A total of twenty five interviews were conducted between June and September 2007. Yin (2003:92) suggests that through the interview "human affairs should be reported and interpreted through the eyes of specific interviewees and well-informed

respondents can provide important insights into a situation". However, some shortcomings of in-depth interviews and semi-structured interviews include inaccuracies due to poor recall and reflexivity; the interviewee responds with what s/he perceives the interviewer wants to hear. In order to minimize the impact of this occurring, multiple interviews were conducted within the same firm with managers at different hierarchical levels (such as senior vice presidents and marketing specialists). In total five firms were included in the study. In addition, a wide range of documents were also carefully examined as a secondary data source to triangulate the data from the interviews.

The majority of interviewees were managers in Taiwanese IT firms whose main product lines range from wireless equipment to DRAM module to motherboard and scanner. Taiwan was selected as a suitable context in which to study channel conflict for several reasons, in particular, due to the lack of research in Asian country contexts. For example, in the organizational behaviour literature, Suppiah and Rose (2006) argue that the majority of conflict management studies represent a Western bias. They suggest that preferences for the adoption of certain conflict resolution styles may be different in Eastern and Western countries. For example, they suggest that in Asia the avoidance style might be more likely to be adopted in order to maintain relational harmony compared with Western countries. Hence, Suppiah and Rose (2006) assert that more empirical research is required in the Asian context.

1.5 The structure of the thesis

The thesis comprises eight chapters. Following this introduction chapter, chapters 2 and 3 are literature review chapters. In chapter 2, different channel design strategies, disintermediation, reintermediation, and multi-channel structure, are reviewed in detail. Channel conflict is discussed in chapter 3, in particular issues concerning the challenge of multi-channel strategy, sources of conflict, and conflict resolution methods are discussed.

Chapter 4 is the methodology chapter and it contains two main parts. For the first part, the three research questions and more detailed justification and explanation are offered. For the second part, the methodology of this study is discussed. The chapter contains a discussion of the choice of research strategy and methods, data collection process, and validity/ reliability of this research.

Chapter 5 is the first of three results chapters, focusing on addressing the first of three research questions. It provides an analysis and discussion of the factors driving manufacturers to develop a multi-channel structure. In this research, six factors were mentioned by the interviewees. These six factors are classified into two broader categories, internal and external. Respondent quotes are used as evidence of the existence of the factors.

Chapter 6 discusses the issue of channel design. In this research, the multi-channel structure seems to take different forms according to the discussions with interviewees. One finding and possible explanation is that when firms are in the different stages of product life cycle, channels, both online and offline would carry out different functions and roles.

Chapter 7 discusses the sources of channel conflict arising from the development of the internet channel and the conflict resolution strategies. There are four conflict sources identified in this research, when the internet channel is developed. In terms of conflict resolution methods, two further resolution methods, communication and differentiation, are identified that have seldom been mentioned in the literature.

Chapter 8, the final chapter, presents the conclusions, implications and suggestions for further research. Particular attention is paid to the research findings and the contribution of the thesis. The limitations of the research are outlined and the thesis ends with a discussion of avenues for further research that build on the insights from this thesis.

Chapter 2

Disintermediation, Reintermediation, and Multi-channel strategy

2.1 Introduction

The internet is considered a new distribution channel (Van den Poel and Leunis 1999). Clemons et al (2003:2) state, "The recent emergence of e-channels offers the possibility of dramatic transformations of the current distribution systems for many goods and services". Hence, it seems that the internet has a significant impact on the whole distribution channel. For example, Hanson (2000) claims that traditional distribution channels such as physical retail outlets are threatened by on-line e-commerce. Furthermore, the original channel system might be modified and designed into different patterns. Based on extant literature, three channel design patterns can be identified (disintermediation (direct sales), reintermediation (indirect sales), and multi-channel), that can be considered by channel managers, when they decide to utilize the internet as a distribution channel.

As mentioned in chapter one, since the research objectives for this study are to explore factors associated with internet channel development, channel design patterns and conflict management, these relevant concepts have to be reviewed and discussed in order to provide an understanding of knowledge in these areas. In other words, the purpose of chapter two and three are to review the literature and the current understanding of the issues concerning channel design motivations, channel design patterns and channel conflict management. At the same time, the author attempts to explore gaps in knowledge and understand where possible contributions can be made to knowledge.

This chapter contains four main areas which are the definition of a marketing channel and an electronic channel, disintermediation, reintermediation and multi-channel structure. Initially, the definition of a marketing channel and an electronic channel is

introduced. Next, the concept of disintermediation is discussed and the motivations for manufacturers to conduct a disintermediation strategy are explained. Consequently, the different attitudes toward a disintermediation strategy are described and the opposite concept, reintermediation, is introduced. Finally, an alternative channel structure, bricks and clicks, is explained.

2.2 Definitions of marketing channels

Before reviewing the literature, it is necessary to define the key terms used throughout the thesis. This section contains definitions of two kinds of channel: the physical and electronic channels. The definition of a marketing channel usually refers to the external contractual organizations (Rosenbloom 2004) such as warehouses and retailers. They are physically external companies. The emergence of the internet seems to modify the definition of the marketing channel slightly. Now the marketing channel contains two categories. The traditional intermediary (i.e. retailer store) is defined as the physical channel and the internet channel is defined as the electronic channel.

2.2.1 Definition of physical channel

Based on the definition provided by Coughlan et al (2006), in this research, a physical marketing channel is defined as:

> *"A set of interdependent organizations involved in the process of making a product or service available for use or consumption"* (Coughlan et al 2006:2).

In other words, running a marketing channel is a process and the marketing channel exists as a means "to make the right quantities of the right product or service available at the right place, at the right time" (Pitt et al 1999:19). Furthermore, the marketing channel is a set of interdependent organizations such as manufacturers, wholesalers, and retailers and typically, a marketing channel is not just one firm doing its best in the market (Rosenbloom 2004). Each channel member relies on the others to perform their jobs (Coughlan et al 2006). Meanwhile each channel partner

has to operate as a whole integrated system in order to attain efficiency and to compete effectively against rival systems (Rosenberg and Stern 1971).

2.2.2 Definition of electronic channel

Based on Roesnbloom (2004) the definition of the electronic channel is:

> *"The use of the internet to make products and services available so that the target market with access to computers or other enabling technologies can shop and complete the transaction for purchase via interactive electronic means"* (Rosenbloom 2004:436)

It is clear that technology, particularly as it relates to the computers and the internet, has already has a major impact on the design and management of marketing channels (Malone et al 1989; Evans and Wurster 1997; Kiang and Chi 2001; Webb 2002; Friedman and Furey 2003; Rosenbloom 2004). As Kiang and Chi (2001:157) mention, "The phenomenal growth of the internet has begun to alter the way buyers and sellers exchange information and the structure of distribution. It breaks through the physical barriers traditionally placed on commerce and moves firms to a new commercial marketplace". In other words, the internet is considered not only a communication tool but also a sales channel, in particular an electronic sales channel (Pitt et al 1999) and furthermore, a virtual marketplace is created. The concept that describes this process of buying, selling, or exchanging goods, services and information via the virtual marketplace using the internet, is called electronic commerce or, more popularly, *e-commerce* (Turban et al 2002).

To compare with the traditional (physical) channel, one special characteristic of the electronic channel is that the electronic channel is particularly good at information transmission (Malone et al 1987 1989; Evans and Wurster 1997). Strauss et al (2006) explain that with the assistance of digital technologies, data can be stored and transmitted in digital formats (1s and 0s) through the internet and the effectiveness and efficiency of information transmission has been improved significantly.

2.3 Direct sales and disintermediation

As is the case with direct sales, a variety of terms has been used to describe sales that are not made through retail stores. Such terms as mail-order-selling, direct-mail sales, catalog sales, telemarketing and even sales people from suppliers have been widely used. In this research, the direct sales strategy focuses on the internet channel. In this research, the direct sales strategy means that manufacturers utilize the internet as a direct sales channel to contact with the end customers.

2.3.1 The direct sales strategy (with a focus on the internet channel)

With the improvement of IT infrastructure and the popularity of high-speed broadband, it is possible that the internet has the capacity to link producers and final customers directly to each other electronically (Kiang and Chi 2001; Rosenbloom 2004). Manufacturers now can have the ability to communicate with end-users directly and try to sell directly to end customers. For example, more and more enterprises in a variety of industries (e.g. Nike, Estee Lauder, Mattel, Eastman Kodak, IBM, Cisco system, etc.) have established their own online channel (Coughlan et al 2006).Two more examples in the IT industry are Dell and Compaq. Dell established its direct sales channel in 1994 (Kraemer and Dedrick 2001) and Compaq also added its internet channel in 1999 (Mohr et al 2005).

Furthermore, manufacturers might have reconsidered whether intermediaries are necessary or not. Some early studies (i.e. Malone et al 1987 1989; Benjamin and Wigand 1995; Evans and Wurster 1997; Wigand 1997) predicted the dissolution of the role of the middleman as inefficiencies are purged from traditional markets through technological development and a concept, involving the elimination of the intermediary - disintermediation, was put forward. Jallat and Capek (2001:55) describe that "in the context of the web, disintermediation has come to signify the disappearance of a wide variety of middlemen or intermediaries, and the creation of an enhanced sales network in which customers deal directly with service providers".

2.3.2 The main benefit for manufacturers to conduct a disintermediation strategy

The quick developments of online computing technology make it inevitable for a large number of firms to seriously consider the internet as a distribution channel to avoid losing competitive advantages (Kiang and Chi 2001). Several previous studies mention the advantages for a company to develop their own direct channel (the internet channel) and the possibility to eliminate traditional channel partners. For example, removing intermediaries can progress supply chain efficiency such as by allowing upstream suppliers better visibility of market demand, to differentiate and compete on the basis of reduced error, and increasing richness of the product offering (Evans and Wurster 1997). Furthermore, "because internet access is not limited by any physical boundary and is available 24 hours a day, it allows companies to provide convenient access to a broader customer base." (Kiang et al 2000:386). Moreover, cost reduction seems to be the most attractive benefit for manufacturers to conduct a disintermediation strategy.

2.3.2.1. Reduced costs

According to previous studies, the chief justification for moving to the virtual channel is to retain competitiveness of the company through cost reductions (Simpson et al 2001). For example, research conducted by Garicano and Kaplan (2001), within an internet-based car auction company, showed that 40 % of the economic transaction costs can be saved when the company utilizes the internet channel to conduct online auctions. Based on previous literature, with the assistance of internet technology, costs can be reduced because of efficient information transmission and bypassing intermediaries.

A. Transmitting information electronically

In theory, the adoption of an electronic channel could reduce sales and distribution costs because the internet enables information transmission more efficiently than

through a conventional channel (Rosenbloom 2004). Gurry (1999) offers an example (Table 2.1). When a document containing 42 pages is sent from New York to Tokyo, through the internet information can be transmitted in just 2 minutes, whereas airmail takes 5 days.

Table 2.1: Sending a 42 page document from New York to Tokyo

	US$	*Time*
Airmail	7.4	5 days
Courier	26.25	24 hrs
Fax	28.83	31 minutes
Internet email	0.1	2 minutes

Source: Gurry (1999)

Another example is research conducted by Brynjolfsson and Smith (2000) comparing the price of books and CDs from both Internet and conventional retail outlets. They discovered that with the development of digital technology, online price adjustments can be conducted quicker and cheaper because information about prices can be presented online electronically. In conventional outlets, menu costs (to put a price tag on products) are driven by the cost of physically re-labelling the prices of goods on store shelves. In their research, Brynjolfsson and Smith (2000) note that internet retailers' price adjustments over time are up to 100 times smaller than conventional retailers' price adjustments, presumably reflecting lower menu costs in internet channels. The smallest observed price change on the internet was $0.01 while the smallest observed price change by a conventional retailer was $0.35. It seems that smaller menu costs may allow internet retailers to more efficiently adjust their prices to structural changes in the market.

Another project conducted by Daniel and Klimis (1999) in the financial services area offers a similar result. Through interviews with several managers in financial services, the interviewees expressed their high expectation to offer their online services for some relative simple products such as opening an online account, current account transaction, or selling some relative simple insurance in order to reduce the cost incurred by the information transmission process.

Several early enthusiasts (i.e. Malone et al 1987 1989; Benjamin and Wigand 1995; Evans and Wurster 1997) of electronic commerce predicted the decline in importance of conventional marketing intermediaries, especially for products that merely require simple and standardized descriptions. A case study of the tourism industry in South Africa conducted by Wynne et al (2001) mentions that the intermediary in the tourism industry has been threatened seriously by the development of the internet channel. As a result of the provision of information, reservation arrangements and searching for destinations are all activities that can be done far more efficiently through the virtual channel rather than through the physical channel. As Wigand (1997:3) states, "Advances in information technology allow for more information to be communicated in the same unit of time, thus reducing transaction costs". In other words, information between buyers and sellers can be transmitted electronically and with almost zero cost (Evans and Wurster 1997).

B. Bypassing intermediaries

Cost can be reduced by bypassing intermediaries. An example of a tangible product is mentioned by Benjamin and Wigand (1995). As illustrated by Benjamin and Wigand (1995), in the high quality shirts market (Figure 2.1), it would be possible to decrease the retail price by almost sixty-two percent, if intermediaries such as wholesalers and retailers could be eliminated from the traditional value chain. "As each element of the industry value chain is bypassed, a physical distribution link and related inventory carrying cost will be eliminated" (Benjamin and Wigand 1995:70) and manufacturers will surely try to retain a portion of these savings.

Obviously, the margins normally given to traditional intermediaries would now remain within the manufacturer (Tamilia et al 2002). Furthermore, Rosenbloom(2004) explains that if the adoption of the internet as a distribution channel enables a company to centralize its inventory in a single location from which it can process and ship orders at lower cost than by spreading its inventory out in numerous retail store locations, then it is true that the cost of distribution will be reduced by adopting the electronic marketing channel.

Figure 2.1: Value-Added chains in the Shirt industry

Three Variants

					Cost per Shirt	Percent Savings
1	Producer → Wholesaler → Retailer → Consumer *				$52.72	0%
2	Producer → Wholesaler → Retailer → Consumer *				$41.34	28%
3	Producer → Wholesaler Retailer → Consumer *				$20.45	62%
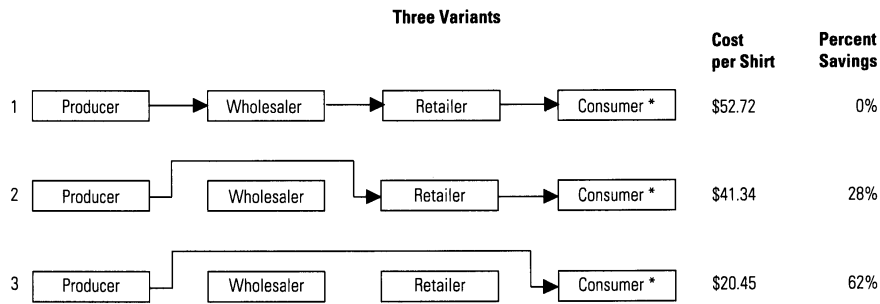
Growth in Value Added and Selling Price

	Producer	Wholesaler	Retailer	Consumer *
Value Added	$20.45	$11.36	$20.91	
Selling Price	$20.45	$31.81	$52.72	$52.72

Source: Benjamin and Wigand (1995:67)

Taking Dell as an example, the internet provides Dell with a method for extending the reach and scope of its direct sales business model at a relatively low marginal cost. According to Kraemer and Dedrick (2001), Dell's business has been built on direct sales and build-to-order strategy for manufacturing and selling PCs. Unlike other competitors, they do not have to maintain a physical store and in theory, inventory volume can be kept low[4]. In addition, by selling online, a manufacturers' web site can offer more product selection than any physical store. At the same time, storage costs and fees for maintaining or renting physical stores can be reduced (Kiang and Chi 2001). As Evans and Wurster (1997:74) claim , "Where once a sales force, a system of branches, a printing press, a chain of stores, or a delivery fleet served as formidable barriers to entry because they took years and heavy investment to build, in this new world, they could suddenly become expensive liabilities".

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[4] However, Dell changed its direct sales model in 2007 and began to cooperate with intermediaries such as Best Buy and Wal-Mart.

2.3.3 Summary of direct sales and disintermediation

The development of internet technology enables manufacturers to contact end customers directly. It seems that it is possible to bypass several levels of channel partners. Some academics have predicted the dissolution of the role of the middleman as inefficiencies are purged from traditional channels through technological development. The concept of disintermediation, elimination of the intermediary, has been discussed. The chief justification for moving to the internet seems to be to retain competitiveness of the company thorough cost reductions. When information can be transmitted and stored in digital format, information can be sent electronically and with almost zero cost between buyers and sellers. Furthermore, since manufacturers have the ability to contact end customers, it has been suggested that the intermediary can be bypassed and, therefore, the cost of inventory and maintaining physical stores can be reduced.

2.4 Indirect sales and reintermediation

2.4.1 An alternative view of direct sales and disintermediation

"The internet was supposed to bring manufacturers into direct contact with end customers in a ruthlessly efficient world that left no room for middlemen but the opposite is occurring. Companies discovered it is not so easy to do everything alone and a middleman is still needed" (Anderson and Anderson 2002:53).

Several scholars have different attitudes toward disintermediation (i.e. Bailey and Bakos 1997; Bakos 1998; Chircu and Kauffman 2000; Jallat and Capek2001; Anderson and Anderson 2002; Gallaugher 2002). For example, as Lee and Shu (2005) note, to establish a distribution channel requires significant investment and continuing management. It might not be easy for the manufacturer to end the relationship with their traditional channel partners suddenly. Moreover, when channel members are eliminated from the channel, the channel functions they perform have to be shifted either forward or backward in the channel (Coughlan et al 2006).

Nevertheless, efficient distribution is a totally different area compared to production and the required know-how and experience may not easily be acquired by manufacturers (Alba et al 1997).

For example, intermediaries perform a number of channel functions that are not easily duplicable by manufacturers, such as holding inventory immediately available when customers want it, providing assortments that allow one-stop shopping, providing services, including personal assistance, dressing rooms, repair services and return services (Cespedes and Corey 1990;Alba et al 1997; Gallaugher 2002; Tsay and Agrawal 2004a). In other words, it seems that several channel functions carried out by traditional intermediaries may not be replaced by the internet channel totally.

Some scholars (Bailey and Bakos 1997; Bakos 1998; Palvia and Vemuri 1999; Kiang et al 2000; Tamilia et al 2002; Rosenbloom 2004) utilize a function analysis to present a different view toward the disintermediation strategy. The following sections therefore, discuss the channel functions traditionally performed by physical intermediaries.

2.4.2 The functions of a marketing channel

"The obvious reason to eliminate a channel member from a channel is that the function performed by that channel member can be handled as efficiently and at least cheaply by other channel members" (Coughlan et al 2006:13). Jallat and Capek (2001:55) suggest that "understanding the impact of e-commerce on intermediaries requires an analysis of how the role and function of traditional economic actors are being reformulated and rebuilt". In this section, the channel function is explained briefly.

Mallen (1973:19), in a classic article, provided the following definition: "Marketing functions are the various types of job tasks which channel members undertake. Meanwhile, should one or more channel members (or potential members) see an opportunity to change the functional mix of the channel in order to increase his

profits, he will attempt to do so". Therefore, channel functions are the service that intermediaries perform and provide to the end customers. If suppliers consider that some functions can be carried out more efficiently by other types of intermediary, suppliers will redesign the channel structure (Rangan et al 1992).

Different scholars utilize different words to describe the channel function. For example, Bailey and Bakos (1997) utilize "role of market intermediary" while Bakos (1998), Peterson et al (1997), and Jallat and Capek (2001) utilize "functions of marketing channel". In addition, Rosenbloom (2004) and Couglan et al (2006) adopt "marketing flows" instead of channel function. Stern et al (1996:10) define marketing flows as "a set of functions performed in a sequence by channel members". Besides, in previous literature, different authors mention different numbers of channel functions and different taxonomies are provided (Table 2.2). For example, Vaile et al (1952:113) mentioned eight different channel functions and fifty years later, Couglan et al (2006) still adopt this taxonomy. However, Rosenbloom (2004) also follows the concept provided by Vaile et al (1951) while there is a slight modification and five kinds of channel functions are mentioned. It seems that different authors have different interpretations and there is not a strict taxonomy to the number of channel functions. Through an interpretation from previous literature, in this study, channel functions can be classified into five categories: product flow, information provision, aggregation, promotion, and risk taking.

Table 2.2: Channel functions identified from previous literature

Authors	Number of channel function	Channel functions	Type of literature
Vaile et al (1951)	8	Physical possession; Ownership; Promotion; Negotiation; Financing; Risk; Ordering; Payment	Book
Cespedes and Corey (1990)	3	Demand generation; Physical distribution; after-sales service	Empirical research
Rangan et al (1992)	8	Product information; Product customization; Product quality assurance; Lot size; Assortment; Availability; After-sales service; Logistics	Empirical research
Sarkar et al (1995)	10	Search and evaluation; Need assessment and product matching; Customer risk management; Product distribution; Product information dissemination; Purchase influence; Provision of customer information; Producer risk management; Transaction economies of scale; Integration of customer and producer needs	Conceptual article
Bailey and Bakos (1997)	4	Aggregation; Trust; Facilitation; Matching	Empirical research
Peterson et al (1997)	3	Transaction; Distribution; Communication	Conceptual article
Bakos (1998)	4	Aggregation; Pricing; Search; Trust	Conceptual article
Palvia and Vemuri (1999)	5	Communication, coordination and exchange costs; assortment of products; warehousing and distribution; financing and risk sharing; product promotions	Conceptual article
Kiang et al (2000)	4	Based on Rangan (1992) and doing a modification--- Product customization; availability; logistics; transaction complexity	Conceptual article
Jantan et al (2003)	3	Functions for customers; functions for producers; function for both	Empirical research
Rosenbloom (2004)	5	Product flow; Negotiation; Ownership; Information; Promotion	Book
Coughlan et al (2006)	8	Physical possession; Ownership; Promotion; Negotiation; Financing; Risk; Ordering; Payment	Book

A. Product flow

This kind of function refers to the actual physical movement of the product from the producers through all of the channel partners who take physical possession of the product, from its point of product to final consumers (Cespedes and Corey 1990;

Palvia and Vemuri 1999; Rosenbloom 2004). As Sarkar et al (1995) note, a large number of intermediaries play an important role in the production, packing, and distribution of goods. In other words, it refers to the actual delivery of tangible or intangible goods or service to end customers (Görsch and Pedersen 2000).

In a conceptual article, Peterson et al (1997) classify products and services into two categories which are tangible/physical and intangible/informational. They mention that for the tangible/physical product such as soft drink, cigarettes, or automobiles it is still necessary to rely on the physical intermediary to conduct the functions of product flow. In a case study of Ducati, a motorcycle manufacturer in Italy with both online and offline channels, Jelassi and Leenen (2001) note that their interviewees argue that the assistance from intermediaries to distribute motorcycles is still necessary. Therefore, when a manufacturer chooses or eliminates a channel member, they have to consider the issue of product distribution within the channel as well as the method through which the end consumers obtain the product (Coughlan et al 2006).

B. Information provision

Information flows occur in two directions. One direction is from suppliers to end customers. The other direction is from end customers to suppliers. The intermediary exists as a middleman.

From suppliers to end customers, Sarkar et al (1995) note that one of the classic channel functions provided by intermediaries relates to informing customers about the existence and characteristics of products. This is because intermediaries are repositories of information and the intermediary can make information more accessible to consumers (Bakos 1998).This channel function is confirmed by empirical research conducted by Rangan et al (1992) within a fiber manufacturer and a survey of thirteen different companies conducted by Bailey and Bakos (1997). As Rangan et al (1992) mention, customers usually seek product information during the purchase process, especially when products are new and technically complex and

have a rapidly changing technological component. In this context, intermediaries can provide this service.

Bailey and Bakos (1997) express similar statements and mention that information exchange between manufacturers and end customers is costly, especially when it involves implicit or specific knowledge that cannot easily be articulated. In the business to business context, manufacturers might use direct sales people to carry out this function (Rangan 1992) while in the business to customer context, it is difficult for computer or other high-tech companies to distribute information about new products to all their customers (Mohr et al 2005).In these instances, the well-trained intermediary can facilitate the flow of information by coordinating the process and translating information that is sent between the manufacturers and end customers (Bailey and Bakos 1997).

The intermediary also plays an important role in transferring information from end customers to manufacturers. For example, customer information, which is also collected by intermediaries and transferred to suppliers, is used by producers to evaluate new products and plan production of existing products (Sarkar et al 1995). As Rosenbloom (2004) mentions, all channel members participate in the exchange of information and the flow can be either up or down.

C. Aggregation (Assortment of products)

Aggregation means that the intermediary can aggregate suppliers, end customers, and products into the same location. "Middlemen, especially retailers, by carrying a variety of products, provide consumers with convenience in shopping" (Palvia and Vemuri 1999:121). In other words, intermediaries can assist end customers to consume a combination of channel services and products that are attractive to them.

It seems that the process of searching is characterized by uncertainty on the part of both end-users and sellers. End users are uncertain about where to find the products or services they want while suppliers are uncertain how to reach target end-users. Jallat and Capek (2001) suggest that compared with a situation in which each end

consumer has to find a direct source of goods and each manufacturer has to sell products directly to individual customers, the aggregated demand of buyers by a single intermediary or the aggregation of several suppliers by an intermediary is a better alternative. Both suppliers and buyers can reduce search costs (Bakos 1998).

Customers might require a broad range of products and require one-stop shopping (Rangan et al 1992) to compare prices and product features at the same time. For example, a customer might desire to compare a variety of different brands of televisions in an electronic "superstore". A manufacturer that typically produces a large quantity of a limited variety of goods cannot achieve this demand. By building up an assortment of products in one store, intermediaries can provide this channel function. As Coughlan et al (2006) note, by aggregating a variety of suppliers in a physical store, retailers can offer a broader product assortment for their customers compared with a single manufacturer. In an empirical study, Rangan et al (1992) reveal that customers are usually looking for indirect channels when they have broad assortment requirements.

D. Promotion

Promotion refers to the flow of persuasive communication from suppliers to buyers (Rosenbloom 2004). In other words, promotion refers to "developing and spreading persuasive communications about an offer" (Kotler et al 2005:860). As Sarkar et al (1995:7) mention, "Ultimately producers are not interested only in providing information for consumers; they are interested in selling products. Thus, in addition to information services, producers also value services related to influencing consumer purchase choices". Promotion activities can take many forms (Vaile et al 1952) and might include entities outside the channel (push promotion) such as advertising agencies and media, both broadcast and print (Peterson et al 1997). On the other hand, promotion activities might be an activity conducted by channel members (pull promotion) (Palvia and Vemuri 1999).

Sometimes, promotion refers to the education of end customers by intermediaries. In a survey of sixty-three distributors, Jantan et al (2003) mention that intermediaries take on the role of educating customers and, in their research, no statistically significant evidence illustrates that this function would be replaced by any direct channel. Coughlan et al (2006) note that the purposes of these promotional activities are not only to transfer product information but also to increase awareness of the product being sold and to educate consumers about the products' features and characteristics when the product is complex. Moreover, the promotional effort through channel members is also useful to increase the overall brand awareness and equity of the product, which could increase sales in the future.

E. Risk taking

In this section, risk taking can be further divided into two sub-groups which include holding inventory and providing after sales service.

- **Holding inventory**

Inventory refers to a list of goods and materials, or those goods and materials themselves, held available in stock by a business. (Coughlan et al 2006). As Rangan et al (1992) mentioned, sometimes uncertain demand comes from customers and therefore, suppliers need the cooperation of intermediaries to carry a buffer inventory. Sarkar et al (1995) describe this function, holding inventory, as a kind of risk management service provided by intermediaries. Indeed, in an early article discussing channel structure design, Bucklin (1965:27) argued that "from the point of view of the distribution channel, the creation of inventories for holding goods before they are sold is the physical activity which shifts risk and uncertainty. Such inventories serve to move risk away from those institutions which supply, or are supplied by, the inventory".

It might be explained that, for a large number of manufacturers, they are benefiting from making a long product run because of economies of scale while at the same

time, the cost of carrying inventory such as storage, pilferage, and obsolescence is significant. It would be a risk for the cash flow. Therefore, suppliers might desire to transfer the inventory cost to some channel partners such as warehouses or retailers as a means of risk diversification (Coughlan et al 2006). Meanwhile, by transferring inventory a better cash flow can be obtained. Stern et al (1996) note that at any time inventories are held by one member of the channel system, a financing assistance operation is under way. For example, when a wholesaler takes a portion of the output from a manufacturer, the wholesaler is financing the manufacturer (Palvia and Vemuri 1999) indirectly. Moreover, if cash flow were not tied up in inventory, a manufacturer would be able to invest this fund elsewhere. Therefore, Rosenbloom (2004) mentions that maintaining an adequate level of inventory is a major indicator of channel member performance.

- **Providing after sales service**

Furthermore, in order to provide efficient post-sales service (including the servicing of routine repurchase orders as well as technical field service) (Cespedes and Corey 1990) and other customer risk management activities such as product maintenance or returns, the cooperation of intermediaries is necessary (Sarkar et al 1995; Coughlan et al 2006). This is because customers do not always have perfect information and, therefore, it is likely that they do not purchase products that meet their requirements (Sarkar et al 1995). As Rangan et al (1992) note, customers require services such as installation, repair, maintenance, and warranty. Furthermore, customers usually seek an intermediary to support their after-sales service requirement because the immediate contact and assistance can be obtained. In addition, Friedman and Furey (2003) note that manufacturers, especially those selling in high volumes across a broad territory require local partners to provide relevant product support because a manufacturer cannot establish their service centres everywhere around the world.

2.4.3 The main criticism of disintermediation

With the development of digital technology, some authors (Sarkar et al 1995; Peterson et al 1997; Palvia and Vemuri 1999) agree that the internet channel benefits from the main advantage of the channel function, information provision, however, the disintermediation strategy is not without its shortcomings. For example, in a survey conducted in the US, Devaraj et al (2006: 1093) confirm that "Security and reliability concerns are considered by many customers as the most important obstacles to online shopping". Moreover, using functional analysis, Palvia and Vemuri (1999) suggest that there are no institutions in electronic commerce to replace the financing and risk sharing service provided by wholesalers and retailers. Finally, several authors argue that the main problem for the internet channel is the problem of product flow.

- **The problem of product flow**

The internet channel might offer significant advantages in terms of information provision. For example, the internet channel has the ability inexpensively to store large amounts of information in multiple locations and serves as a distribution medium for digital goods (Peterson et al 1997). However, a main critical point from several scholars (i.e. Chircu and Kauffman 2000; Clemons and Aron 2002; Tamilia et al 2002; Webb 2002; Rosenbloom 2004) is that it cannot perform the function of physical flow efficiently. Direct-to-customer models are likely to underestimate the complexity of the order fulfilment process (Clemons and Aron 2002). For example, as Tamilia et al (2002) mention, manufacturers still require assistance from intermediaries to transport physical products to end customers and store inventory.

For example, a survey of 63 distributors in the semiconductor industry, conducted by Jantan et al (2003), showed no statistically significant evidence to suggest that the function of secure and on time transportation provided by distributors will be replaced by the development of the internet channel. Although through the internet manufacturers can contact individual customers directly and intermediaries seem to

be bypassed, manufacturers usually do not have an efficient logistic system to fulfil orders at a household level and the ability to deal with the high return rates encountered in a non-store retailing environment (Alba et al 1997).

For example, research conducted by Ancarani (2002) comparing the price of books and CDs at online and conventional retail outlets in Italy confirms that the online price is cheaper than the offline price, but points out that when the delivery cost is added, the online price is usually higher than the offline price. Management of transporting and supplying products to the end user remains an issue for consideration for pure online companies, especially when the product is tangible (ibid.). Hence, Peterson et al (1997) note that apart from the distribution of digital products (i.e., software, information, airline tickets), the internet channel probably will not eliminate or serve as a substitute for conventional retail channels. Firms selling more tangible items such as furniture and apparel will find success much more difficult, if the traditional intermediary has been eliminated. Therefore, "complete disintermediation is usually not physically feasible" (Jallat and Capek2001:59).

2.4.4 Reintermediation

"You can eliminate the middleman, but not the middleman's functions"(Cespedes and Corey 1990:74). Indeed, some channel functions, especially the provision of information about buyers, sellers, and goods or services where intermediaries currently add value will be modified by the internet channel. However, as Schmitz (2000) argues, for some unique functions, such as reducing uncertainty about quality and tailoring offerings, the informational efficiency of intermediation will prevail and is unlikely to be replaced by the diffusion of e-commerce.

It seems that eliminating intermediaries will not eliminate their functions and at the same time, the internet cannot provide all channel flows. Therefore, some scholars (i.e. Bailey and Bakos 1997; Chircu and Kauffman 2000; Jallat and Capek2001; Anderson and Anderson 2002) suggest that a more likely scenario is that the internet

will modify but not replace traditional intermediaries. A concept, reintermediation, has been mentioned. From a different observation perspective (manufacturer and intermediary), reintermediation contains different meanings (Table 2.3).

Table 2.3: The concept of reintermediation

Authors	Perspective	Concept: Reintermediation
Chircu and Kauffman (2000); Wynne et al (2001)	Intermediary	Reintermediation of intermediaries requires the utilization of internet technologies and a better understanding of what customers consider important when purchasing a product or service.
Sarkar et al (1995); Bailey and Bakos 1997); Wigand (1997);Bakos (1998);Jallat and Capek (2001)	Intermediary	A new virtual intermediary, cybermediary, will emerge. This new intermediary uses electronic networks to add value to the intermediation process.
Anderson and Anderson (2002); Rosenbloom (2004)	Manufacturer	Reintermediation involves the lengthening of the channel rather than the shortening of channel structure because an extra virtual channel is added to the channel structure

2.4.4.1 From the perspective of the intermediary

- **The traditional intermediary develops their own IT ability**

Although several channel functions cannot be replaced easily by the virtual channel, intermediaries are still forced to reconsider all the fundamentals of how they create value and capture a fair share with the internet (Anderson and Anderson 2002). In fieldwork with five travel agent companies in the US travel industry, Chircu and Kauffman (2000) offer an IDR framework (intermediation-disintermediation-reintermediation). They mention that the traditional intermediary can try to take the advantage of the internet technology. As Gallaugher (1999) suggests, the only threat to online sales appears to be to those retailers and distributors who do not provide value to the customer and for merchandise that is easily described and has low asset specificity. Reintermediation occurs when the traditional intermediary in the marketplace is able to adopt new and innovative ways to improve their incapacity and it is often enhanced by the application of IT technology (ibid.). It means that the traditional intermediary becomes an EC-able entity and enters the e-commerce market to service end customers.

Wynne et al (2001) in their fieldwork in the South African tourism industry make a similar observation. In their case, they mention that the intermediary attempts to develop their internet infrastructure to improve their capacity. Usually, travel agents are more knowledgeable than end customers and end customers might not have the ability or willingness to arrange a complicated itinerary. For instance, for many customers, it is more convenient for them to arrange all their travel such as booking air tickets, hotel reservations, and hiring a car at one single location than to visit different sites for different types of holidays.

By utilizing professional knowledge and IT ability such as developing digital information on offered products and services and improving timely response to buyers, intermediaries can offer a comprehensive service such as gathering information from several different suppliers and allowing customers to make all their travel arrangements at one site. In other words, the channel function of aggregation is improved to a certain extent by the development of the IT infrastructure.

- **Cybermediary**

"The previous intermediary roles, sometimes called middle professions, brokers, or agents etc. between manufacturer and buyer/consumer may be replaced by an electronic market maker or by value networks (e.g., common carriers, on-line market places), which, in turn, enable a reintermediation" (Wigand 1997:4). Sarkar et al (1995) claim new internet-based intermediaries (cybermediaries) will emerge. In a survey of thirteen companies, Bailey and Bakos (1997:19) also confirm this trend and mention that "contrary to the predictions of disintermediation, the movement to electronic markets does not seem to result in the elimination of intermediaries, as electronic markets will require intermediation services, albeit in ways that differ from traditional physical markets". Bakos (1998) mentions that the growth of new types of electronic intermediaries such as eBay can perform functions that include matching buyers and sellers, providing product information to buyers and marketing information to sellers, aggregating information goods, and integrating the

components of consumer processes. In other words, this cybermediary deals with information instead of tangible products.

Although the internet accelerates the flow of information on one hand; on the other hand, an information explosion is created. For instance, it is unlikely for normal customers to browse all of a manufacturer's web site. Customers still require assistance from an intermediary regardless of whether it is a traditional intermediary (Chircu and Kauffman 2000; Wynne et al 2001) with IT ability or a pure virtual intermediary (Bailey and Bakos 1997; Wigand 1997; Bakos 1998) as a filter to conduct the aggregation function.

2.4.4.2 From the perspective of the manufacturer

Anderson and Anderson (2002) argue that it is not the right time for manufacturers to get closer to the customer by disintermediation and they suggest that producers should not eliminate intermediaries just because the internet has lowered the cost of going direct. It is because the reasons (price, assortment, service, convenience, and ambiance) for end customers to purchase will be different and no single service provider can do everything. Manufacturers still need to cooperate with their traditional channel partners to satisfy the diversity of customer needs and should view intermediaries as assets not liabilities.

Therefore, Rosenbloom (2004) suggests that reintermediation is shifting; changing or adding middleman to the channel. In other words, reintermediation involves the lengthening of the channel rather than the shortening of channel structure because an extra virtual channel is added to the channel structure (Figure 2.2). More intermediaries appear in electronic marketing channels while conventional marketing channels will continue to exist right alongside electronic channels. For example, when a consumer electronics manufacturer considers their channel structure, both of the virtual (i.e. Amazon.com) and physical (i.e. PC World) intermediaries might be considered.

Figure 2.2: Reintermediation from the perspective of the manufacturer

Conventional channel	Reintermediation
PC manufacturer	PC manufacturer
↓	↙ ↘
Physical intermediary	Physical intermediary / Online intermediary
↓	↓ ↓
End Customer	End Customer
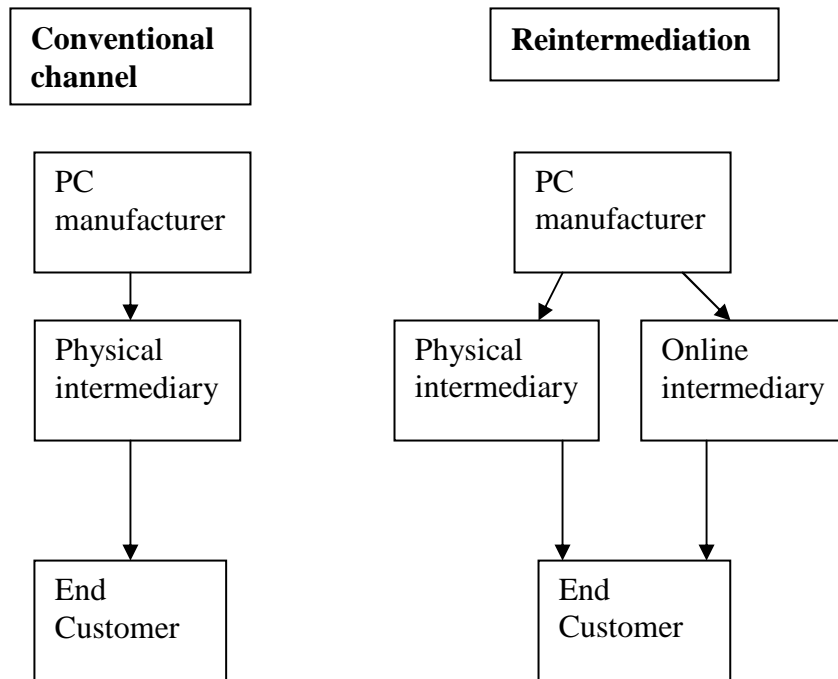
Source: Rosenbloom (2004)

2.4.5 Summary of indirect sales and reintermediation

Eliminating intermediaries is not without disadvantages because several channel functions cannot be replaced by the virtual channel. Based on previous literature, there are five main channel functions: product flow, information provision, aggregation, promotion, and risk taking (Table 2.4). Based on analyzing the performance functions of distribution channels, the main criticism of disintermediation is the problem of product flow. Some scholars suggest that a more likely scenario is that e-commerce will modify but not replace traditional intermediaries. A concept, reintermediation, has been mentioned. From the perspective of the intermediary, if they can adopt new and innovative ways, such as the application of IT infrastructure, to improve their incapacity, intermediaries remain an important role in the whole channel structure. Besides, from the viewpoint of the manufacturer, a preferable scenario does not involve eliminating the traditional intermediary. Instead, manufacturers should attempt to combine both virtual and physical channels together.

Table 2.4: The summary table of channel functions

Channel function	Conceptualization	Reference
Product flow	Intermediaries can help to transfer the product or service from suppliers to end customers.	Cespedes and Corey (1990); Peterson et al (1997) ;Palvia and Vemuri (1999); Görsch and Pedersen (2000);Rosenbloom (2004)
Information provision	Intermediaries inform customers about the existence and characteristics of products. On the other hand, intermediaries can transfer the information from the customer to suppliers.	Rangan et al (1992); Bailey and Bakos (1997); Bakos (1998);
Aggregation	Intermediary can aggregate suppliers, end customers, and products into the same location.	Rangan et al (1992); Bailey and Bakos (1997); Bakos (1998); Jallat and Capek (2001)
Promotion	Promotion refers to the flow of persuasive communication from suppliers to buyers. Meanwhile, intermediaries are good at creating brand awareness and educating customers.	Sarkar et al (1995); Jantan et al (2003); Rosenbloom (2004); Coughlan et al (2006)
Risk taking	Intermediaries can help manufacturers to take the inventory. Meanwhile, intermediaries can share the task of providing post-sale service.	Bucklin (1965); Cespedes and Corey (1990);Rangan (1992); Sarkar et al (1995); Palvia and Vemuri (1999)

2.5 The multi-channel structure

2.5.1 Bricks and Clicks

The debate surrounding the adoption of direct or indirect sales channels has been aired in the literature for some time and pre-dates the prevalence of e-commerce. Since direct and indirect sales strategies may both have their own advantages and disadvantages, some scholars (i.e. Cespedes and Corey 1990; Rangan et al 1992; Anderson and Anderson 2002; Steinfield et al 2002 a b; Berman and Thelen 2004; Wallace et al 2004) suggest that the combination of both channels would be a compromise alternative. As Coughlan et al (2006) posit, any one channel solution likely will not be able to satisfy the needs of all segments. One of the distinctions for

multiple marketing channels is that each channel presents a set of unique characteristics, which offers businesses the opportunity to adapt to changing customer needs and purchasing patterns.

After failures of the dot.com, there is a realization that the internet is unlikely to replace traditional channels totally. For example, Steinfield et al (2002 a) mentions, the arrival of large retailers with the ability to exploit the internet may directly contribute to the collapse of many struggling dot.com companies. Therefore, some researchers (i.e. Anderson and Anderson 2002; Steinfield et al 2002 a b; Agatz et al 2008) suggest that a possible scenario for traditional firms to respond to the trend of growing e-commerce is to restructure the distribution channel. It means that firms can attempt to integrate the internet channel into their channel mix and portfolio.

Mols (2000:227) provides a definition of the multi-channel structure: "Such dual channels of distribution may be found in several industries and may take many forms, one of which is when a supplier sells directly to users or consumers as well as through independent marketing intermediaries". Kotler et al (2005:870) offer a diagram (Figure 2.3) to illustrate the multi-channel system.

Figure 2.3: The multi-channel distribution system
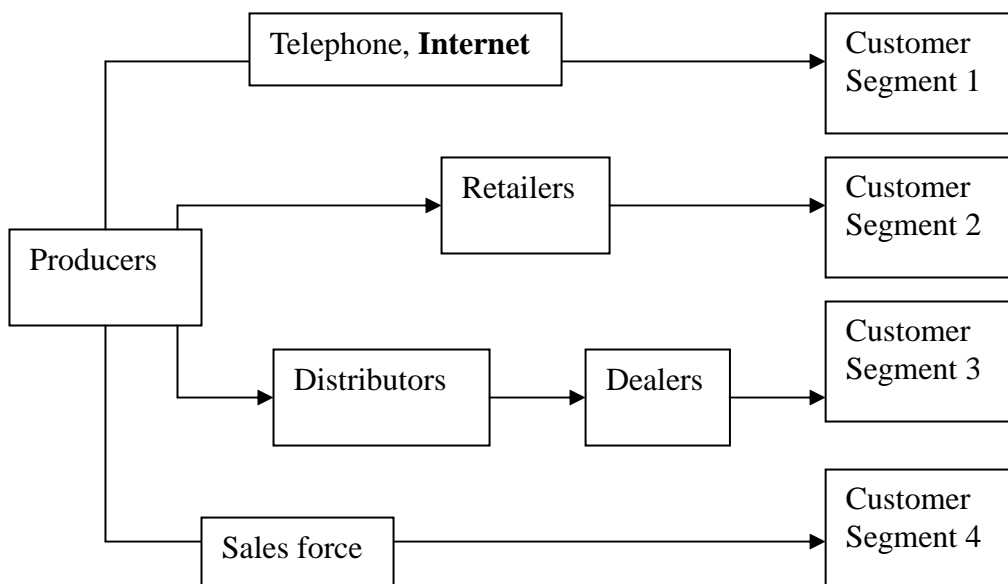
Source: Kotler et al (2005)

As Agatz et al (2008:339) claim: "After the initial over-enthusiasm, more sustainable models of e-commerce have started to emerge. One of the recurrent patterns is the combination of 'bricks-and-clicks', the integration of online sales into a portfolio of multiple alternative distribution channels". Thus, in most cases, companies will add the internet to existing marketing channels, thereby employing multiple marketing channels. In order to distinguish between the pure internet and traditional offline channels, electronic commerce researchers now call those companies which combine physical and web channels "clicks and mortar," "bricks and clicks," "surf and turf," "cyber-enhanced retailing," or "hybrid e-commerce," (Gulati and Garino 2000; Steinfield et al 2002 a b; Agatz et al 2006).

2.5.2 Advantages of the development of the multi-channel system

The utilization of multiple channels is increasing steadily (Frazier 1999; Coelho et al 2003; Coelho and Easingwood 2008) and, according to previous literature, there are two main advantages for the adoption of a multi-channel distribution strategy: saving cost and collecting more customer information/ providing better customer service.

2.5.2.1 Cost savings by developing synergies between physical and virtual channels

"In today's environment, costs within many traditional channels, such as in sales forces and branch networks are increasing at an alarming rate. As a result, there is increasing pressure on organizations to move to electronic channels and seek to develop customer self-service strategies to reduce cost" (Payne and Frow 2004: 529). Nevertheless, in this section, cost saving is different to what has been mentioned in the section on disintermediation. In relation to disintermediation, cost reduction can be achieved by eliminating all levels of intermediary. However, here, cost savings can be achieved by the synergies between virtual and physical channels.

A. Saving set up costs

Before the prevalence of the internet, Dutta et al (1995) noted, in a survey of company agents, that the additional cost is a main reason why manufacturers are unwilling to modify the channel system. For example, a manufacturer may become locked in with a particular intermediary as a result of the manufacturer's investments in intermediaries. In that way, creating a direct channel means a new physical store that is opened and managed by manufacturers. Meanwhile, the manufacturer may have to provide training not only to the original intermediary but also the new store staff again. They have to pay the cost of labour, land, and necessary equipment twice. That will be an issue of concern for a large number of manufacturers.

However, compared with setting up a physical company-owned store, the relatively low costs of setting up a virtual channel, and the potential access to millions of customers, are very attractive to a large number of companies (Geyskens et al 2002; Steinfield et al 2002 a b; Coelho and Easingwood 2004; Hughes 2006). Coelho and Easingwood (2004:6), in interviews with about 30 key informants in financial services organizations, confirmed this point and some of their informants argue that a "potential benefit provided by the utilization of the internet channel is that companies can often increase their sales volumes while reducing their absolute or relative distribution investment costs". Furthermore, a multiple case study, conducted by Hughes (2006) in the financial industry, notes that the infrastructure costs to develop an online banking branch will be about one-tenth of those for a traditional bank and about a quarter of a call centre based bank.

B. Saving fulfillment cost

In addition, cost savings can be obtained from business activities which lend themselves to automation, self-service, and remote service (Payne and Frow 2004). If customers can self-serve through the internet (i.e. online banking transaction or purchasing some intangible product), the transaction cost can be reduced further. For example, according to Denton (1997), in the banking industries, a transaction cost

over the internet is one-tenth of the cost of branch transactions. As Steinfield et al (2002 b) note, the expenditure for some assistance activities such as looking up product information, filling out forms, and providing on-line technical assistance for after-sales service can be switched to consumers.

Even though some tangible products still require significant assistance from physical intermediaries, cost savings can nonetheless be achieved by developing 'a synergistic channel structure'. The concept, synergistic channel structure, is mentioned by Steinfield et al (2002 a b). Figure 2.4 illustrates such a synergistic multi-channel structure that allows customers to gather information and reserve an item online (A1). After that, the customer can pay for and pick up the product in the physical store (B0) and obtain after-sales support online (C1). Based on empirical research with 30 click-and-mortar companies in America and the Nederlands, Steinfield et al (2002 b: 95) offer this concept, synergistic channel structure, and claim that: "When virtual and physical channels are harmonized effectively, savings should become possible in several areas, especially labour, inventory, and delivery costs".

Figure 2.4: Use of physical and virtual channels in an integrated clicks-and-mortar business
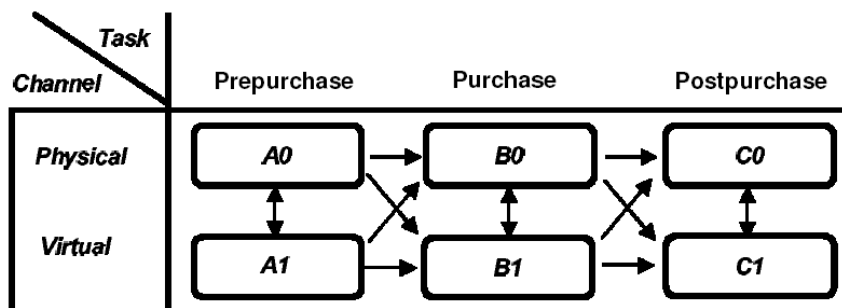
Source: Steinfield et al (2002 b: 94)

For example, a common infrastructure for logistics systems can be utilized to manage the distribution of goods for e-commerce activities and a pick-up service in local retailer stores can be offered to customers (Steinfield et al 2002 a b; Saeed et al 2003; Berman and Thelen 2004). By this method, there is no need to establish a new fulfillment system for online orders. Moreover, the problem of product flow can be overcome. On the other hand, inventory savings arise when companies find that they

can avoid having to stock infrequently purchased goods at local outlets, while still offering the full range of choices to consumers via the internet. (Steinfield et al 2002b). Furthermore, as Tsay and Agrawal (2004 b) mention, the synergy distribution structure is particularly beneficial for product returns management. Most multi-channel firms can provide online consumers the option to return products via physical stores. This synergy not only assists in reducing return handling costs but it is also convenient for customers.

Additionally, marketing and promotion efficiencies across channels can be expected when each channel is used to inform consumers about services and products available in the other. A common product catalogue, advertisements and promotions that draw attention to both channels may be shared by e-commerce and physical channels (Steinfield et al 2002 a). In this way, companies can create a "seamless" experience for customers by integrating online channels with conventional channels (Payne and Frow 2004).

2.5.2.2 Collecting more customer information and provide better service

- **Collecting more customer information**

"Today consumers have unprecedented power, armed with their own databases and tracking technology. Companies who continue to use old business models and treat customers in old ways will likely fail " (Schoenbachler and Gordon 2002:46). It is because the high information intensity of electronic channels and easier product and price comparisons have triggered a shift in channel power from suppliers to customers (Görsch and Pedersen 2000). Moreover, customers have become less loyal towards any particular supplier (Wallace et al 2004) because increasing competition and minimal customer switching costs make customers increasingly difficult to retain.

Therefore, some scholars suggest that it might not be enough to rely on a single channel to collect information and serve customers (i.e. Schoenbachler and Gordon 2002; Coelho and Easingwood 2004; Payne and Frow 2004; Weinberg et al 2007). For example, the new business model should be customer-centric and focus on the

understanding of an informed and empowered customer (Schoenbachler and Gordon 2002). Similarly, Payne and Frow (2004), in a conceptual article, argue that competitive advantage today is not just about vending products and services to customers. Moreover, companies should attempt to collect customer information as broad as possible and based on this information offer segmented and customized services rather than merely producing products for a mass market.

After interviewing 30 senior executives and managers in a diverse set of industries (including: financial services, pharmaceuticals, airline, education etc.) Weinberg et al (2007) note that multiple channels offer a great opportunity for companies to see how each customer interacts with the business across its spectrum of product or service lines and across channels. Moreover, " Having a variety of channels and means for 'memorizing' customer preferences and other important details is becoming a sine qua non for delivering high-quality customer experiences, service and value" (Weinberg et al 2007:393).

With the assistance of internet technology, it is useful for companies to collect broader marketing information (Coelho and Easingwood 2004). One key advantage for the internet channel is that more comprehensive customer-specific information can be captured easily. For example, customers who purchase electronically can be identified at the individual level and consumer browsing can be tracked. "With the recent advancement of web-based analytics, organizations have the ability to track metrics such as website traffic, catalogue products viewed, number of pages viewed per visit, customer satisfaction with particular features, and click-thru conversation rates" (Weinberg et al 2007:392).

- **Provide better service**

With the increasingly sophisticated database technology, information from both virtual and physical channels might be analyzed easier than before (Alba et al 1997). Companies can obtain much-needed insight into the needs of shoppers and shopping patterns. Furthermore, companies might offer or suggest the most suitable channel to

customers. For example, Steinfield et al (2002 b) observe that by integrating customer orders across channels enabled a Dutch bank, an example in their case study, to improve their tracking of customers' movements between channels so that requests made online could be forwarded to appropriate personnel in the proper branch. For some relatively complex products such as pensions, or customers who require more personal assistance, suppliers can use the intermediary to provide a customized service. For some relatively straightforward products, such as car insurance and customers who might prefer to shop online, the internet channel would be a better choice (ibid.).

As Berman and Thelen (2004:148) mention, "Unlike a single-channel company, a firm that uses a multi-channel strategy has the ability to choose the most appropriate channel in its overall portfolio to sell a given good or service or to reach a different target market". Such an understanding is supported by the collection of customer information both online and offline. In addition, in a customer survey about customer loyalty, "By expanding the portfolio service outputs available to the customer, multiple channel strategies may be employed to enhance the companies' overall value proposition leading to enhanced customer satisfaction and managerially relevant outcomes" (Wallace et al 2004:260). In their survey (Wallace 2004), customer loyalty has a statistical significant improvement, when companies offer multiple channels to serve customers.

2.5.3 Summary

Following the debate between disintermediation and reintermediation, several scholars suggest an alternative channel structure: Bricks and Clicks. This means that companies can create their own virtual channel while still maintaining a relationship with their original physical channel. Based on previous literature, this multi-channel structure has two main advantages: saving costs and gathering more customer information and offering a better service.

2.6 Chapter summary and research gaps

A traditional marketing channel is defined as a set of interdependent organizations involved in the process of making a product or service available for use or consumption. The distribution process requires the cooperation of several physical business entities such as manufacturers, wholesalers, and retailers to serve end customers. However, with the development of IT technology, the internet is now considered as a distribution channel and enables companies to make contact with end customers directly.

Some early research predicted the traditional channel will be eliminated and bypassed when e-commerce is widely accepted by customers. This concept is described as disintermediation. From previous literature, the main motivation for companies to conduct a disintermediation strategy is cost reduction. However, some scholars, based on the functions of a marketing channel, provide a different viewpoint. They argue that elimination of a traditional intermediary is not without disadvantages. For example, issues remain concerning how to resolve the problem of product flow, especially for tangible products. Therefore, scholars suggest the concept, reintermediation, compared with disintermediation. From the perspective of the intermediary, they can also adopt IT technology to improve their capacity. From the viewpoint of manufacturers, the level of the channel should be extended instead of shortened. The virtual channel becomes an extra option for them but not the only option.

Following the debate of disintermediation and reintermediation, some scholars suggest an alternative channel structure, Clicks and Bricks, meaning that companies may attempt to develop their own virtual channel and still maintain the relationship with their original channel partners. This kind of synergy structure has two main advantages: saving costs and gathering more customer information across channels and offering better customer services. The summary of disintermediation, reintermediation, and multi-channel structure is presented in Table 2.5.

- **Research gaps**

The literature review has revealed the following research gaps[5] that require to be explored in further research.

1. What are the factors driving manufacturers to develop the internet channel, especially when an existing marketing channel has already been established? As Coelho and Easingwood (2008:32) note, "The number of companies using multiple channels in the distribution of each of their products is increasing steadily. Despite this popularity, the drivers of these channel strategies remain virtually unknown". Moreover, creating a multi-channel system is not without disadvantages. For example, channel conflict between manufacturers and intermediaries is highly likely to ruin the channel relationship. Channel conflict forms the subject of the next chapter.

2. What are the channel design patterns of the multi-channel structure? Recently, Steinfield et al (2005) conducted a study to analyze the web sites of 985 U.S.–based companies having both online and offline channels. The result seems to be different compared to their previous research (Steinfield et al 2002 a b). They mention that the design of the synergistic multi-channel structure (Figure 2.4) is uncommon. It seems that designing a channel structure when companies desire to include the internet channel is more difficult than many people expect. Rosenbloom (2007) argues that to create a synergistic channel system is still more the exception than the rule because substantial obstacles exist. However, Rosenbloom (2007) only points out the impracticalities of the synergistic channel structure but not discusses the possibility of other types of channel structures and design patterns.

    In 2000, Kiang et al (2000:384) mentioned that "The existing research in channel design and selection has only considered the traditional channels, including the traditional intermediaries and direct sales force. There are no

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[5] In chapter 4, these research gaps are explained in detail.

documented results or researches that provide a systematic method to guide evaluation, planning, and execution of the channel choice decision when it comes to internet marketing". Recently, several scholars (i.e. Gassenheimer et al 2007; Rosenbloom 2007; Coelho and Easingwood 2008) also have the same suggestion that more research should be done to explore how firms design their channel structure including the internet channel.

3. Some authors (i.e. Palvia and Vemuri 1999; Gallaugher 2002; Tamilia et al 2002) express a different attitude toward the disintermediation strategy by using functional analysis, yet most of these articles are conceptual discussions. More empirical research should be conducted to explore the problems or case of performing each function via the internet. Moreover, previous research has paid scant attention to how the five different channel functions are carried out by online and offline channels in the context of a multi-channel structure. To what extent will firms rearrange channel functions for each channel? How will channel managers arrange the channel functions for each channel? Are there any variables that might influence this rearrangement of channel functions and the redesign of channel structure? As Jallat and Capek (2001:55) suggest, "Understanding the impact of e-commerce on intermediaries requires an analysis of how the role and function of traditional economic actors are being reformulated and rebuilt". Hence, an empirical study to explore the channel functions carried out by each channel is necessary.

Table 2.5: Summary Table for Chapter 2

Channel Structure	Conceptualization	The main Advantage/ Disadvantage	Channel Form	References
Disintermediation	The traditional intermediary will be eliminated because of the adoption of internet channel.	**Pros:** Cost Reduction **Cons:** The problem of product flow	Pure virtual channel	Malone et al (1987 1989); Benjamin and Wigand (1995); Evans and Wurster (1997 2000); Kiang and Chi (2001)
Reintermediation	The traditional intermediary will improve their IT ability—from the perspective of intermediary. An extra virtual channel is added to the channel structure—from the perspective of manufacturer.		Traditional physical channel with IT ability or the virtual intermediary	Bailey and Bakos (1997); Bakos (1998); Chircu and Kauffman (2000); Jallat and Capek(200); Anderson and Anderson (2002); Gallaugher (2002)
Multi-channel	Manufacturers utilize both physical and virtual channel to serve customers.	**Pros:** (1) Saving cost (2) Accepting more information from customers and providing a better service **Cons:** (1) Channel conflict (2) Free-riding (see chapter3)	Combination of virtual and physical channel	Görsch and Pedersen (2000); Steinfield et al (2002 a b); Saeed et al 2003; Berman and Thelen (2004); Payne and Frow (2004); Wallace et al (2004); Lee and Shu (2005)

Chapter 3

Channel conflict: sources and conflict resolutions

3.1 Introduction

In chapter two, previous research suggested that companies should attempt to access customers by utilizing as many different channels as possible. However, the multi-channel strategy is not without disadvantages. For example, a survey conducted by Geyskens et al (2002), within the European newspaper industry, found that established firms are financially hurt when adding a new internet channel to an established channel system, due to cannibalization and brand-damaging inter-channel conflicts. As Sharma and Mehrotra (2007:23) mention in their case study, "higher levels of inter-channel conflict in the context of multi-channels will lead to a reduction in promoting the product or even a withdrawal". Hence, how to resolve channel conflict arising from the development of the internet channel should be paid more attention.

In order to understand channel conflict and its resolution methods, this chapter contains four main sections. Initially, although a multi-channel system offers several advantages, several scholars claim that this system will have some side effects. The main disadvantage for the multi-channel system is cannibalization and furthermore, the competition between channel partners often results in channel conflict. Consequently, the definition of channel conflict is provided in the second section. Channel conflict is a dynamic process and four different levels or episodes are considered. In addition, three sources of channel conflict are explained in detail. Next, based on a framework provided by Coughlan et al (2006), several conflict resolution mechanisms, mentioned in previous research, have been classified into four categories: avoidance, accommodation, compromise/collaboration, and competition. Finally, a chapter summary is presented at the end.

3.2 Cannibalization and Channel conflict

3.2.1 Possible obstacle to the multi-channel structure

Although a multi-channel structure might offer several benefits to firms, the integration of e-commerce with existing physical channels is a challenging undertaking that can create some problems for management. For example, firms may find that the multi-channel strategy will increase costs (Coelho et al 2003) because in order to serve end customers, suppliers have to establish a new logistics system to fulfill customer demand. Furthermore, some other side effects such as brand damage and consumer confusion might occur when companies adopt a multi-channel structure (Coelho and Easingwood 2004)

Moreover, the major marketing-related concerns in multi-channel are cannibalization and the consequent channel conflict (Geyskens et al 2002; Webb 2002; Rosenbloom 2007; Sharma and Mehrotra 2007; Coelho and Easingwood 2008). "Perhaps the most significant obstacle to building successful multi-channel strategies is the emergence of conflict between the different channels used for reaching customers. For some channel participants, multi-channel strategy may be viewed as a zero sum game: If one channel gains customers then another channel must have lost customers" (Rosenbloom 2007:7). Cannibalization emerges because buyers can reach several purchase points and suppliers and intermediaries compete with each other. Furthermore, a related issue, free-riding, might appear, when one channel member sells the product but another channel member gets the order (Sharma and Mehrotra 2007). For instance, customers can use a salesperson to realize the product functions and characteristics but use the cheaper internet channel to buy the product. Under these circumstances, cannibalization and free-riding, conflict between channel members is very likely to happen (Geyskens et al 2002; Webb 2002).

3.2.2 The viewpoint from manufacturers toward channel conflict

Therefore, from the view point of manufacturers, Gilbert and Bacheldor (2000) claim that some firms will choose not to exploit the virtual channel because of fear that the new internet channel could negatively impact sales made through conventional channels. It seems that pushing too hard to structure a new retailing model would alienate their old retailers, thereby hurting sales and channel conflicts are thus a strong impediment to the development of electronic channels. For example, Levi's began to sell their jeans directly through the internet a few years ago but had to stop its use of this channel because of strong objections from its intermediaries (The Economist 2000:16).

A survey (Figure 3.1) conducted by Allen et al (2000) with 50 manufacturers reveals that channel conflict is the biggest issue that manufacturers face in their online sales strategies. Recent research conducted by Mulpuru et al (2007:9) also reaches the same consideration and confirms that when manufacturers develop the internet channel, "the threat of distributors retaliating against a manufacturer that ventures out on its own strikes a paralyzing fear into the hearts of many marketing and strategy executives at manufacturing firms".

Figure 3.1: Concerning issue for manufacturers to sell online
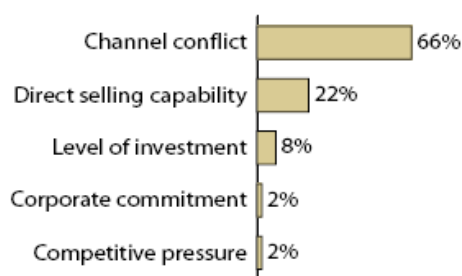
Source: Allen et al (2000)

However, manufacturers not participating in e-commerce are also afraid that they would lose sales to competitors who conduct a coherent online strategy. In research

to analyze the web sites of 20 companies having both an online and offline channels, Lee et al (2003:137) state, "If you do not sell your products directly over the internet, people will go to your competitors who do, while if you do sell your products directly; your distributors and dealers will desert you and only carry products from manufacturers who do not compete with them". It seems that a large number of manufacturers are stuck within a paradox situation—to develop or not develop the internet channel. Therefore, suppliers might not invest highly in the multi-channel system. It is likely that manufacturers will merely maintain a basic level.

For example, a survey conducted by Konings and Roodhooft (2002), in Belgium, with 836 firms in a diversity of industries discovered that of all firms that have access to the internet, only 15% adopt that medium as an additional channel to actually sell products online. Similar research conducted by Steinfield et al (2005) to analyze the web sites of 985 U.S.–based firms having both online and offline channels demonstrates that only 33% of firms own a web site where consumers can complete a full order and transact online. That means firms greatly depend on their physical retailers to complete transactions. Furthermore, merely one in five firms allow customers to check a store's inventory online prior to visiting the store and only 6 % of firms can offer a pick- up service at the physical store. Steinfield et al (2005) claim that the mismatch of strategies decreases the benefits derived from internet related investments. It seems that a highly integrated multi-channel structure is uncommon.

3.2.3 Summary

 "Integrating online channels with conventional channels to create a seamless experience for customers is, if course, the ideal situation—in theory at least. In practice, however, such seamless integration is still more the expectation than the rule because substantial obstacles exist" (Rosenbloom 2007:6). One of the most vexing problems in multi- channel strategy is online channel cannibalization and then conflict between the conventional and internet channel. This viewpoint is supported by several scholars (i.e. Bucklin et al 1997; Fraizer 1999; Geyskens et al 2002; Webb

2002; Deleersnyder et al 2002;Friedman and Furey 2003; Coughlan et al 2006 ;Rosenbloom 2007 ;Sharma and Mehrotra 2007; Coelho and Easingwood 2008). For a large number of manufacturers, they may desire to develop the internet channel because their business rivals have pursued this strategy. However, they are also worrying about online cannibalization and the consequent channel conflict is hard to manage. Therefore, how to manage channel conflict caused by the internet is a tough issue for a large number of channel managers.

3.3 Channel Conflict

This section contains three topics. Initially, the definition of channel conflict is considered. Consequently, channel conflict is a dynamic process and it can be divided into four episodes: latent, perceived, felt, and manifest. Finally, in some recent research, internal channel conflict has been focused on and scholars state that external channel conflict will be affected by internal channel conflict.

3.3.1 Definition of channel conflict

Channel conflict is not a new concept that is created by the internet revolution (Webb 2002). On the contrary, conflict management in channels of distribution continues to be a major theme in the marketing literature (Ganesan 1993). For example, in the 1990s, Moriarty and Moran (1990) mentioned that conflict is an inevitable part of every hybrid system. In seeking to develop a hybrid channel system, managers have to recognize the existence of conflict as the first and most important step. In here, a hybrid channel system means that suppliers utilize their sales representatives (direct channel) and independent dealers (indirect channel) simultaneously.

Several definitions of channel conflict can be found in previous channel literature (i.e. Rosenberg and Stern 1971; Lusch 1976 a; Etgar 1979; Stern et al 1989; Gaski 1984; Rosenbloom 2004; Coughlan et al 2006). In this research, the definition provided by Coughlan et al (2006) is adopted and this definition is also commonly adopted by

other studies (i.e. Bradford 2004; Webb and Lambe 2007; Coelho and Easingwood 2008).

> *"Channel conflict is behaviour by a channel member that is in opposition to its channel counterpart. It is opponent centred and direct, in which the goal or object sought is controlled by the counterpart." (Coughlan et al 2006:244).*

Channel conflict happens when one channel member perceives the behaviour of another member to be impeding the attainment of its goals or the effective performance of its instrumental behaviour patterns, an atmosphere of frustration prevails (Rosenbloom 2004). During this time, other channel members are often regarded as competitors and conflict parties struggle against each other (Coughlan et al 2006).

3.3.1.1 Channel conflict in a multi-channel system.

Hibbard et al (2001:45) observe that "the rapid growth of multi-channel distribution systems has significantly increased the potential for discord between suppliers and channel intermediaries". In interviews with 30 informants in the financial services area, Coelho and Easingwood (2004) note that conflict between channel members is more intense after the development of the internet channel because there are multiple units competing for the same customers. In other words, now the manufacturer is considered as a powerful intermediary.

In the marketing literature, channel conflict (i.e. Stern et al 1996; Friedman and Furey 2003; Rosenbloom 2004; Kotler et al 2005) has usually been classified into two categories which are horizontal and vertical conflict. Horizontal conflict is competition at the same level in the channel (i.e. competing retailers) and vertical conflict is the competition at different levels with the same channel (i.e. manufacturers versus retailer). Based on vertical and horizontal conflict, a third type of conflict in the multi-channel system is mentioned by Tamilia et al (2002) in a conceptual article. Tamilia et al (2002) note that inter-type conflict is of most concern for a large number of firms when they utilize the internet as a distribution channel.

The inter-type channel conflict happens between different types of intermediaries in the same channel level. For example, intermediaries typically do not regard manufacturers as rivals but as upper channel partners. Nevertheless, the internet provides suppliers with opportunities to bypass the intermediaries and to sell directly to final customers.

3.3.2 Episodes of channel conflict

Conflict in marketing channels is widely recognized as a dynamic process (Rosenberg and Stern 1970; Brown and Day 1981; Brown et al 1983; Frazier and Rody 1991). For example in a survey with intermediaries to explore conflict and power-dependence relations, Brown et al (1983:58) described "the conflict process is composed of a series of episodes where each episode builds upon the previous one and provides the conditions for subsequent ones". However, it is not necessary that every conflict episode has to pass through every stage to the next stage.

In the area of organization behaviour, Pondy (1967) provided a conceptual framework of conflict episodes and based on the framework, channel conflict can be classified into four episodes which are latent, perceived, felt, and manifest conflict (Table 3.1). This classification is accepted by a large number of scholars in their research (i.e. Lusch 1976 a; Brown and Day 1981; Brown et al 1983; Frazier and Rody 1991; Stern et al 1992; Vaaland and Håkansson 2003). In order to have a deeper understanding of channel conflict, a brief explanation of each episode is below.

Table3.1: Conflict episodes

Conflict episodes	Conceptualization
Latent conflict	Latent conflict reflects an underlying state of incompatibility between two firms and the firms might be unaware of the existence of latent conflict.
Perceived conflict	Perceived conflict happens when channel partners sense that oppositions of some sort exist.
Affective(Felt) conflict	The perceived conflict might transfer into felt (affective) conflict and contains negative emotions because of stress, tension, hostility or anxiety.
Manifest conflict	Channel members attempt to block the other from achieving its goals.

A. Latent conflict

In a survey of car dealers to measure conflict in the distribution channel, Brown and Day (1981) describe that latent conflict reflects an underlying state of incompatibility between two firms including role deviance, goal divergence or poor communication. Pondy (1967) notes that there are three basic types of latent conflict: (1) Competition for scarce resource – when the demands for resource between organizational partners exceed the resource available, latent conflict will appear. (2) Drives for autonomy— when one party attempts to control some activity that another party regards as its territory, latent conflict happens. (3) Divergence of subunit goals—when two organizations are unable to reach a consensus on concerted action, this disagreement between organizations can result in latent conflict. Coughlan et al (2006) mentioned that latent conflict is a normal situation in marketing channels because each channel member is a different entity with different business philosophies and furthermore, firms might be unaware of the existence of latent conflict.

B. Perceived conflict

When participants in organizations do not recognize or misunderstand each other's true position, perceived conflict is likely occur (Pondy 1967). In other words, perceived conflict happens when channel members sense that opposition of some sort exists. In a survey of 930 industrial distributors to explore the use of influence strategies in inter-firm relationships, Fraizer and Rody (1991) mention that when

participants in a channel consider that some sort of incompatibility exists such as opposition of viewpoints, of perceptions, of company policies, of interests, or of intentions, perceived conflict is likely to occur in the relationship.

C. Felt (Affective) conflict

It is still likely that minor conflict will transfer into a worse stage. As Brown et al (1983) mention in their survey, when perceived conflict is affected by stress, tension, hostility or anxiety, perceived conflict would transfer into felt conflict or affective conflict. Anxieties may come from identity risks or extra-organizational pressures (Pondy 1967). When conflict is in this stage, channel members begin to personalize their differences. As Vaaland and Hakansson (2003) describe, felt conflict is characterized by the personalization of conflict. Arguments and disputes with negative emotions between two firms become frequent. In this circumstance, "economic considerations fade into the background as the competitors impute human features and personal motives to channel organizations. Often emotions of outrage and unfairness reach a point where the manager refuses economically sensible choices and hurt their own organization in order to punish their channel counterparts" (Coughlan et al 2006: 245).

D. Manifest conflict

Manifest conflict can be detected easily because it is expressed in behaviour (Brown and Day 1981; Brown et al 1983; Gaski 1984; Fraizer and Rody 1991). In a survey to measure manifest conflict in distribution channels, Brown and Day (1981:263) note that "conflict reaches the manifest state when the parties go beyond the cognitive and affective states (perceived conflict, felt conflict) and engage in behaviours (activities) for the purpose of coping with it. In other words, manifest conflict includes all overt behaviours which take place when one channel member attempts to reach their goals, nurture their values, or pursue their interests". For example, one channel member would deliberately block another member's goal achievement or withdraw support (Coughlan et al 2006).

A vivid example that describes manifest conflict between Compaq and its intermediaries is mentioned by McDougall (2000). Compaq planned to sell 60% of its business PCs directly by the end of 2000. However, this plan came under fire from intermediaries. One intermediary warned that Compaq would not be able to provide the personal service and support they said customers need. Furthermore, another intermediary claimed that "If we're forced to compete too much with Compaq, we'll make other options available" and "it will supply whatever else its buyers want, if channel demand for Compaq slows".

3.3.3 Internal channel conflict

In the organizational behaviour literature, conflict can be classified into several categories. One category is inter-group conflict (Rahim 1992) and this conflict is also defined as interdepartmental conflict. It refers to conflict between two or more units or groups within a firm. For instance, conflict between line and staff, production and marketing, and headquarters and field staff are examples of this type of conflict. Until recently, research in marketing channel conflict has focused mainly on two independent organizations involved in a dyadic channel relationship (Webb 2002; Webb and Lameb 2007). For example, research (i.e. Frazier and Rody 1991; Jelassi and Leenen 2003) focused on the behavioural dynamics between manufacturers and their intermediaries.

However, motivated by the increase in multi-channel distribution systems (Fraizer 1999) and the rapid proliferation of electronic marketing channels, scholars (Webb and Hogan 2002; Webb and Lameb 2007) have attempted to examine conflict from a different perspective. Borrowing the concept from organizational behaviour, in a conceptual article Webb (2002) suggested that internal channel conflict should also be emphasized. When companies utilize multiple channels to reach the market, internal conflict could emerge because people who are in charge of different channels may compete with each other for limited resources.

This viewpoint is also supported by Coelho and Easingwood (2004) in their fieldwork with informants in the financial services industry involving the development of the multi-channel structure. Coelho and Easingwood (2004) mention that some informants expressed that, after developing the internet channel, the resistance came not only from traditional channel partners but also internal sales people in the firm. Hence adopting the multi-channel system is likely to lead to channel structure modifications in managerial support and resource distribution. For example, sales people, distributor groups, and internet channels may have conflicting interests over issues such as budget allocation, assignment of customers, and promotional support.

Moreover, in a multi-case study, Webb and Lambe (2007) claim that the greater extent of channel conflict internally among the organization will be positively related to the extent of external channel conflict outside the organization. It seems that if the internal conflict cannot be resolved properly, it is likely that internal multi-channel conflict will result in external multi-channel conflict. Firms should apply the marketing concept internally to be able to apply it externally (ibid.) Therefore, when research is going to explore channel conflict, both internal and external channel conflicts should be considered in order to obtain a holistic view. As Webb and Lambe (2007) suggest, the reciprocal relationship between internal and external conflicts should not be ignored.

3.3.4 Summary

In this research, the definition of channel conflict provided by Coughlan (2006) is adopted. Vertical and horizontal conflict might be common in a single channel structure. In the multi-channel system, Tamilia et al (2002) note that inter-type conflict is of most concern for a large number of firms. It means that different types of intermediaries are competing in the same channel level. Besides, channel conflict should be considered as a dynamic process instead of a static process. Based on a framework provided by Pondy (1967), there are four episodes for channel conflict: latent, perceived, felt, and manifest. Moreover, when firms develop a multi-channel

structure, channel conflict may happen between not only external channel partners but also internal departments.

3.4 Major sources of channel conflict

How to resolve and minimize channel conflict properly is always an issue of concern for a large number of channel mangers. As Hunt (1995:420) claims, "Properly managed conflict increases the probability that conflict aftermath will be positive, and therefore, the conflict will be viewed as functional. On the other hand, poorly managed conflict will result in negatively perceived conflict aftermath and, therefore, conflict will more likely be viewed as dysfunctional". Nevertheless, before discussing approaches to conflict resolution, sources of channel conflict should be mentioned in advance. As Eliashberg and Michie (1984:77) note, "Logically, to understand and manage the channel conflict, we first must identify conflict determinants and sources". Based on previous literature, three primary sources of conflict are mentioned: goal incongruity, domain dissonance, and perceptual difference (Figure 3.2). Each of these is discussed below.

Figure 3.2: Sources of channel conflict
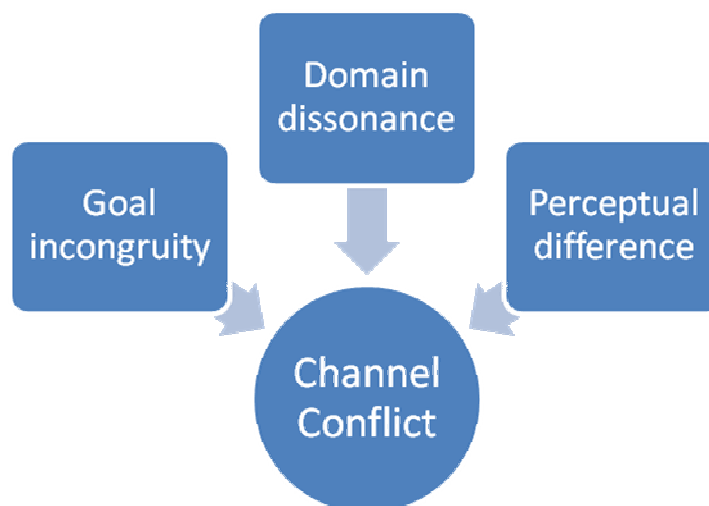
3.4.1 Goal incongruity

Goal incongruity is common in distribution channels (Rosenberg and Stern 1970; Brown and Day 1981; Crittenden et al 1993; Stern et al 1996; Rosenbloom 2004; Coughlan 2006). It is because different social entities have different business philosophies and the goals of one channel member may often not be the same as for another channel member (Pondy 1967; Etgar 1979; Magrath and Hardy 1988). For example, in a study to explore sources and resolution methods of conflict, Crittenden et al (1993) observe that although all channel members desire to satisfy customers, intermediaries may seek product modifications for individual customers. Nevertheless, on the other hand, manufacturers generally prefer building standard products because even the smallest change affects the production process and possibly the equipment used.

Furthermore, a variety of organizational and personal goals might be pursued by a firm at the same time. As Lilien and Kotler (1983) claim, although creating profit is an overriding goal in every channel system, it is not the only factor that an organization considers when attempting to decide among alternative plans of action. Kotler (2002) states that the most common sets of firm goals include profitability, sales growth, market share, risk diversification, and innovation. In a survey of 630 franchisees from a large industrial installations manufacturer, Eliashberg and Michie (1984) reveal that the greater the goal incompatibility, the greater will be the likelihood of conflict because this incompatibility will tend to promote incongruent decisions. In addition, in a survey of 65 channel managers from firms with multi-channel structures, Webb and Hogan (2002) also show that goal incompatibility is a significant predictor of internal channel conflict.

3.4.2 Domain dissonance

In a survey of 12 manufacturers, 11 distributors, and 87 dealers to measure dyadic conflict intensity, Rosenberg and Stern (1971) reveal that in the distributors-dealers dyad, two conflict sources turned out to be statistically significant—domain

dissonance and perceptual differences. Etgar (1979:64), in a study of sources and types of intra-channel conflict, describes domain in a channel system as "a set of prescriptions defining what the behaviour of a position member should be". He combines four aspects of channel behaviour, channel domain, expectation, perceptions, and channel communication as attitudinal sources of conflict and confirms that attitudinal sources of conflict are major generators of manifest conflict in his survey of 138 dealers.

Domain conflict arises over which member has the right to make what decision (Rosenbloom 2004). When one participant in a distribution channel considers that other participants do not take their responsibility or the duty to cooperate with each other, conflict likely emerges. For example, a common conflict reason is pre-and post customer service. Channel members often argue over who should do it, how it should be done, and how the performer should be compensated (Coughlan et al 2006). In a conceptual article and a subsequent empirical study, Rosenberg and Stern (1970; 1971) refer to domain dissonance as a channel member's claims in terms of: (1) range of products, (2) population served, and (3) services or functions performed. Stern and El-Ansary (1992) extend this and describe four elements of channel domain which are (1) the population to be served, (2) the territory to be covered, (3) the functions or tasks to be performed, (4) and the technology employed.

It seems that after the development of the internet channel, clashes over domain are more intense because intermediaries consider that suppliers can bypass them easily, as Fraizer (1999) mentions in a conceptual article. In another conceptual article, Bucklin et al (1997) state that for intermediaries, coverage of territory, served population, and functional performance of intermediaries are all invaded at the same time, when manufacturers apply the internet channel. Therefore, almost certainly this will result in channel conflict in a multi-channel system. However, it seems that more empirical research should be done to confirm this point.

3.4.3 Perceptual difference

Although different marketing goals can be well negotiated with each other and domain areas might be redefined properly, channel conflict is still likely because of differing perceptions of reality (Stern et al 1996). Rosenberg and Stern (1970) suggest that perceptual difference between channel members is one source of channel conflict. They note "when information is conveyed between and among distribution channel members, opportunities are created in which the firms may be in conflict. When the information or abstractions of reality are interpreted in varying subjective ways, decisions are made and in which a conflict of attitudes or behaviour may result" (Rosenberg and Stern 1970:45). In their following research (Rosenberg and Stern 1971), this suggestion is confirmed and perceptual difference is one of the sources of channel conflict.

A later empirical study, Etgar (1979) notes that channel members may also differ in their perceptions of the channel and its environment. For example, dealers may consider market demand primarily through local markets while manufacturers, on the other hand, may put emphasis on a broader market and global demand. In this survey (Etgar 1979), perceptual difference is also confirmed as a source of conflict. Crittenden et al (1993) in their multi-case study mention a similar opinion. They observe a phenomenon that intermediaries often consider that output can be increased or decreased immediately and tend to submit imperfect forecasts, accept last minute orders and promise short lead times. However, from the perception of manufacturers, the production schedule, once made, can be very inflexible. In addition, one empirical study conducted by Eliashberg and Michie (1984:77), defined perceptual differences as "discrepancies between each party's stated (actual) intentions and positions on current goals and the other party's perception and interpretation of the positions". In their survey, the results illustrate that in a distribution channel, conflict between channel members is related positively to perceptual differences between channel members.

The problem within perceptual difference seems to be addressed in a wider perspective, as a multi-channel system. Rangaswamy and Van Bruggen (2005) predict that any direct sales channel developed by suppliers to final customers may be perceived as an attempt to bypass intermediaries. Even the attempt to develop legitimate direct communications with end customers may be perceived by intermediaries as creating the conditions for future conflict. However, from the viewpoint of manufacturers, contact with end customers directly is likely to identify useful information and opportunities across channels. Channel members seem to have different perceptions about the development of the internet channel. Again, it seems that more empirical research is required to explore whether the perceptual difference is a source of conflict in the multi-channel structure.

3.4.4 Summary

In previous literature, there are three sources for channel conflict: goal incongruity, domain dissonance, and perceptual difference. Goals between vertically connected firms are often different. It is because each firm tends to have its own goals which are shaped by the problems or tasks the firm have to emphasize. Domain conflict refers to which party has the right to make the decision in terms of range of products, population served, and functions performed. When one channel member in the distribution system considers that other participants do not take their responsibility or the duty to cooperate with each other, conflict likely emerges. In a multi-channel system, domain conflict will be more intense because the role of intermediary has been replaced by the new electronic channel in a certain extent. Besides, outside environmental stimuli will be interpreted subjectively by each channel member. When the difference of perception within channel members is huge, perceptual conflict happens.

3.5 Channel conflict resolution

3.5.1 Conflict resolution model

When conflict happens in the channel system, channel managers should take some actions to minimize and resolve the conflict, if it seems to be adversely affecting channel efficiency (Bucklin et al 1997). Several conflict resolution mechanisms can be found in several previous marketing channel articles (i.e. Rosenberg 1974; Dant and Schul 1992; Stern et al 1996). Nevertheless, it seems that these resolution methods have not been classified properly. In this research, a conflict resolution model (Figure 3.3) suggested by Coughlan et al (2006) is adopted[6] as a model to classify previous channel conflict resolution strategies. This conceptual model has two axes: assertiveness (concerning one's own outcome) and cooperativeness (concerning other party's outcome).

Assertiveness refers to the degree (low to high) to which a firm puts emphasis on their own concerns. Cooperativeness explains the degree (low to high) to which a firm desires to satisfy the concerns of their channel partners. Combinations of the two axes results in four categories (conflict resolution styles) which are avoidance, accommodation, compromise/collaboration, and competition. This framework is used as the basis for reviewing previous research in this area which is classified into these four categories.

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[6] According to Coughlan et al (2006), this framework bases on Thomas' (1976:900) framework. However, compared with another framework (Rahim 1992; 2000) which is also bases on Thomas (1976), there is a slight difference between Coughlan et al (2006) and Rahim (1992; 2000). According to Coughlan et al 2006, two conflict approaches, compromise and collaboration, are classified in the same category. However, in the literature of organizational behaviour, Rahim (1992; 2000) classified these approaches into two different categories.

Figure 3.3: Conflict Resolution styles

High
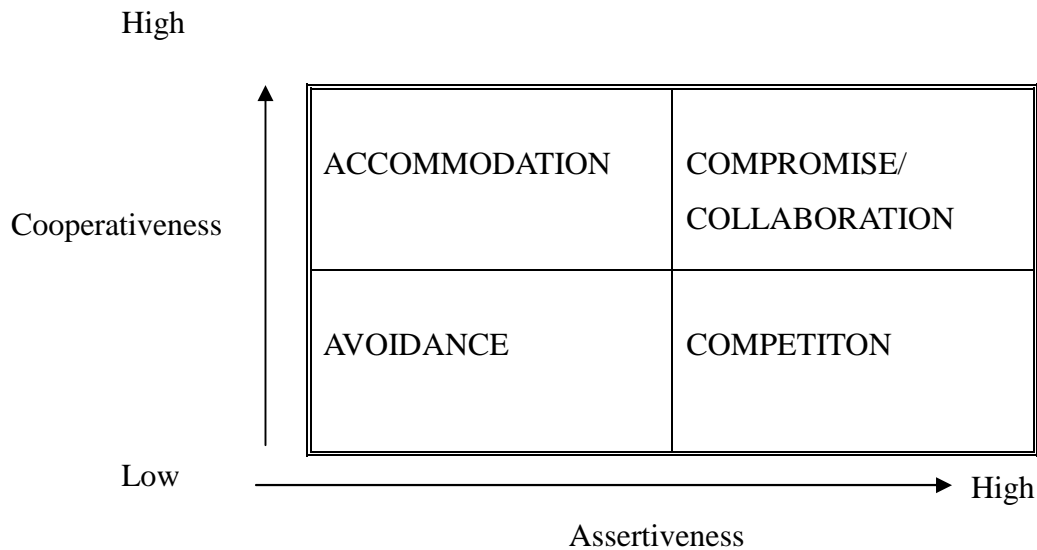
Source: Coughlan et al (2006: 275)

3.5.2 Avoidance

The style of avoidance is easily adopted by a passive channel member (Coughlan et al 2006). Avoidance happens, when organizational partners physically or psychologically remove themselves from the conflict scene or episode. People often take activities by denying discussion of conflict, being indirect and evasive, and changing argument issues as a method to avoid dealing with the conflict at hand, as according to Gross and Guerrero (2000) based on laboratory research involving 100 students in a study of inter-organizational conflict. An example provided by Kumar (1996) from his observation about channel relationships is that in order to obtain a better shelf place than their competitors in a retailer store, manufacturers usually are willing to pay for the shelf place or participate in the chain's promotional programs instead of asking or arguing for equal treatment from intermediaries.

One characteristic of the avoidance style mentioned by Coughlan et al (2006) is that when the avoidance approach is adopted, channel partners often minimize information exchange in order to resolve conflict quickly. It means that the avoider desires to save time and head off unpleasantness and they usually circumvent

discussion about channel conflict issues. However, Etgar (1979:65) notes that, "without communication between channel members that would lead to misunderstanding, incorrect strategies, and mutual feelings or frustration". It seems that the lack of communication and information exchange is the main shortcoming and critical point to this conflict resolution style.

Furthermore, although this resolution style, avoidance, is mentioned in some organization behaviour literature (i.e. Thomas 1977; Rahim 1992; 2000; Gross and Guerrero 2000; Coughlan et al 2006), it seems that in the marketing channel area, few studies have confirmed and discussed the effectiveness of this resolution style whether under a single channel structure or multi- channel structure. It seems that more empirical research is required to confirm this conflict resolution style.

3.5.2.1 Avoidance in a multi-channel system

Webb (2002) offers several propositions to resolve conflict arising from the development of the internet channel and most propositions might be classified into the avoidance style. Using the 4P's classification an explanation is below.

A. **Price**: Do not offer a lower price on the supplier's web site than the customer can find from channel members

This is because for a large number of intermediaries the most significant threat posed by the internet is that profits will be eroded drastically by intensified price competition, especially when consumers can search the prices of merchandise easily (Alba et al 1997). Research conducted by Brynjolfsson and Smith (2000), to compared the price of books and CDs at online and conventional retail outlets, confirms that the online price is usually cheaper than the offline price. In a similar empirical study Ancarani (2002) also illustrates the same result. In addition, Ancarani (2002) also argues that it is very likely for customers to compare prices from different web sites because of very low search costs and therefore, competitors are only 'a click away'.

B. **Distribution:** Manufacturers can divert the fulfillment of orders placed on their website to their channel partners.

Using functional analysis, Tamilia et al (2002) mention that for the tangible product, manufacturers still require the assistance of intermediaries to conduct fulfillment, especially products that require high personal experience or specific product information. Therefore, manufacturers can transfer the online order to their intermediaries and rely on intermediaries to finish the delivery process. However, Steinfield et al (2005) argue that this approach does not take the full advantage of the internet's ability to wring costs out of the system.

C. **Promotion:** Manufacturers can utilize the web site to promote their channel partners or encourage channel partners to advertise on the supplier's web site.

Gilbert and Bacheldor (2000) note that the internet channel offers an excellent opportunity for manufacturers to promote information directly to end customers. Meanwhile, there is nothing to prevent manufacturers from also promoting their intermediaries on their website, encouraging online consumers to utilize the other channels. For example, a customer can enter his zip code and find the nearest intermediary from whom they obtain the product (Mohr et al 2005). Webb (2002) suggests that this method can reduce the tension of being bypassed from intermediaries and channel conflict can be controlled at a lower level.

D. **Product:** Manufacturers can limit their product offering on the internet to items not sold by their traditional channels or use a different brand name for products offered on their website.

Although this proposition is suggested by Webb (2002), for a real example, it seems that channel conflict cannot be handled easily. For instance, Reflect.com is the first internet brand for P&G and it is the first to offer truly customized beauty care products online. This web site allows P&G to sell merchandise directly to end customers and clients can purchase product formulations that traditional retailing outlets do not carry. Reflect.com provides more than 40,000 possible combinations of product attributes and service (Ancarani 2002). However, P&G terminated this web site at the end of June 2005.

Although the reason for P&G to close down their online store could be variety, channel conflict between channel partners seems to be one of the possible explanations. This brand segmentation seems not to work efficiently. Another possible explanation is that by increasing the number of branded variants, each brand of manufacturers will become less attractive. It is because "the easy search-and-compare aspects of the internet could render transparent the existence of trivial differences between models, forcing manufacturers to create larger differences in their variants" (Alba et al 1997:50). Furthermore, a cross-channel brand can assure customers of a certain level of product quality (ibid.). When a cross-channel brand is adopted, the instant credibility can be transferred to a web site. On the other hand, this advantage could disappear, if suppliers adopt a different brand name, as Gulati and Garino (2000) observe in a multi-case study about the development of the internet channel.

Again, it seems that more empirical research should be done to prove and test effectiveness of this conflict resolution approach, avoidance, within single channel and multi-channel structures.

3.5.3 Accommodation

Accommodation is more than just a method of maintaining the peace between channel partners. This style is a proactive means of strengthening the relationship by cultivating the other channel member (Coughlan et al 2006). In quasi-experimental research, Bradford et al (2004) define and suggest that adopting this approach means that manufacturers may desire to create an environment where each party can exchange information and accept the other members' perspectives (Bradford et al 2004). In two empirical surveys (Dant and Schul 1992; Ganesan 1993), authors describe this approach as 'institutional mechanism'. Dant and Schul (1992:39), in a survey of franchisees, describe the institutional mechanisms aim as increasing the interaction and communication among channel members. Based on previous literature, three strategies which are (a) exchange of persons, (b) joint membership in

trade associations, and (c) education and propaganda might be suitable to fit into this category.

A. Exchange of persons

As the name implies, exchange-of-persons is a bilateral trade of personnel for a specified time period. For example, sales people employed by a manufacturer can spend time as employees of intermediaries (Stern et al 1973). In a laboratory experiment, conducted by Stern et al (1973), they predict two strategies, the introduction of superordinate goals and exchange of people, can mitigate conflict between channel members. Narus and Anderson (1987) suggest that through the process of people exchange, channel members can increase their understandings of one another's roles and difficulties in performing those roles. Each channel member can have a better understanding about needs, problem, and *modus operandi* from each other. Furthermore, Stern et al (1989) also agree that conflict caused from goal incongruity and domain dissonance can be reduced effectively by the deeper interconnection between channel partners.

Although Stern et al (1973) demonstrated that the effectiveness of this strategy proves to be statistically significant, the costs of exchange-of-persons programs do not always make them feasible (Rosenbloom 2004). Besides, this strategy requires a high degree of information sharing (Dant and Schul 1992). Deciding on a strict guideline in order to protect sensitive information is still a critical problem for channel managers.

B. Joint membership in trade associations

Joint membership in trade associations is another institutional mechanism to enhance the relationship between channel partners and the cost of this mechanism is cheaper than person exchange programs (Stern et al 1989). Moreover, trade associations can provide a platform for organizing regular meetings between channel partners. In a survey of 504 sets of manufacturer and distributor firms to study working

partnerships between channel members, Anderson and Narus (1990) confirmed that through periodic communication on progress towards the performance objectives, including discussion of any changes in marketplace or production conditions, channel members can enhance trust and satisfaction with the working partnership. Moreover, this sense of trust could enhance partnership and reduce channel conflict.

In several conceptual articles (i.e. Rosenberg 1974; Narus and Anderson 1987; Rosenbloom 2004), scholars mention that through regular meetings, channel partners become less hostile towards each other. At the same time, manufacturers and intermediaries can share a common task and effectively coordinate their activities. As Rosenberg (1974:72) mentions, "Joint meeting of parties among which conflict exists should be held on a regular basis so they may see each other's view of the same conflict issue. The larger the number of intra and inter-organizational units at a given meeting, the greater the inducement of concerned parties to a conflict issue to air and resolve the conflict".

However, formal meetings between channel members may not be arranged every day. Stern et al (1989) argue that sporadic interaction between channel members at trade associations is not adequate to resolve arguments that emerge every day and long-term incompatibility over goals. Besides, this strategy, joint membership in trade associations, is mentioned largely by conceptual articles. Therefore, more empirical research is required.

C. Education and propaganda

This strategy is mainly based on some conceptual articles. It seems that empirical research is lacking to confirm this strategy.

"Distribution partners should engage in 'educative communication', because even when no reasonable solution seems to exist, conflict may be resolved if the parties accept the situation as normal" (Rosenberg 1974:72). There is a slight difference between this educational mechanism and the previous two mechanisms. The previous

two are bilateral. This resolution mechanism puts more emphasis on utilizing information and educational activities to modify the values or norms of channel members. It can be argued that this mechanism is more like a one-way direction method. According to Stern et al (1989), an effective education program can be utilized to enhance knowledge and understanding, cultivate goodwill among channel members, and influence channel partners to follow a certain course of action.

In a study of conflict and power-dependence relations in retailer –supplier channels, based on survey data, Brown et al (1983) confirm that the non-economic power bases perceived to be held and utilized by the supplier will inversely affect the extent of conflict perceived by the retailer. In their typology, the non-economic power includes identification, expertise, legitimate, and information powers. "The information power refers to the supplier's ability to (1) provide information not previously made available to the retailer, and (2) interpret existing information in ways that are meaningful but not yet known by the retailer" (Brown et al 1983:56). This research seems to give indirect support towards the effectiveness of the education and propaganda strategy.

3.5.4 Compromise and Collaboration

According to Coughlan et al (2006), under channel conflict, when firms concern not only themselves but also channel partners, two conflict resolution styles can be considered: compromise and collaboration. The main differences between these two conflict resolution styles are the amount of information sharing between channel partners and the extent of organizational integration. As scholars (Rahim 1992; Gross and Guerrero 2000) note, when the compromise style is utilized, channel conflict is not explored in as much depth as adopting the collaboration style.

3.5.4.1 Compromise

Compromise involves give-and-take or sharing whereby each party achieves its goals but only to an intermediate degree (Dant and Schul 1992; Rahim 1992; Ganesen

1993; Coughlan et al 2006). In a survey, Dant and Schul (1992:39) describe this approach as 'persuasion' and " in the use of persuasion to resolve conflicts, each party is seen as attempting to alter the other party's perspective or decision criteria relating to the focal issues". In another survey, Ganesen (1993:186) describes that "compromise strategy is the resolution of conflicts by developing a middle ground on a set of issues based on the initial positions of both parties". In this survey (Ganesen 1993) the result illustrates the use of compromise strategy in resolving minor channel conflict. Two mechanisms, economic incentive and third-party mechanism, can be classified into this category.

A. Economic incentive

Some scholars (Lusch 1976 a; Moriarty and Moran 1990; Friedman and Furey 2003; Vinhas and Anderson 2005; Coughlan et al 2006) suggest that the economic incentives (i.e. rebate, overrides, or advertisement allowance) can be an excellent method to resolve the channel conflict regardless of the personalities, the players, and the history of their relationship. As Friedman and Furey (2003) suggest, one channel member can make a certain degree of concession to other channel partners in order to achieve its own business goal and resolve disputes quickly. For example, in order to boost sales volumes, suppliers would offer a better gross margin to their intermediaries.

In a survey of dealers in the car industry, Lusch (1976a) confirmed that the stronger the non-coercive methods that the manufacturer has over the dealer, the fewer disagreements (conflicts) the dealers will have with manufacturers. In this survey, non-coercive methods include sales promotion kits, salesman incentive programs, dealer incentive programs, and inventory rebates etc. Before the prevalence of the internet channel, Moriarty and Moran (1990) suggest that firms utilizing a multi-channel system depend heavily on compensation polices to resolve conflict between channel members. They suggest the most common method is that the firm can pay personnel in the older units to allow personnel in the newer units to make the sale. In a recent survey with manufactures in diverse industries, Vinhas and Anderson

(2005:510) prove that "the greater the extent to which the manufacturer double compensates when using multiple channels, the lower is the extent of destructive competition between integrated and independent channels when contacting the same customers".

In other words, firms can compensate a traditional channel, if it plays an important role in sales won by the other channel. An example is the former Compaq. When they (Compaq) sell PCs directly to end customers, they compensate their intermediaries with an estimated 6 percent of commission regardless of whether they make a sale or not (Mohr et al 2005). However, Vinhas and Anderson (2008) note that this mechanism could sacrifice short-term profit. This may not match the original incentive, cost saving, of the development of the virtual channel.

B. Third-Party Mechanisms

Mediation and arbitration are mechanisms to bring outside third parties in the channel system and both mechanisms are designed to prevent conflict from arising or to maintain manifest conflict within bounds (Coughlan et al 2006). The main difference between these two mechanisms is the control level of the outside third party. Arbitrators can take away a good deal of control, even complete control. However, mediators can merely take away limited control and arguing channel partners can reject the opinion from mediators (Ross and Conlon 2000). Both mechanisms have several advantages. For example, scholars (Ross and Conlon 2000; Coughlan et al 2006) note that in general, mediators have different views and considerations of the situation and would provide different conflict resolution solutions that 'insiders' cannot perceive. Furthermore, Carver and Vondra (1994) suggest that an excellent moderator can clarify facts and issues and meanwhile, keep channel members in contact with each other. Through this process, channel members and the moderator can discover the possible agreement or encourage parties to agree specific proposals. Besides, compared to litigation, arbitration has several advantages such as quick procedure, preserving secrecy, less expensive than litigation, solving

problems in the incipient stage, and often taking place before industry experts (Weigand and Wasson 1974; Rosenbloom 2004).

Nevertheless, the third party mechanism still has its shortcomings. For example, Stern et al (1989) mention that the legislated resolutions for the current situation may not be equitably applied to future conflicts in different channel contexts. In other words, the relationship and atmosphere between channel members are not changed fundamentally. Besides, Rosenbloom (2004) mentions that when power between channel members is not equal, channel members with less power prefer to resolve conflict by going to court directly because equity for relatively small partners can be protected more.

Again, the discussion about this conflict resolution strategy, mediation and arbitration, is mainly based on conceptual literature. It seems that limited empirical research has been conducted to confirm this strategy, especially under multi-channel circumstances. More empirical research is required.

3.5.4.2 Collaboration

The collaboration style is utilized when firms desire to build a close, committed relationship with their channel members. Scholars (Dant and Schul 1992; Ganesan 1993) describe this approach as 'problem-solving'. "When problem solving is evident, the participants in the dispute are seen as a priori sharing common objectives and involving themselves in a high risk but integrative process of identifying a solution that satisfies both parties' decision criteria" (Dant and Schul 1992:39). A survey conducted by Ganesan (1993) reveals that the use of problem-solving strategy exists in resolving major conflicts. A conflict resolution method, setting super-ordinate goals, mentioned by Stern et al (1973 1989) and Hunger and Stern (1976), seems suitable to place in this category.

- **Setting super-ordinate goals**

Super-ordinate goals are common objectives shared by channel members involved in conflict. "It is a goal of high appeal value for conflicting groups…., but whose attainment is beyond the resources and efforts of any one group alone. A super-ordinate goal will, supposedly, cause two conflicting groups to re-conceptualize the situation—thus reducing ethnocentric attitudes and unfavourable stereotypes of the other group, as well as reducing conflict-oriented behaviour" (Hunger and Stern 1976: 592).In other words, super-ordinate goals cannot be achieved by any one channel member and require the collaborative effort of the whole channel to be attained (Stern et al 1989). Moreover, even if the outside threats disappear, previous experience of working together to counter the outside threat will cause channel members to gain a greater understanding of one another's goals, methods of operation, and problems in doing business (ibid.).

Nevertheless, the effectiveness of this conflict resolution method is still arguable. For example, in laboratory research conducted by Stern et al (1973), the result is inconclusive regarding the super-ordinate goal approach. In a similar experiment conducted by Hunger and Stern (1976), the result demonstrates that the super-ordinate goals approach can be effective in reducing felt conflict. However, more empirical research outside the laboratory seems to be necessary. Webb (2002) also suggests a proposition that to set a super-ordinate goal between channel partners is helpful to mitigate conflict arising from the development of the internet channel.

3.5.5 Competition

"Conflict is costly. But this does not mean that an organization always should avoid conflict and the benefits of change may be worth the costs of conflict" (Coughlan et al 2006:251).Although, in a survey of retail pharmacists, Robbins et al (1982) suggest that better channel management methods have been sought to improve relationships among channel members in an attempt to reduce harmful channel conflict and thereby to improve channel performance, Mohr et al (2005) note that it

is not surprising for companies to compete with intermediaries directly when they face channel conflict. For example, Lee and Shu (2005) mention that companies might aggressively utilize the internet channel to alter their current distribution structure and to expand their market.

In a survey of retailers, Ganesan (1993) describes this competition approach as an 'aggressive strategy' and this conflict resolution style is the attempt to resolve conflicts through the implicit or explicit use of threats, coercive solution, and punishment. In this research, the result indicates a negative relationship between the use of aggressive strategy to resolve major conflict and maintaining long-term relationships. In a laboratory experiment conducted by Gross and Guerrero (2000:206), they argue this style "relies on the use of position power, aggression, verbal dominance, and perseverance". In their research, data illustrates that this style of conflict resolution is effective while inappropriate compared with other resolution styles such as accommodation or collaboration mentioned above. As Coughlan et al (2006) claim, if manufacturers still desire to keep a long term relationship with intermediaries, to limit the usage of aggressive mechanisms is necessary. It is because the competition style often fuels conflict easily and destroys the relationship between channel members.

In a study of 20 companies with both online and offline channels, Lee et al (2003) suggest that when companies develop the multi-channel structure, the competition approach might be applied. In their research, they suggest a channel absorption strategy.

- **Channel absorption**

Lee et al (2003) mention an extreme circumstance that manufacturers can aggressively merge their previous intermediaries inside their channel structure in order to remove channel conflict and sell their products exclusively through their own channels such as the internet, mail catalogue, or telephone. An example is Dell mentioned by Lee et al (2003). Through this method, manufacturers can have full

control of how they desire to promote their products and are in a better position to stay in touch with the end customer, according to Lee and Shu (2005). Meanwhile, the tension within channel partners will not exist anymore. However, an interesting phenomenon [7] is that Dell is starting to sell its product through the traditional channel. In 2007, Dell began to sell its computer products through Wal-Mart and Best Buy. Perhaps, there might be other strategies that can be classified into this category. More empirical research is required.

3.5.6 Summary

Based on a framework provided by Coughlan et al (2006), several conflict resolution mechanisms can be classified into four categories (conflict resolution styles) : avoidance, accommodation, compromise/ collaboration, and competition (Table 3.2).Avoidance happens when channel partners physically or psychologically remove themselves from the conflict scene or episode. However, one shortcoming of the avoidance style is that conflict still exists because channel partners do not exchange information interactively and discuss the issue of channel conflict. In a conceptual framework article, Webb (2002) offers several propositions for firms to manage channel conflict within a multi-channel system. The majority of propositions can be classified into this avoidance style such as setting a higher online price or not taking the online order.

Accommodation is more than just a method of maintaining the peace between channel partners. This style is a proactive means of strengthening the relationship by cultivating the other channel member instead of avoiding information exchange and conflict. Ganesan (1993) describes this approach as 'institutional mechanism'. Three mechanisms: exchange-of-people, joint trade associations, and education and propaganda programs could be classified into this category.

Under channel conflict, when firms are not only concerned about themselves but also channel partners, two conflict resolution styles, compromise and collaboration, can

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[7] http://news.cnet.com/8301-10784_3-9829935-7.html

be considered. The main differences between these two styles are the amount of information provision between channel partners and the extent of organizational integration. Economic incentives and third-party mechanisms can be classified into the compromise style because by utilizing these strategies, both channel partners make some concessions in order to achieve business goals quickly. Setting a super-ordinate goal can be classified into the collaboration style because setting a super-ordinate goal requires the sharing of a high degree of information and the collaborative effort of the whole channel to be attained.

The channel absorption strategy could be classified into the competition style. It can be argued that by utilizing the competition style to resolve channel conflict the relationship between channel partners will be broken or even eliminated. As Gross and Guerrero (2000) claim, competitive conflict resolution may be effective to create profit but not appropriate for the partnership between channel partners.

Table 3.2: Conflict resolution strategies in previous channel articles

Conflict resolution styles	Conceptualization	Specific mechanisms in previous literature	Reference
Avoidance	Avoidance happens when channel partners physically or psychologically remove themselves from the conflict scene or episode (Gross and Guerrero 2000).	• Setting a higher online price • Sending online order to intermediaries • Utilizing the web site to promote their channel partners • Limiting product offering on the internet	Alba et al (1997) Gross and Guerrero (2000), Ancarani (2002), Webb (2002), Mohr et al (2005)
Accommodation	This style is a proactive means of strengthening the relationship by cultivating the other channel member instead of avoiding information exchange and conflict (Coughlan et al 2006).	• Exchange of persons • Joint membership in trade associations • Education and propaganda	Rosenberg (1974), Stern et al (1973 1989), Anderson and Narus (1990) , Dant and Schul (1992), Ganesan (1993), Bradford et al (2004)
Compromise /Collaboration	Compromise means that each party achieves its goals but only to an intermediate degree (Rahim 1992; Ganesen 1993; Gross and Guerrero 2000). Collaboration means channel partners build a close, committed relationship with their channel members.	• Providing Economic incentives • Third-party mechanisms • Setting super-ordinate goals	Stern, Sternthal, and Craig (1973), Weigand and Wasson (1974) Hunger and Stern (1976), Stern et al 1973 1989 1996), Moriarty and Moran (1990), Webb (2002)
Competition	Channel partners compete with each other (Coughlan et al 2006)	• Channel absorption	Lee et al (2003), Lee and Shu (2005)

3.6 Chapter summary and research gaps

A multi-channel system occurs when existing suppliers add new types of distribution channels to their supply network, especially the internet channel (Webb and Hogan 2002; Coughlan et al 2006; Gassenheimer et al 2007), as a method to increase product availability and revenue through maximum exposure to potential customers.

However, a side effect is "the potential creation of overlapping markets that may cannibalize existing distributors' customer base" (Gassenheimer et al 2007:606). Channel conflict is likely to emerge when the new channel is added.

Channel conflict is a dynamic process, as Brown et al (1983:58) note "the conflict process is composed of a series of episodes where each episode builds upon the previous one and provides the conditions for subsequent ones". From previous research, conflict can be roughly classified into four episodes: latent, perceived, felt, and manifest conflict. Furthermore, according to Eliashberg and Michie (1984), sources of conflict should be identified before designing conflict resolutions. Based on previous channel conflict studies, there are three primary sources of conflict: goal incongruity, domain dissonance, and perceptual difference. In addition, based on a framework provided by Coughlan et al (2006), several conflict resolution mechanisms can be classified into four categories: avoidance, accommodation, compromise/collaboration, and competition.

- **Research gaps**

It seems that there is a clear research gap in the literature. It seems that very little literature has discussed sources of conflict within the multi-channel system and how to resolve conflict arising from the development of the internet channel. How to minimize conflict in the context of a multi-channel structure is an emerging research issue identified by a number of scholars (i.e. Frazier 1999; Schoenbachler and Gordon 2002; Webb 2002; Lee et al 2003; Rangaswamy and Van Bruggen 2005; Rosenbloom 2007; Webb and Lambe 2007). However, the majority of previous channel conflict research has tended to focus on conflict (vertical and horizontal conflict) between two organizations under a single channel structure (e.g., Lusch 1976; Stern and Reve 1980; Brown and Day 1981; Eliashberg and Michie 1984; Gaski 1984; Anderson and Narus 1990), whereas empirical research focusing on conflict in a multi-channel system has received much less attention (Webb and Lambe 2007). Moreover, the specific impact of adding an internet channel to an existing mix of physical channels has also received much less attention

Even in a single channel circumstance, some conflict resolution strategies (i.e. setting a super-ordinate goal) are merely tested in experimental conditions. Furthermore, some conflict resolution strategies mentioned in this chapter are based on conceptual articles (i.e. third-party mechanism and education and propaganda). Empirical research and evidence is lacking from literature. In a conceptual article, Webb (2002) offers some propositions to resolve conflict arising from the development of the internet channel but it seems that more empirical research and evidence are required.

Chapter 4

Methodology

4.1 Introduction

Chapters 2 3 identified a number of research gaps from previous literature. For example, the drivers for the development of an internet channel, the design patterns of the multi-channel structure, and internet conflict management have not been fully explored in previous studies. Thus, this study attempts to understand these issues in more detail and offer empirical insights. A detailed justification of the three research questions guiding the research is provided in this chapter. This Chapter also outlines the research strategy and methods used in this research. Choosing a suitable research strategy and method is complicated because they are closely tied to different visions of how social reality should be studied (epistemology). As Blaikie (2006) notes, research methods are not neutral tools. They are linked with the ways in which social scientists envision the connection between different viewpoints about the nature of social reality and how it should be examined. This chapter gives a detailed explanation of these methodological issues. There are five sections in this chapter. After discussing the research questions, justifications for the research strategy and methods are presented. Then, the data collection and analysis processes are explained, including a discussion of validity and reliability. A brief chapter summary is provided at the end.

4.2 Research Questions

There are three research questions in this research:

Question 1*: What are the factors encouraging manufacturers to develop the internet channel, especially manufacturers with a well established distribution channel?*

Question 2: *What are the channel design patterns of the multi-channel structure?*

Question 3*: How can channel conflict arising from the development of the internet channel be minimized?*

4.2.1 Research question one

What are the factors encouraging manufacturers to develop the internet channel, especially manufacturers with a well established distribution channel?

Rangaswamy and Van Bruggen (2005:7) claim that "Although many managers are seeking information and insights on multi-channel marketing, few academic studies have been devoted to systematically investigating the drivers and consequences of multi-channel marketing". Furthermore, Coelho and Easingwood (2008:32) make a similar statement: "The number of companies using multiple channels in the distribution of each of their products is increasing steadily. Despite this popularity, the drivers of these channel strategies remain virtually unknown". It is suggested by Stern and Reve (1980) that choice of channel represents a long-term commitment. For example, heavy investments are required for the manufacturer to build a solid relationship with their intermediaries (Lee and Shu 2005). Even though the development cost for a virtual channel is cheaper than for a physical channel, some social attributes of the original distribution channel, such as trust between customers, are not easily redeployed (Tsay and Agrawal 2004a). Moreover, cannibalization and channel conflict is still an important consideration for a large number of managers, when they attempt to add the internet in the multi-channel system. For example, Gassenheimer et al (2007) mention that several firms such as Compaq, HP, and GM encounter dissatisfactions from their channel partners, when they develop the internet channel into their channel portfolio.

Therefore, "the implementation of the hybrid channel distribution is inherently challenging" (Gassenheimer et al 2007:605). Since changing or adding a new channel is not an easy task for manufacturers, it is a critical issue that requires further exploration: under what circumstances, will a manufacturer be prompted to introduce the internet channel, especially firms with a well established indirect sales channel? This is a particular concern because, according to the reasoning of Stern et al (1996:31), "A prerequisite to the effective management of marketing channels is knowledge of the reasons channels exist, the functions they perform, and the factors

that account for the way they are structured". Furthermore, "multiple channels can only be properly managed if there is an understanding of the reasons why such distribution structures emerge" (Coelho and Easingwood 2008:32).

However, it seems that very few academic studies have discussed this issue. As Coelho and Easingwood (2005:199) mention, "the importance of factors in the design of multiple channels has seldom been discussed and furthermore, there is a lack of research in respect of the reasons why multiple channels of distribution emerge". It seems that most previous articles merely discuss potential advantages and disadvantages of combining the internet channel within a multi-channel structure while the drivers of channel combinations remain virtually unexplored. In previous literature, only four articles (Table 4.1) have discussed the factors for firms to develop a multi-channel structure, including the internet channel. Furthermore, all these four studies refer to the financial services industry in the UK. It seems that more empirical research is required, especially in industries with tangible products.

Table 4.1: Factors to develop the multi-channel structure from previous research

Authors	Factors to develop the multi-channel structure
Coelho and Easingwood (2005)	(A) External environmental heterogeneity (B)External environmental volatility (C)External environmental conflict
Harrison and Waite (2005); Harrison et al (2006)	(A)Emergent (B)Deliberate (C)Responsive (D)Me-too
Hughes (2006)	(A)Cost savings and productivity gains (B)Potential for business expansion
Coelho and Easingwood (2008)[8]	(A) Channel service outputs (product sophistication; market target sophistication; channel conflict) (B) Market resources (market maturity) (C) Resource-based issues (competitive strength; scope economies; company size)

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[8] This article is a little different compared with previous three. In this article, authors predict that several variables will influence the development of the internet channel. For example, authors predict that the relationship between channel conflict and the multi-channel usage is described by an inverted U function. It dose not mean that channel conflict is a motivation for companies to develop the multi-channel system.

4.2.2 Research question two

What are the channel design patterns of the multi-channel structure?

When discussed the issue of the multi-channel system, Porter (2001:64) claims that "the key question is not whether to deploy internet technology—companies have no choice if they want to stay competitive—but how to develop it". Steinfield et al (2002 a b) in their empirical study offer a channel design pattern—the synergistic multi-channel structure (Figure 2.4 in chapter 2) and based on this concept, clicks and mortar companies achieve a number of potential advantages which are not available to pure online or traditional offline competitors, such as in store pick-up and return of online orders to the physical channel (Steinfield et al 2002 a b; Tsay and Agrawal 2004 b; Berman and Thelen 2004; Wallace et al 2004; Agatz et al 2008). Furthermore, based on the same concept, a customer survey conducted by Wallace et al (2004) shows that customer loyalty can be improved, when firms develop a synergistic multi-channel structure. However, a study conducted by Steinfield et al (2005) to analyze the web sites of 985 U.S.–based companies having both online and offline channels illustrates that only 33% of companies own a web site where consumers can complete a full order and transaction online and only 8% of companies allow customers to return items purchased online to retail outlets whereas only 6% allow online orders to be picked up at a retail outlet. The proportion of companies that take full advantage of a multi-channel is low. Steinfield et al (2005) agree that the synergistic multi-channel structure is uncommon. Compared with their previous research (Steinfield et al 2002 a b), this result is different.

It seems that to develop a channel structure including both physical and virtual channels is more difficult than many people expect. One of the critical aspects in previous literature about the multi-channel strategy is that most articles are based on an assumption: virtual and physical channels will be highly synergistic and integrated with each other automatically (Figure 2.4). However, a study conducted by Hughes (2006) in the financial services industry describes that firms often arrange their virtual and physical channels separately. Hence, the assumption, the synergistic

channel, might be over optimistic and underestimate the challenges of implementing a multi-channel strategy. Rosenbloom (2007:5), in a conceptual article, argues that "Integrating online channels with conventional channels to create a "seamless" experience for customers is, of course, the ideal situation—in theory at least. In practice, however, such seamless integration is still more the exception than the rule because substantial obstacles exist". However, Rosenbloom (2007) merely points out the impracticalities of the synergistic channel structure, yet he does not reveal the possibility of other types of channel structures and design patterns. A reasonable prediction is that although firms have offline and online channels at the same time, they might design the channel structure into different patterns.

It seems that more research should be conducted to explore the structural issue of the multi-channel system. In 2000, Kiang et al (2000:384) already mentioned "The existing research in channel design and selection has only considered the traditional channels, including the traditional intermediaries and direct sales force. There are no documented results or researches that provide a systematic method to guide evaluation, planning, and execution of the channel choice decision when it comes to internet marketing". Recently, several scholars (Gassenheimer et al 2007; Rosenbloom 2007; Sharma and Mehrotra 2007; Coelho and Easingwood 2008) suggest the need to explore the design patterns of the multi-channel system more. Before the prevalence of the internet, Rangan et al (1992) used functional analysis to discuss the channel design and selection between traditional direct and indirect channels. In this study, the same approach, functional analysis, is adopted as a tool to present statements from interviewees. Five channel functions are mentioned in section 2.4.2 and this study is going to explore these channel functions undertaken by virtual and physical channels in the context of the multi-channel structure.

4.2.3 Research question three

How can channel conflict arising from the development of the internet channel be minimized?

As mentioned in chapter three, when firms adopt the multi-channel strategy, including the internet channel, intra-brand competition and intra-channel conflict could become major problems. For example, Rangaswamy and Van Bruggen (2005) mention that even if a company has no desire to make direct sales to end customers, its attempts to establish legitimate direct communications with end customers may be perceived by channel partners as creating the conditions for future conflict. Manufacturers are recognized as direct competitors and inter-type conflict occurs (Tamilia et al 2002). Moreover, it may lead to lowered levels of support from intermediaries (Frazier 1999). It seems that channel conflict is hard to avoid but Schoenbachler and Gordon (2002:45) argue that "multi-channel marketers should not worry about channel cannibalization and companies should develop an organizational structure that minimizes channel conflict".

How to minimize conflict arising from the development of the internet channel is an emerging research issue that is suggested by several scholars (i.e. Frazier 1999; Schoenbachler and Gordon 2002; Webb 2002; Lee et al 2003; Rangaswamy and Van Bruggen 2005; Rosenbloom 2007; Webb and Lambe 2007). Nevertheless, the vast majority of previous channel conflict research has addressed conflict (Vertical and horizontal conflict) between two organizations under a single channel structure (e.g., Lusch 1976 a b; Thomas 1976; Reve and Stern, 1979; Brown and Day 1981; Eliashberg and Michie 1984; Gaski 1984; Anderson and Narus 1990) and very little empirical research puts emphasis on exploring the issue of conflict in a multi-channel system (Webb and Hogan 2002; Webb and Lambe 2007). Although Webb (2002) suggests several propositions for managers to mitigate channel conflict arising from the development of the internet channel, the empirical supports are lacking. These propositions should be tested empirically. Rangaswamy and Van Bruggen (2005:8) suggest that "there should be more research to explore whether and how multi-channel systems and structures induce channel conflicts and how firms can mitigate such conflicts". In recent research, scholars (i.e. Sharma and Mehrotra 2007; Webb and Lambe 2007) still suggest that conflict issues in the multi-channel system should receive more attention, especially when firms have established indirect channels.

4.3 Justification of the research strategy and method

4.3.1 Key philosophical and methodological issues

Before discussing the research strategy and method in this study, key philosophical (epistemology) and methodological (the classification of research strategy) issues should be discussed in advance. As Blaikie (2006) mentions, each strategy has a philosophical and theoretical ancestry and foundation. When researchers attempt to choose an ideal research strategy and method, these issues should be considered carefully.

(A) Epistemology (how reality can be known)

"Epistemology is concerned with ways of knowing and learning about the social world and focuses on questions such as: how can we know about reality and what is the basis of our knowledge" (Ritchie and Lewis 2005:13). A particular central issue in this context is the question of whether the social world can be or should be explored according to the same principles, procedures, and ethos as the natural sciences (Bryman 2004). Positivism and interpretivism are two main epistemological positions.

Positivism is an epistemological position that suggests the application of the principles and methods of the natural science to the research of social reality and phenomenon. Although the constituent elements of positivism vary between authors, beliefs and practices associated with positivism usually include the following (Ritchie and Lewis 2005:17):

- The world is independent of and unaffected by the research.
- Facts and values are distinct, thus making it possible to conduct objective, value free inquiry.
- Observations are the final arbiter in theoretical disputes.
- The methods of the natural sciences (e.g. hypothesis testing, casual explanations and modelling) are appropriate for the study of social phenomena because human behaviour is governed by law-like regularities.

Interpretivism is another epistemological position and it often contrasts with positivism. It holds that human actions and social constructs should not be treated by researchers in the same method as natural objects. "Interpretivists argue that statistical patterns or correlations are not understandable on their own. It is necessary to find out what meaning (motivations) people give the actions that lead to such patterns" (Blaikie 2006:115). The main argument between positivism and interpretivism is that the subject matter of the social sciences, people and their institutions, is fundamentally different from that of the natural sciences. The difference between people should be respected. For example, some 'inside' elements, such as the motivations and intentions that people use in their everyday lives and that direct their behaviours. It requires the social scientists to grasp the subjective meaning of social actions (Bryman 2004) and interpretive social science is to discover and describe this 'insider' view, not to impose an 'outside' view on it (Blaikie 2006). According to Ritchie and Lewis (2005:17), interpretivism contains several elements:

- The researcher and the social world impact on each other.
- Facts and values are not distinct and findings are inevitably influenced by the researcher's perspective and values, thus making it impossible to conduct objective, value free research.
- Social world is not governed by law-like regularities but is mediated through meaning and human agency.

(B) Qualitative and Quantitative research strategy

In general, research strategy can be divided into two major areas: qualitative and quantitative research (Bryman 2004; Blaikie 2006). The quantitative research strategy is often linked to positivism and the qualitative research strategy usually connects to interpretivism. According to Burns and Bush (2003:204), "Quantitative research is defined as research involving the use of structured questions in which the response options have been predetermined and a large number of respondents are involved". Furthermore, quantitative research often involves a sizeable representative sample of the population and a formalized procedure for gathering data. Quantitative research can be constructed as a research method that puts emphasis on data quantification and that explains a deductive approach to the relationship between

theory and research in which the main point is placed on the testing of theory. Quantitative research incorporates the practices and standards of the natural scientific model and of positivism, in particular, and embodies a view of social reality as an external objective reality (Bryman 2004).

In contrast, qualitative research involves collecting, analyzing, and interpreting data by observing what people do and say. Observations and statements are in a qualitative or non-standardized form. For this reason, qualitative data can be quantified but only after a translation process (Burns and Bush 2003). Qualitative research strategy emphasizes an inductive approach to the relationship between theory and research (Bryamn 2004) and this strategy often helps to generate theory instead of testing hypothesis (Blaikie 2006). Bryman (2004:20) notes that "qualitative research has rejected the practices and norms of the natural scientific approach and of positivism in particular in preference for an emphasis on the ways in which individuals interpret their social world and embodies a view of social reality as a constantly shifting emergent property of individual's creation". Table 4.2 illustrates the main differences between quantitative and qualitative research.

Table 4.2: Some common contrasts between quantitative and qualitative research strategies

Quantitative	Qualitative
Numbers	Words
Point of view of researcher	Points of view of participants
Research distant	Researcher close
Theory testing	Theory emergent
Static	Procedure
Structured	Unstructured
Generalization	Contextual understanding
Hard ,reliable data	Rich ,deep data
Marco	Micro
Artificial settings	Natural settings

Source: adapted from Bryman (2004:287)

4.3.2 Research strategy

In this research, a qualitative research strategy is taken which is guided by the interpretive paradigm because the research problems in this thesis mainly involve

people's constructions of meaning. As mentioned above three research questions in this study are:

> *Question 1:* What are the factors encouraging manufacturers to develop the internet channel, especially manufacturers with a well established distribution channel?
>
> *Question 2:* What are the channel design patterns of the multi-channel structure?
>
> *Question 3:* How can channel conflict arising from the development of the internet channel be minimized?

It seems that these research questions are not expressed as precise, testable, closed yes/no propositions or hypotheses, but as general broad, open research issues. In other words, this research is not going to test hypotheses and get statistical results in the context of the multi-channel structure but to explore the motivations for the development of the multi-channel system, the possible design patterns, and the conflict management styles. All these points connect to human affairs and require rich and deep data to interpret the behaviours and attitudes of people in firms by learning about their social and material circumstances, their experiences, and perspectives. It would be difficult to utilize statistical analysis to interpret or describe human behaviours, decisions, and motivations and qualitative research is more suitable to achieve this objective. As Ritchie and Lewis (2005:50) suggest, "qualitative research can contribute by exploring how the reasons for, or explanations of, phenomena, or their different impacts and consequences, vary between groups".

Furthermore, as mentioned in section 4.2, it seems that the three research questions have been seldom discussed in previous literature. For example, as Webb and Lambe (2007:29) note, "Conflict is a critical concern with multi-channel strategies while there has been little academic research that examines conflict in a multi-channel context…..there may be important structural differences between the dynamics of single channel and multi-channel conflict". Coelho and Easingwood (2008:32) mention that "Despite this popularity, the drivers of these channel strategies remain virtually unknown". When the objective of a research project is understanding of a new phenomenon or the development of new theory, a qualitative research strategy is arguably more suitable than a quantitative strategy because it is typically associated with the generation rather than the testing of theory (Bryman 2004). This suggestion is taken in this research.

4.3.3 Research methods

It is clear that the process of qualitative research has a variety of approaches to collect data. For example, "certain data collection methods have been identified with qualitative research such as: observational methods, in-depth interview, group discussions, narratives, and the analysis of documentary evidence." (Ritchie and Lewis 2005:56). In this study, interview and documentary analysis are the two main methods used to collect research data.

A. Primary data source: interviews

Interviews contain different forms such as unstructured and semi-structured interviews (Bryman 2004). This method is particularly well suited to research that requires an understanding of deeply rooted phenomena or responses to complex systems, processes or experiences. It is because the in depth investigation can get close to the social actors' meanings and interpretations, to their accounts of the social interaction in which they have been involved (Blaikie 2006). Moreover, the interview is an approach through which a large amount of data can be gathered quickly (Yin 2003). In this research, interviews were held in a semi-structured form with all interviewees. Following the suggestion by Bryman (2004), an interview guide (See in Appendix) was prepared before conducing interviews with respondents. During the interview process, questions may not follow on exactly in the way outlined on the schedule and each interviewee can have a great deal of leeway in how to reply. It means that the interview process is flexible while all of the interview questions were asked and a similar wording was used from interviewee to interviewee.

B. Secondary data source: documentation

Apart from interviews, documentation was also used as a secondary data source. Documentation plays an important role in providing factual information and provides an outline perspective about the research area and organizations for researchers (Yin 2003). Documentation includes:

- Administrative documents, including reform proposals, progress reports, government policy documents, and other internal documents;
- Newspaper clippings and articles in the mass media;
- Agendas, announcements and minutes of meetings, and other written reports of events.

Besides, a large number of firms today have their own websites to publish company information and explain their management strategies. This is also a data source in this research. According to Yin (2003), the strength of documentation is that it can provide specific details to corroborate information from other sources. However, documentation might not be always accurate and could be biased. This is a weakness of documentation. It is because every document is written for some specific purpose and some particular target audience but not the purpose of this research. Ott (1989:109) claims that "official publications such as brochures, annual reports, and press releases…. Typically reflect only what a team of executives and public relations people want to convey publicly". Therefore, in this research, documentation analysis is considered as a part of data source and all documents will be compared with the information that is obtained from interviews in order to eliminate the bias.

4.4 Data collection and analysis process

4.4.1 Research location, target industry, and sampling firms

- **Research location :Taiwan**

This research is conducted in Taiwan and the main target interviewees are managers in the IT industry. From previous literature, it seems that limited research has been conducted in Asia to explore the internet channel motivations, the channel design patterns, and conflict resolution strategies. For example, as mentioned in section 4.2.1, some previous studies (Coelho and Easingwood 2005; Harrison and Waite 2005; Harrison et al 2006; Hughes 2006; Coelho and Easingwood 2008) have discussed the factors of the multi-channel structure development. Nevertheless, all these studies are conducted within the financial services industry in the UK. Furthermore, as it can be observed in section 4.2.3, few previous studies have

investigated channel conflict resolution strategies under the multi-channel context. Most previous studies discussed channel conflict under the single channel context. Besides, the majority of studies into channel conflict (i.e. Lusch 1976 a b; Thomas 1976; Reve and Stern, 1979; Brown and Day 1981; Eliashberg and Michie 1984; Gaski 1984; Anderson and Narus 1990) have been conducted in America.

Hence, it seems that research in Asia is necessary. In organizational behaviour literature, Suppiah and Rose (2006) mention that the majority of conflict management studies represent a Western bias. They suggest that the preference to adopt conflict resolution styles might be different in Eastern and Western countries. For example, they predict that in Asia the avoidance style might be more likely to be adopted in order to maintain relational harmony compared with Western countries. Nevertheless, more empirical research in Asia is required, as Suppiah and Rose (2006) suggest. Furthermore, considering the language restriction and research opportunities, Taiwan is considered as a suitable research location in this research due to the author's nationality. Although China may also be considered as a potential target country, according to Belcher (2006), e-commerce in China is still in the infant stage. Belcher (2006) mentions that China still lacks an online payment system of handing credit card transactions in a safe, efficient manner. Furthermore, incomplete logistic systems restrict how far apart sellers and buyers can be, hence delivering items can be problematic. [9]

- **E-commerce in Taiwan and target industry**

In Taiwan, the government has been encouraging actively the development of both business-to-business (B2B) and business-to-consumer (B2C) e-commerce. Meanwhile, online consumers continue to grow in number every year. According to a report from MIC (Market Intelligence Centre, the government-sponsored institute for information industry) (2008)[10], in 2006, the Taiwanese online shopping B2C market

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[9] http://www.ebusinessforum.com/index.asp?layout=rich_story&doc_id=9373&categoryid=&channeli d=&search=subscribers.To compare with Taiwan and China, Taiwan is chosen in this research. Further research might be conducted in China to compare the difference.

[10] http://news.networkmagazine.com.tw/trends

reached a scale of NT$97.95 billion, up from NT$51.07 billion in 2005, and in 2007 the total market for B2C Internet services jumped to NT$108 billion, 1.3% of the retail sector. Furthermore, MIC forecasts that the total B2C market would increase to NT$241.69billion by 2010.

As mentioned above, previous literature discussing the development of the internet channel mainly focuses on intangible products (i.e. the financial services industry). It seems that firms that carry tangible products should be explored further. According to government documentation, Taiwan e-commerce year book 2006 and 200711, in 2005 (Figure 4.1), the three largest e-commerce industries by proportion are travel services (60.08%), investment (18.38%), and 3C12 products (7.21%). 3C products are the only tangible products in the top three industries. In 2006, investment & financial management (44.7%) took the top spot and was followed by travel services (17.5%), beauty products (11.3%) and 3C products (6.3%). Although 3C products were shrinking as a percentage from 2005 to 2006, it still plays an important role in Taiwanese e-commerce.

Figure 4.1: Major 2005 online store products/services market scale proportions
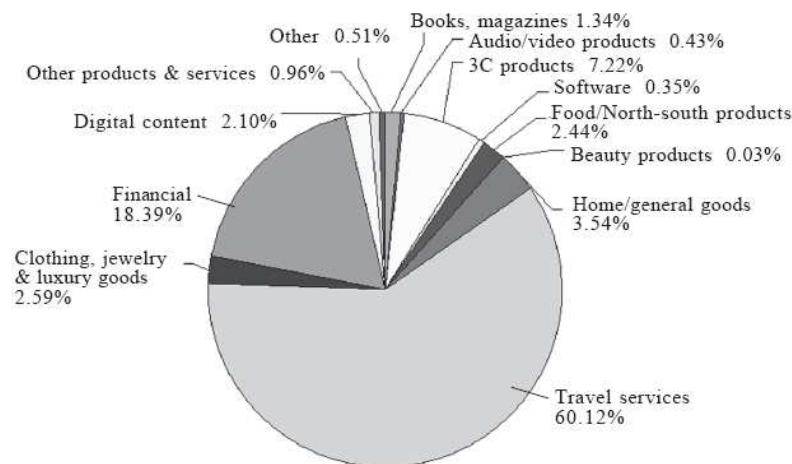
Source: Taiwan e-commerce year book (2006)

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[11] The year book is published by Ministry of Economic Affairs, R.O.C. Available at : http://www.moea.gov.tw/

[12] In Taiwan, the term 3C is used to describe consumer electronics. It stands for Computers/Communications/Consumer products, or else Computers/Cameras/Cell-phones. The term is not well known outside of Taiwan. (http://en.wikipedia.org/wiki/3C). It seems that in western countries, a common phrase is IT industry and product instead of 3C industry and product.

- **The Taiwanese IT industry**

In Taiwan, the IT industry is a leading industry. With the support from the Taiwanese government, in terms of financial and technological assistance, in recent decades, IT firms in the Taiwanese IT industry expanded from pure manufacturers, Original Equipment Manufacturing (OEM), to become global players in the IT market. With the increasing manufacturing experience and engineering capability, firms in the Taiwanese IT industry began to move into the Original Design Manufacturing (ODM) business. This means that firms in Taiwan now have the ability to help their clients to design and improve their product instead of a pure outsource manufacturer. Moreover, the OEM/ODM business experience enabled the IT firms in Taiwan to transform themselves into providers of integrated services such as Electronics Manufacturing Service (EMS). It means that many IT manufacturers in Taiwan can now provide the complete service of design, testing, manufacture, distribution, and return/repair services to their clients.

The capability of offering complete manufacturing flows places Taiwanese IT firms in an irreplaceable position in the global IT supply chain. Using the data provided (Table 4.3) by MIC (2008), presently, Taiwan foundry services, LCD panel, notebook PC, WLAN, networking access equipment, motherboard, and digital camera are all identified as the global number one provider. In addition, according to a recent report published by the Economist, in 2008 the global ranking for IT industry competitiveness, Taiwanese IT industry is number two[13]. Since the main research objective is to explore how manufacturers develop their virtual channel, manufacturers in the IT industry should be a meaningful target industry for this research. Hence, in this research, managers in the IT industry (3C industry) in Taiwan are considered as the main research targets to collect data from.

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[13] http://www.eiu.com/site_info.asp?info_name=bsa_tech_2008&page=noads

Table 4.3: Global market share of Taiwanese IT products

TW Production Share	2006	2007	2008 (f)
Notebook PC	87%	92%	93.3%
Desktop PC	30%	31.5%	33.7%
Motherboard	99%	98%	98%
Server System	34.8%	34.9%	35.7%
Small and Medium TFT Panel	30%	36%	37%
Large TFT Panel	48%	51%	49%
LCD Monitor	75%	77%	80%
DSC	36%	41%	45%
WLAN	87%	88%	87.5%
DSL	81%	86%	88%
VoIP	85%	85%	86%

Source: MIC (2008)

- **Sample of firms**

Since this research aims to understand the research objectives and questions mentioned above from the manufacturer's perspective, each interviewee's representative firm should fulfil the following criteria: (1) manufacturers should have their own online sales channel and (2) manufacturers still sell their products through the physical intermediary. In order to choose and make contact with these manufacturers a list, provided by NOVA[14], is used as a guideline to select the sample of firms. By using the internet to search for the information of these 356 companies (42 firms are foreign companies) one by one, 32 Taiwanese[15] IT companies were found to fit the criteria. A particular phenomenon observed from the search process is that although the majority of firms have their own websites, not all of them have their own online sales channel. Some firms only have product information on the website and others try to cooperate with outside online shopping platforms instead of

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[14] Nova is a chain system store of the IT products in Taiwan (http://www.nova.com.tw). Each year they will conduct a customer survey to evaluate the customer's favourite brand of the IT product. According to the data of 2006 (http://www.nova.com.tw/2006channel/item.php), NOVA classified a total number of 356 companies into 22 categories such as PC, Notebook, and printer.
[15] In this research, the foreign companies (i.e. Panasonic, Epson, Casio) are not chosen in order to have a pure focus on the Taiwanese company because the author concern that different organizational culture might influence the adoption of the styles of conflict resolution.

selling products directly themselves. These firms do not fit the criteria mentioned above.

A research plan was sent to sales / marketing managers in each potential company and then, 2 weeks later, the author made a personal phone call to contact each potential firm. Nevertheless, to invite a firm to participate in an academic study is very difficult, especially in Chinese society. Several firms responded that pure academic research, especially social science research, cannot immediately bring them any profit and, therefore, they did not have the interest to participate in the study. After contacting these 32 companies, five of them agreed to participate in this research. The companies are Dl, Ac, Tm, Ms, and Mi (Table 4.4). The main manufactured products of each manufacturer were different.

Dl and Ac Companies are wireless equipment manufacturers. Dl Company is the brand leader in this area. In 2005, 2006, and 2007, Dl won the No. 1 position in the survey conducted by NOVA. Ac also won the No.3 position in 2006. Tm and Ms Companies both won the competition conducted by NOVA in 2006. Ms Company is the third biggest motherboard maker in Taiwan and the fifth biggest in the world, whereas, in 2002, Tm Company was the biggest Dram module manufacturer in Asia and, in 2006, it was the fifth biggest Dram module maker in the world[16]. The main product line in Mi Company is scanners including low/high-end scanners. Mi Company was the biggest scanner maker in the world during the 90's. Nevertheless, Mi Company did not win any position in the survey conducted by NOVA because their main product line, low-end scanner, has gradually been replaced by the digital camera. In chapter 5, this point will be discussed in detail. All these companies should be considered as suitable representatives in their area and in the whole IT industry in Taiwan.

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[16] http://www.edn.com/article/CA6386485.html

Table 4.4: Profile of the five researched firms

Firm name	Dl	Ac	Tm	Ms	Mi
Type of company	Public company	Public company	Public company	Public company	Public company
Major Business	--Wireless equipment	--Wireless equipment	--Dram module --Digital audio system	-Motherboard --Notebook --Consumer electronic product	-Scanners --PDP/LCD display
The stage of the product life cycle	Growth	Growth	Maturity	Maturity	Decline
Main direct distribution channels	--Company sales force --Internet /phone --Company owned store --TV shopping	--Company sales force --Internet /phone	--Company sales force --Internet /phone --TV shopping	--Company sales force --Internet /phone	--Company sales force --Internet /phone
Main indirect distribution channels	-- System integrators --Distributors --Regional dealers --Chain stores --Privately owned stores	-- System integrators --Distributors --Regional dealers --Chain stores --Privately owned stores	--Chain stores --Privately owned stores --Local agents /brokers	--Chain stores --Privately owned stores -- Local subsidiaries	--Chain stores

- **The current channel structure in the sample firms**

As can be seem from Table 4.4, although all the sample firms are in the IT industry, they design their channel structure differently. Taking Mi Company as an example, the level of intermediaries has been reduced to a minimum level, but for Dl /Ac Companies they still maintain a complete distribution network compared with Mi Company. It seems that to develop an extra online channel illustrates a different meaning for these companies. Therefore, in order to present a clear outline of the sample firms, a brief explanation of the channel structure in these sample firms follows.

In this study, based on the different channel structures, sample firms might be classified into three groups[17]: Dl /Ac Companies, Mi Company, and Ms/ Tm

Companies. In order to make a comparison, the channel structures in Dl /Ac and Mi Company are introduced first then follows an explanation of the channel structure in Ms /Tm Companies.

Dl/Ac Company

The channel structure in Dl /Ac Companies is demonstrated in Figure 4.2. Dl /Ac Companies use several different marketing channels to contact different customers in order to increase their market share. According to interviewees in Dl Company[18], there are three main types of customers in the area of wireless equipment: service providers, enterprise customers, and end customers.

Service providers consist of big communication providers like China Telecom or AT&T. For this kind of customer, Dl Company adopts a direct sales strategy (direct sales people) because their requirements include looking for specific product types or technical assistance and are more complicated than normal customer requirements and the negotiation time for a contract could last two to three years. On the other hand, for other customers, such as business organizations or education institutions, Dl/Ac Companies prefer to cooperate with system integrators instead of contacting customers directly themselves. This is because, the majority of high-end communication or network equipment cannot be used immediately and the system integrator can offer the necessary technical service to the customers such as setting up a local network system; but firms need to share margins with the system integrator. Before 2000 the sales amount from this channel (system integrator) played an important role in the total turnover, according to interviewees in Dl Company. It is because during that time, no one expected that wireless equipment would be designed for end customers and few companies do business with retailers.

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[17] The author attempts to explain the channel structure in the sample firms group by group instead of firm by firm because a clear comparison can be made and the redundant and repeated explanation can be reduced.

[18] Section 4.4.2 discusses the date gathering process. However, in order to explain the channel structure in the sample companies here, some statements from interviewees are used in advance. More detailed explanations and interviewees' statements can be found in chapter 5, 6, and7.

Nevertheless, unlike other wireless manufacturers that focus on business customers, Dl Company adopts a different strategy. In Taiwan, Dl Company is the first company that attempted to design customer-oriented wireless equipment and pay more attention to cooperating with retailers. In addition, they try to use any possible channels to contact end customers. For example, they have three different direct sales channels: direct outlets, TV shopping, and their own online channel to serve end customers. Dl Company also cooperates with a variety of intermediaries such as distributors, local dealers, agents/brokers, chain stores, and privately owned stores to distribute their product quickly. Interviewees in Ac Company mentioned that they also use the intense marketing channel strategy and cooperate with several different intermediaries. Moreover, in Ac Company although they have their own online channel, they still transfer online orders to their physical intermediaries.

In addition, there two kinds of retailers that contact end customers directly in the Taiwanese 3C product market: chain store system and privately owned store. Each chain store system has at least dozens of local stores. NOVA, as mentioned above, is one of the chain store systems but the two biggest chain store systems in Taiwan are SunFar and TsannKuen. Another retail group comprises the traditional retail stores. These stores are managed by different private owners. In these stores, customers often bargain with the owner for a cheaper price and, furthermore, in order to attract customers, some products might be sold at an abnormal price in the privately owned store. Another advantage of the privately owned store is that the owner often builds a deeper relationship with local customers.

Figure 4.2: Dl/Ac Company's channel system
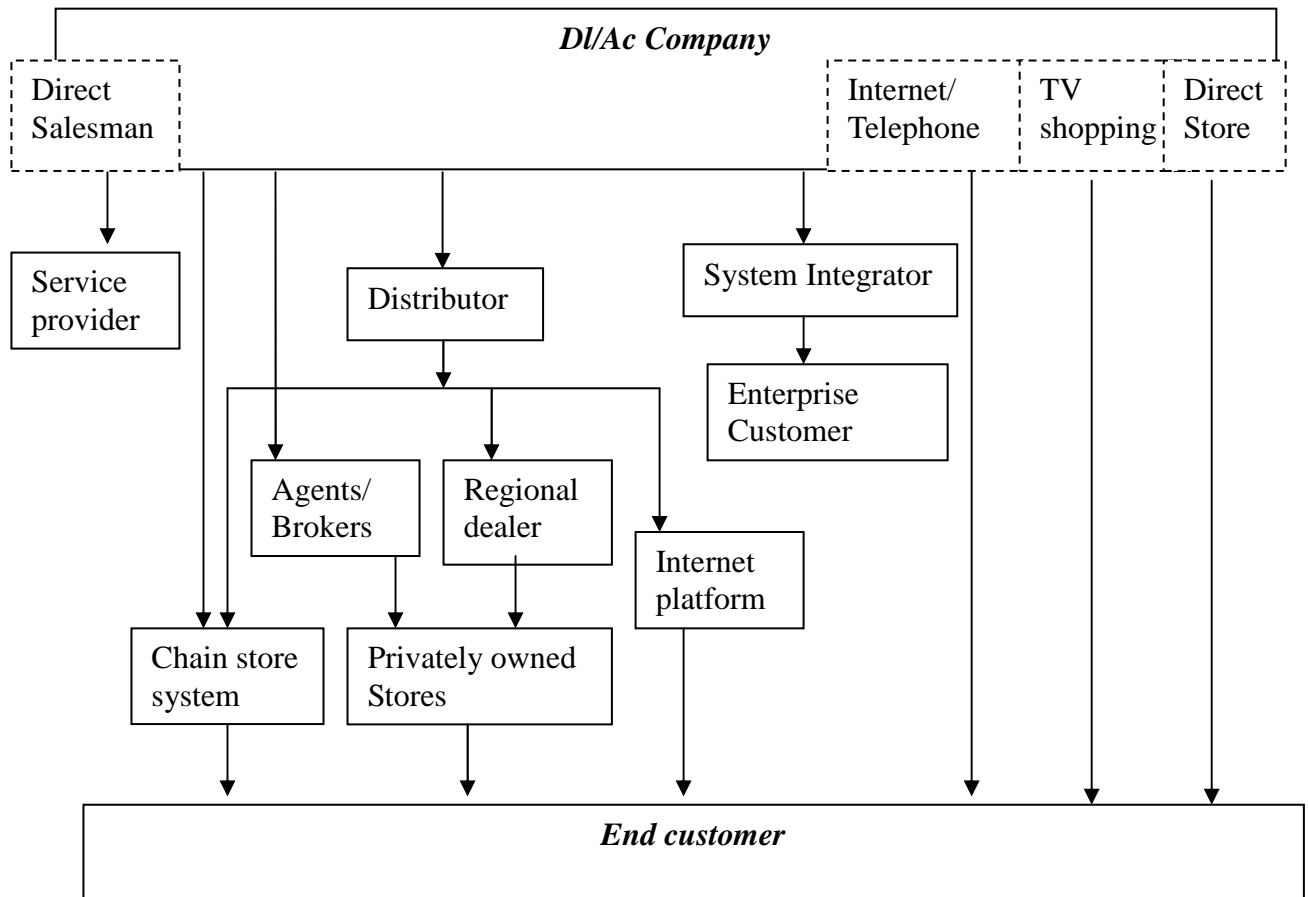
Mi Company

The channel structure in Mi Company is illustrated in Figure 4.3. Compared with Dl Company, the channel structure is different and several levels of physical intermediaries are eliminated. For the part of the direct sales channel, Mi Company launched their own on-line shopping channel in 2003 to sell scanners, digital camera, and digital displayers. Meanwhile, they also cooperated with other online shopping platforms such as Yahoo shopping. Nevertheless, the role of the online platform for Mi Company is defined as a kind of virtual intermediary. In 2002, TV shopping became popular in Taiwan and, based on the concept of channel diversity, Mi Company also tried this channel as an attempt. For the part of the indirect sales channel, Mi Company contacted the chain store systems such as Sunfar and Tsann kuen directly without any level of intermediaries in order to maintain margin and furthermore, the product line in the physical store is different compared with their

own online channel. They only sell low-end scanners through the chain system. In addition, interviewees in Mi Company mentioned that although some privately owned stores still cooperate with them, the number is few and keeps decreasing.

Figure 4.3: Mi Company's channel system
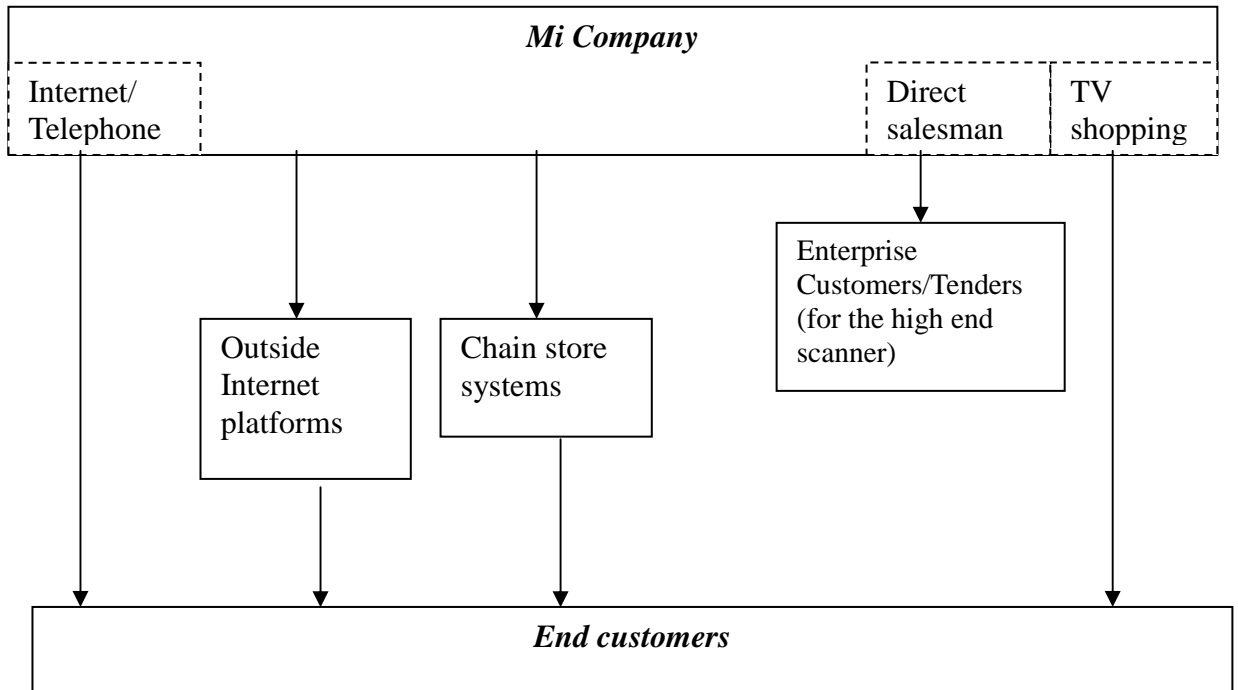
Ms and Tm Company

Although Ms and Tm Companies are two different firms with different product lines, they are in the same stage of the product life cycle and have a similar channel structure. In this section, the channel structures in Ms and Tm Compans are introduced together as illustrated by Figure 4.4. Compared with other firm,s such as Mi Company, with a minimum level of distribution channel and Dl Companies with an intense level of distribution network, it seems that the channel structure in Ms /Tm Company might be considered as a moderate structure.

In terms of the direct sales channel, like other firms Ms /Tm Companies also have some direct sales channels such as the online shopping store and TV shopping. However, unlike the virtual channel in Mi Company that plays an important role,

interviewees in Ms and Tm Companies both agreed that the sales amount from the online channel is still in a small portion of the total sales amount. Nevertheless, the sales amount from the online channel is increasing year by year and they have a high expectation of the online channel. For the part of the indirect sales channel, according to interviewees in Ms and Tm Companies, they still rely on their physical intermediaries heavily because this channel can contribute a big portion of sales amount and keep offering several channel function such as post-purchase service. However, interviewees in Tm Company mentioned a phenomenon that the level of intermediary has been reduced gradually. For example, about ten years ago, there could be three to four levels of intermediaries such as distributors, regional dealers, local agents/ brokers, and final retail stores. Nevertheless, now their products, motherboard and Dram module, are in the mature stage of the product life cycle with a relatively limited margin, Tm and Ms Companies are trying to cooperate with a lower level of intermediary directly and to circumvent some levels of intermediaries. For instance, they would try to contact the chain store directly. Another example is that in Ms Company, the sales force in the local subsidiaries would contact the privately owned store directly.

Figure 4.4: Ms/Tm Company's channel system
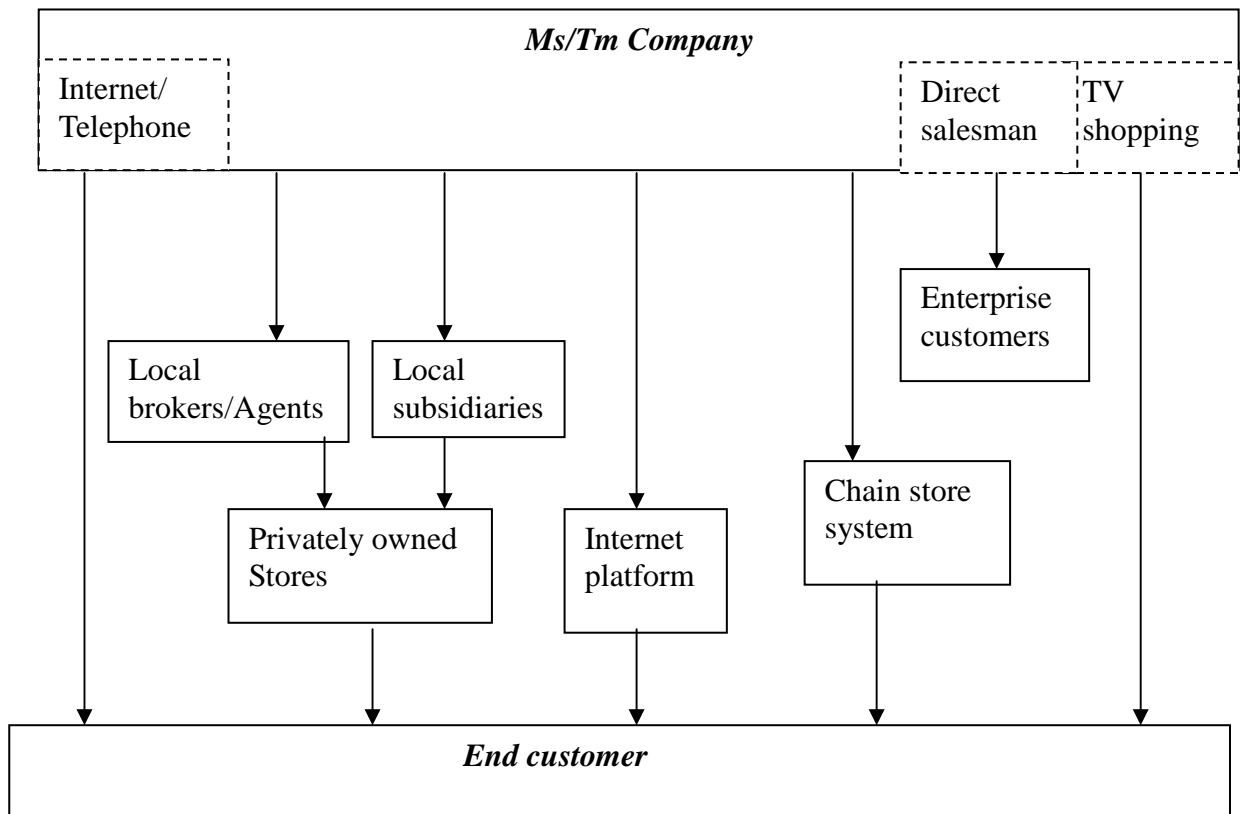
4.4.2 Data gathering process

Before conducting interviewees, an invitation letter was sent during March and April 2007 to potential interviewees in order to obtain their consent. This invitation letter contained information about the purpose of the study, who the researcher is, how the data will be utilized, what participation will be required of them, the subjects likely to be covered, and how much time is required.

A total of twenty-five respondents were interviewed and all interviews were recorded on a digital audio recorder for further reference, subject to the agreement of the interviewees. During interviews, two recorders were utilized at the same time in order to reduce the risk of non-functioning equipment. The length of interviews ranged from 50 minutes to 95 minutes and each interview was conducted with the interview guide as the base around which questions centred. The interview guide contained three main sections: channel development motivations, channel design patterns, and channel conflict resolution strategies (in Appendix). As mentioned above, the order of questions was not necessarily followed in the order of the interview guide. The interview guide was utilized as a starting point for discussing. Follow-up issues were raised after the interviews for the purpose of clarification and any additional detail. Before conducting the interviews in Taiwan, two academics were interviewed in the UK during April and May 2007. These two interviews were considered as pilot interviews to practice the skill of interviewing and both interviewees helped to check the interview guide and correct some errors. Moreover, the two interviewees provided several useful and helpful suggestions and comments.

From June to September of 2007, nineteen managers (Table 4.5) in the Taiwanese IT industry were interviewed. These respondents came from five different manufacturers mentioned above and multiple interviews were held in each company. Furthermore, people from different levels and positions from senior vice president to marketing specialist were interviewed in order to obtain more complete information and a holistic view of the development of the internet channel and consequent issues. For example, encountering the same question (i.e. the development of the internet

channel), respondents coming from lower level positions might mention different opinions compared with their top management.

In this research, the research location is chosen in Asia and this part is explained in the previous section. In Asia, especially in Chinese society, there is a real obstacle for researchers to collect data from firms over a long time period. It is a natural limitation not only in this research but also for other researchers who desire to conduct research in Asia. For example, Perry (1998) mentioned that more than one interview in a small business or in any Asian organization is difficult and researchers can try to contact the alternative resources such as industry associations, consultants and government advisers. During the interview preparation process, the author actually faced this problem. Several interviewees mentioned that they were not available to participant in this research for a long time period and accept interviews several times. They preferred to join one interview and if the researcher has other further questions, they preferred to be contacted by e-mail or telephone.

Furthermore, following the suggestion mentioned by Perry (1988), during the same time—June to September 2007 – four other respondents were interviewed in Taiwan. Two of them were senior managers in the IT industry with long experience and knowledge about this industry and the distribution system but their firms did not construct their own direct virtual channel. Their experience remains valuable because they offer a different view compared with firms which had already developed the internet channel. In addition, two other marketing consultants also accepted the invitation to be interviewed and they utilized a different perspective to express their opinions about the multi-channel structure compared with managers in firms. Views from these four interviewees helped to build a more holistic understanding.

In this research, all respondents were asked for permission to use their comments in the final report of this thesis. Moreover, the personal information for each interviewee is strictly protected. Each interview is identified by a number (such as M1, M2) to represent and disguise names and to describe their firms. Through

adopting anonymity, each interviewee's confidentiality can be protected. For example, personal comments are not linked to any particular participants.

Table 4.5: Interviewees in this research

Interviewees	Position	Firm / Institution	Main product type	Product life cycle
M1	Marketing manager	Dl	Wireless equipment	Growth
M2	Assistant Sales manager	Dl	Wireless equipment	Growth
M3	Marketing specialist	Dl	Wireless equipment	Growth
M4	Marketing specialist	Dl	Wireless equipment	Growth
M5	Director	Ac	Wireless equipment	Growth
M6	Marketing manager	Ac	Wireless equipment	Growth
M7	Senior vice president	Tm	Dram Module	Maturity
M8	General Manager	Tm	Dram Module	Maturity
M9	Director	Tm	Dram Module	Maturity
M10	Project Manager	Tm	Dram Module	Maturity
M11	Marketing specialist	Tm	Dram Module	Maturity
M12	Director	Ms	Motherboard	Maturity
M13	Regional marketing manager	Ms	Motherboard	Maturity
M14	Product marketing manager	Ms	Motherboard	Maturity
M15	Senior specialist	Ms	Motherboard	Maturity
M16	Associate Vice president	Mi	Scanner	Decline
M17	Marketing manager	Mi	Scanner	Decline
M18	Assistant Sales manager	Mi	Scanner	Decline
M19	Marketing specialist	Mi	Scanner	Decline
P1	Professor	University 1		
P2	Senior lecturer	University 2		
E1	Senior vice president	Ba		
E2	General manager	Ca		
C1	Marketing consultant	Lh		
C2	Marketing consultant	Ci		

4.4.3 Data analysis

Although Blaikie (2006) notes that there is not a standard analysis procedure for qualitative research, Dey (1993) has formulated a data analysis process for qualitative research involving three activities: describing, classifying, and connecting. The first step, describing, is to produce 'thick' descriptions of the phenomenon being studied. Next, classifying refers to creating categories from descriptions, assigning categories to the data, and splitting and splicing categories. Finally, researchers should attempt to find out and make connections between categories. The objective is to discover regularities, variations, and singularities in the data.

In this research, the research data analysis follows the process suggested by Dey (1993). The recordings of each interview were translated into text in a detailed manner (word for word). By this translation procedure, a thick description of the study phenomenon is achieved. When the researcher encounters any unclear comments from respondents, the respondents are contacted again by e-mail and telephone to clarify the uncertain issues. Furthermore, in order to find out the hidden regularities and categories between interviewee statements, after the translating process, the data was checked and compared repeatedly. As Miles and Huberman (1994) note, data reduction continues after data is gathered, until the final report is completed. The comparison is not only with interviewees in the same firm but also people across firms and areas. Theories and results from previous research are utilized to guide creation of categories. Several categories are created and the detailed explanations are in chapters 5, 6, and 7. Then, the researcher attempts to figure out the connections and relationships between each category.

4.5 Validity and Reliability

"The concepts of reliability and validity were developed in the natural science. Because of this, and the very different epistemological basis of qualitative research, there are real concerns about whether the same concepts have any value in determining the quality or sustainability of qualitative evidence…..But in their broadest conception, reliability means 'sustainable' and validity meaning 'well grounded' will have relevance for qualitative research since they help to define the strength of the data" (Ritchie and Lewis 2005: 270).

4.5.1 Validity

The validity of findings or data is traditionally understood to refer to the 'correctness' or 'precision' of a research reading and it often contains two distinct elements: (1) whether researchers are investigating what they claim to be investigating and (2) the extent to which findings can be inferred to other contexts or settings (Ritchie and

Lewis 2005). Bryman (2004) uses a term, credibility, to describe the first element and, transferability, for the second element.

- **Credibility**

In order to make sure of credibility in qualitative research, Bryman (2004) recommends two approaches: respondent validation and triangulation. These two suggestions are taken in this research. "Respondent validation, which is also sometimes called member validation, is a process whereby a researcher provides the people on whom he or she has conducted research with an account of his or her findings" (Bryman 2004:274). In this research, during the translation and comparison process, if there was any ambiguity or vague part, e-mail and telephone were used to make contact with interviewees to clarify the uncertain issues. After the translation and comparison process, a summary report of each interview was sent to the interviewees to see if the meaning or interpretation assigned is confirmed by interviewees. Any different opinions and comments are encouraged to be expressed in order to make sure that the findings are congruent with the views of respondents. Furthermore, triangulation, using more than one method or source of data, was used in this research. The data from different sources was cross-checked repeatedly in order to improve the validity of this study. As Blaikie (2006) suggests, by the use of independent data sources, including some for which there could be no reactivity from respondents, the validity of research can be improved.

- **Transferability**

Transferability refers to the degree to which findings can be generalized across social settings. It is because every qualitative research is unique and cannot be generalized on a statistical basis. The finding in qualitative research is the content of the range of particular views, experience, outcomes or other phenomena under study that shape and influence respondents. Research findings cannot be inferred to an external setting without a detailed explanation. In other words, the researcher must provide a 'thick description' about their findings, as scholars (Lincoln and Guba 1985, Bryman

2005; Ritchie and Lewis 2005) suggest. It means that "researchers to provide sufficient detail of the original observations or commentaries—and the environments in which they occurred- to allow other readers to gauge and assess the meanings attached to them" (Ritchie and Lewis 2005:268). This 'thick description' will allow the reader to verify for themselves that conclusions conducted by the researcher hold validity and can be used as a database for making judgments about the possible transferability of findings to other milieu (Lincoln and Guba 1985). Following this suggestion, a large number of quotations and comments from interviewees are utilised in Chapters 5, 6, and 7 in order to present a detailed explanation.

4.5.2 Reliability

"Reliability is generally understood to concern the replicability of research findings and whether or not they would be repeated if another study, using the same or similar methods, was undertaken " (Ritchie and Lewis 2005:270). The objective is to be sure that if any later investigator followed the same procedures as mentioned by an earlier researcher can arrive at the same findings and conclusions (Yin 2003). Although the possibility of the replication of qualitative research remains a debatable issue in the social sciences, some scholars still offer some methods to improve the reliability of qualitative research. For example, Yin (2003:38) suggests that "The general way of approaching the reliability problem is to make as many steps as operational as possible and to conduct research as if some one were always looking over your shoulder". By reducing the errors and biases in a study, reliability is improved. Furthermore, an 'audit approach' is suggested by Bryman (2004). This approach means that complete records are kept of all phases of the research process—problem formulation, fieldwork notes, interview transcripts, and so on—in an accessible manner and moreover, peers can act as auditors to ensure how far proper procedures are being and have been followed. Similarly, Ritchie and Lewis (2005) mention two approaches to ensure research reliability: (1) several internal checks can be done to improve the robustness of research and (2) there is the need to assure the reader of the research by providing information about the research process.

Following these suggestions, before data collection, three research topics were discussed several times with colleagues and the supervisor. The interview guide was designed and checked after several discussions. Furthermore, as mentioned above, pilot studies with two academics were conducted before interviews in Taiwan and at the same time, the interview guide was tested again before it actually came to be used in Taiwan. Several errors were corrected. In addition, in order to make sure the research can be replicated by other researchers and similar results can be obtained, each interview is recorded in a digital form. The transcript is written down, word by word, and checked repeatedly in order to make sure that no obvious misinterpretations of the respondents' answers were made. Furthermore, all material relating to this research was organized, documented and stored in a manner than enabled later researchers to retrieve them efficiently.

4.6 Chapter summary

This chapter contains two major parts: research questions and methodological issues. Three research questions are explained in detail in section 4.2. In this research, the qualitative research strategy is chosen and the interview is utilized as a main data collection method. Twenty-five interviewees were interviewed and the majority of interviewees are managers in the Taiwanese IT industry. In order to obtain a holistic understanding, people in different areas such as people from the academic area and marketing consultants were also interviewed.

Chapter 5

What are the factors encouraging manufacturers to develop the internet channel, especially manufacturers with a well established distribution channel?

5.1 Introduction

As Coelho and Easingwood (2003:25) claim," It is not possible to manage a multiple channel structure properly if the reasons for the emergence of such diverse distribution arrangements are not know". The objective of this chapter is to answer the question: what are the factors encouraging manufacturers to develop the online channel, especially manufacturers with a well established distribution channel?

In this study, according to the statements from interviewees, there are six main factors why manufacturers develop the internet channel. These are: customer information management, retailer management issue, launching a new product, to be a secondary channel, management support, and me-too strategy. Furthermore, these factors can be roughly classified into two categories: external and internal factors (Figure 5.1). Following this classification, a detailed discussion of each factor is provided. There are four sections in this chapter. After the introduction, four external factors are explained in detail and quotations from interviewees are presented. Subsequently, two internal factors are discussed. In the final section is the chapter summary.

Figure 5.1: Factors driving manufacturers to develop the internet channel
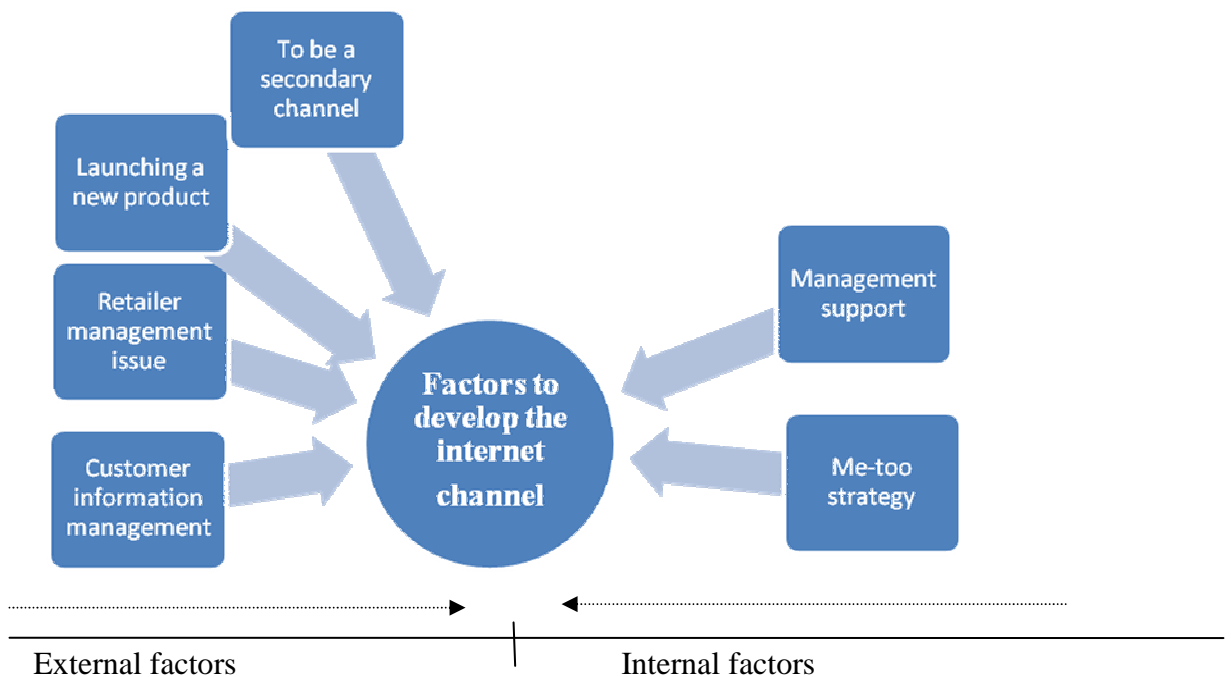
5.2 External Factors

5.2.1 Customer information management

It is anticipated that more and more customers utilize the internet as a tool to search relevant information before purchasing a product. Research conducted by a Taiwanese research centre, MIC[19] (2007), notes that in general, fifty percent of customers will look for product and price information before going to physical stores. Several managers in the sample mentioned that they also observed this modification of customer behaviour. They noted that the development of internet technology has changed customer behaviour significantly. For example, respondent (M 2) noted that previously, it might be difficult for customers to make product comparisons without going to retailer stores but the development of internet technology breaks this limitation.

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[19] http://www.itis.org.tw/rptDetailFree.screen?rptidno=B66D062FBC300D7148257339002F2454
The product type has not been mentioned.

*"Customers now can receive a large amount of information within few clicks. Before the e-commerce era, to provide information is not only the job but also a privilege for intermediaries"***---**Interviewee M 2

Hence, some respondents in this study mentioned that one factor driving them to develop the internet channel is customer information management. If firms have their own online channel, they not only can sell their product but also deliver the completed and correct information to customers. Moreover, the online channel is also useful for firms to receive feedback from end customers directly. This advantage is hard to achieve before the development of the direct virtual channel. Further discussion on each of these two aspects follows.

5.2.1.1 In order to provide product information

"It is quite a challenge for the manufacturer to deliver the accurate information to the end customers before the prevalence of the internet" --- Interviewee M7

A. The issue of intermediary

Respondent (M8) explains that before the internet became so popular, a large number of manufacturers did not have direct contact with the end customer. A common situation is that the information, such as product characteristics or brand value, is transferred by the intermediaries. Manager (M8) mentions that sometimes the intermediaries would tend to convey the information inappropriately because of achieving their own business goals. This statement is also confirmed by respondent (M1) in Dl Company. Respondent (M1) offers an example. When customers ask for information on A and B products, the intermediary might merely provide the detailed product information about A because in this month the inventory stock for A is high. The information about product B would be ignored or neglected deliberately.

"Intermediaries have their own management problems, such as inventory pressure. When a customer enquires about advice from retail staff, it is quite often for them to suggest a product in which their stock volume is high."-- Interviewee M1.

"As the manufacturer will try to find several material suppliers, the situation is the same for the intermediary. They will cooperate with several different brands of manufacturers, in order to make sure that they are not dominated by any one particular manufacturer. When they have several brands, they might not treat each brand equally. "---Interviewee C2

Besides, interviewee (M12) states that even though intermediaries desire to convey fair advice, sometimes they do not have enough expertise.

"There could be at least hundreds of products in a store. It is difficult for the staff to have a complete knowledge of all products. Besides, in previous times, retailers cannot receive the newest or up-to-date information in time. It is because all the information needs to be printed and then delivered by mail. Sometimes, it takes several weeks. This is another obstacle for intermediaries to express the accurate product information."-- Interviewee M12.

B. The modification of customer behaviour

About ten years ago, Peterson et al (1997) predicted that eventually there will be near-universal access to the internet. In this study, several respondents mention that when they see the increasing popularity of the internet and more and more people get used to searching for information online, it might be time to develop the internet channel as a tool to provide product information. Quotations from interviewees (M4 and 10) are presented below.

"It is not surprising that the internet channel impacts customer behaviour deeply. With low cost to exchange information electronically, online communication and surfing become a routine part for many people, especially young people. Moreover, to search for product information becomes a necessary part before product purchase"-- Interviewee M4.

"There are thousands of forums and personal blogs online. Some customers will share their purchase experience with each other. It is very persuasive to other customers and potential buyers. The staff in stores cannot share this experience. Therefore, it is not difficult to explain why more and more people would prefer to search the relevant information online by themselves instead of merely relying on the staff in retail stores. We feel we need to do some preparation for this change— a virtual channel in the channel mix is necessary in the future."---Interviewee M10

It seems that manufacturers gradually realize this modification of consumer behaviour and they desire to react positively. As Schoenbachler and Gordon (2002:46) mentioned, "Today consumers have unprecedented power, armed with their own databases and tracking technology. Companies who continue to use old business models and treat customers in old ways will likely fail". For example, interviewee (M3) notes that their web site has their own online forum. They encourage all customers to express their product experience, leave their messages or even ask some relevant questions. Through answering these comments, firms can offer accurate information to end customers, according to respondent (M3).

Hence, in this section the reason for manufacturers to establish the online channel can come from two dimensions. One is from the change of consumer behaviour and the other is that the problem of information delivery can be solved. These two dimensions are both considered as external factors.

C. Online information and online shopping

In the interviews, the question was asked: Why do companies launch their online shop? If their purpose is merely to offer information, then a skilful web site should be enough. This question might be answered by quotations from two interviewees (M4 and 14) as follow.

> *"In order to satisfy our customers, our firm provides a large number of customer services and to provide the online shop is one of them. We regard this activity as a marketing behaviour instead of a sales behaviour. Meanwhile, we can obtain some intangible benefit from the online channel such as customer information."* --Interviewee M4

> *"Convenience is a big attraction for customers. After the search process, if they can find their ideal product and the price is acceptable, they are very likely to shop online. Why don't we take these orders? "* -- Interviewee M14

5.2.1.2 To communicate with consumers directly

> *"Through our online channel, we can communicate with end customers without any barrier or delay."*-- Interviewee M4.

> *"The internet is considered as a window between us and end customers. In the virtual world, the bilateral customer relationship can be established. Indeed, in this circumstance, the intermediary has been bypassed"***---**Interviewee M3

As mentioned above, the online channel can create some intangible benefit for manufacturers. From the perspective of manufacturers, through the online channel, they can interact with the end customers directly. This kind of interactive communication has been considered as an important intangible advantage. In interviews, several respondents mention that until now, the traditional channel is still their major source to receive feedback and opinion from end customers. However, the problem is similar with the information delivery issue. Firms have to send salespeople to contact their channel partners and then they report the information to headquarters. Usually the message has been translated several times. Often manufacturers might obtain inaccurate messages and it is very likely that the message is late.

> *"The information from end customers might be transferred several times. For example, end customers tell the staff and staff transfer to their chiefs. The chiefs convey the message to the local managers and our salespeople communicate with the local manager. Everyone has their subjective evaluations for the same message. It is quite often that in the final, the message is disordered and inaccurate. Meanwhile, the whole conveying process takes time."***---**Interviewee M11

In order to solve this problem, firms would send their marketing people to do some fieldwork (i.e. to do some survey in a shopping mall). However, manager (M19) mentions that sometimes this method is inefficient and costly and the result cannot be representative for all consumers. Nevertheless, the internet can provide an extra source for manufacturers to collect customer reactions. Customers were previously customers of the intermediary but the internet now allows a direct connection between manufacturers and end customers to be established. As respondent (M7) describes, two-way information flows can be achieved.

"Perhaps the most significant change of the internet is that we can efficiently interact with individual and potential buyers"---Interviewee M7

For example, manager (M13) states that after purchasing the product, customers can express their opinion immediately on the web site and firms will also send the feedback questionnaires to end customers and doing the online survey is cheaper and quicker than fieldwork. Furthermore, it is similar to what manager (M3) mentioned above. Ms Company also has their online forum. This online forum is open for all customers whether they shop online or offline and people can share their product use experiences. Some technology questions posted on the forum can be answered quickly by professional staff from the manufacturers. The communication is from two directions and interactive. As managers (M13, 14) note, with the feedback from the end customer, deficiencies of intermediaries can be improved. Furthermore, sometimes manufacturers can figure out some new ideas about product designs.

"Nowadays, customers are pretty sensitive and critical. We have to predict what they want instead of what we can produce. Therefore, to communicate with end customers is really important. Through the internet, we can communicate with customers at the individual level. It means one by one. Moreover, we can keep better informed of marketing trends and changes. " --Interviewee M13

"In the traditional style, we produce the product and our intermediaries sell the product to the end customers. End customers often accept the products and suggestions from the intermediary because their choices and information sources are limited. In other words, for a certain degree, the manufacturers manipulate the marketing trend. Two extreme examples in the IT industry are Microsoft and Intel. However, with the popularity of the internet, the power has been shifted from companies to customers. End customers are able to find out the alternative in a second. They become more critical because the information exchange is easily and therefore, what they want becomes important for us"---Interviewee M 14

5.2.2 Retailer management issue

As mentioned in section 4.4.1, the retailer system for IT products in Taiwan can be classified roughly into two segments which are the chain store systems (like PC world in Britain or Best Buy in America) and the traditional retail stores owned by private individuals. The requirement for manufacturers to get access into the chain

store system is strict. Therefore, for some firms, one reason for them to launch the e-channel is to demonstrate that they have the ability to contact the end customer directly. Besides, in order to compete with the chain store, sometimes the traditional retail stores will set a lower price in order to attract more customers. According to interviewees, this behaviour could result in a price war. Manufacturers wish to utilize the web site as a tool to set a reasonable price for each channel. For more detailed discussions and quotations see below.

5.2.2.1 High pressure from the chain store system

"Today, the powerful intermediaries choose their suppliers instead of supplier choosing them. If manufacturers desire to sell their product through this channel system, they have to pay something."—Interviewee E1.

Through mergers and acquisitions, in Taiwan, there are two major retailing systems: SunFar and TsannKuen. Each of them has at least one hundred stores in their own chain. However, according to interviewees, it is not an easy task to get access into these two major chain systems. It is because, for intermediaries, they have many alternative choices and they can select the cooperative companies as they wish. For example, manager (M7) states that in the area of Dram module, there must be more than twenty brands in the same market and those firms produce and sell similar product lines. Respondent (M15) also notes that only brands with a good reputation can get access to the store without the annoying bargaining process.

"Tier 1 brands can usually get into the channels without much hassle. However, for other brands, to negotiate with the intermediaries would be a harsh process for them because they do not have much bargaining power." --Interviewee M 15

Moreover, even when manufacturers can get access into the retail store, the process is not over. It is not free for manufacturers to sell their products. Manager (M16) mentions that they still have to pay a variety of fees (e.g. shelf space fee or new product launching fee). The intermediary utilizes this method to select qualified manufacturers. Meanwhile, in each season, manufacturers also have to donate some marketing fee for the chain store.

> *"According to the official statement, the fee which we donate will be utilized to attract the customers such as printing some DM or brochures. Who knows?"*---Interviewee M16

In addition, every year, retailers will arrange, several times, a "membership discount fair" or "anniversary discount" and that requires the "cooperation" from manufacturers. It means, during this period, manufacturers are forced by their channel partner to give a certain level of discount on their products.

> *"If we do not cooperate with our intermediaries, our product would be placed in an inconspicuous place and customers cannot receive the correct information."* --Interviewee M18

It could be argued that there is high pressure on manufacturers, when they are required to pay a lot of different fees and donations. For an extreme example, according to manager (M16), sometimes the revenue that they earn from their product is merely enough to pay the fee for retailers. Other interviewees (M10; 14) also state that the burden for them is heavy and it is necessary to do something in order to increase their bargaining power and channel control. The internet channel becomes an option for them.

> *"For us, to design the internet channel is a tactical strategy. We want to demonstrate that we also have ability to contact and satisfy end-customers."* – Interviewee M10

> *"Why is the chain store system so powerful? I think it is because they can influence or even manipulate customers. They can contact customers directly. Nevertheless, with the assistance of the internet, we can also achieve this job."*—Interviewee M14

Besides, a particular consideration for Tm Company is that the internet channel could have the function of market mediation. For Tm Company, it is a particular reason for them to launch an extra channel. According to interviewee (M7), the capacity and market demand in the Dram industry is not always in balance. Dram module manufacturers often face the situation of over-capacity and it results in excess inventories. Before establishing the internet channel, it necessitated higher incentives to compensate the intermediaries. However, the incentive often erodes profit and the result is not satisfactory. The internet channel is considered as another method to reduce the inventory volume.

"It is because the outside environment is so uncertain and competitive. We need to do some preparation. Inside, we adopt the product diversification strategy and outside, we develop the internet channel. The internet channel provides us an extra method to attract customers rather than merely relying on the intermediary."-- Interviewee M 7

However, one point needs to be emphasized. In this research, the majority of managers claim that at this stage they would still cooperate with this chain store system because of the number of customers and channel functions that the chain store system has.

5.2.2.2 Setting a recommended price

On the other hand, the manufacturer is not the only one who suffers pressure from the chain store system. A large number of privately owned stores also experience the pressure from the chain store. In general, the chain store system has more resources than the privately owned store and they have campaigns or discount promotions more frequently. Besides, the location of the chain system store in Taiwan is often in the city centre area instead of the suburb. It means that the chain system store has the same location convenience advantage compared with the privately owned store.

In order to compete with the chain store system, the privately owned store adopts two strategies. One strategy is that they choose the same location. For example, a large number of private retailers locate in the same street. They form an "electronic market[20]". The other strategy is reducing the selling price. Respondents (M4; 10) mention that in order to attract customers to their store, some privately owned stores sometimes will sell products at an abnormal price. Interviewee (M4) mentions the main purpose is to gain the attention from customers rather than earning a profit. Products are sold at a "crazy" price, according to respondent (M10).

However, this behaviour sometimes causes a problem. The price in the market could be disorderly. Moreover, interviewees (M4; 10) mention that other intermediaries

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[20] It means that there would be thirty or even more retailers in the same street and all of them sell the IT product.

such as other privately owned stores will complain of the price issue to them. Nevertheless, the price for each intermediary is confidential and should not be transparent. Although manufacturers attempt to explain that they do not provide a special offer to specific retailers and the price for each channel is fair, it is hard to convince everyone and other channel partners will request the same price. Therefore, respondents (M12; 13) mention, that in their companies, they utilize the web site as a tool to set a reasonable retail price list on their web site.

> *"We keep communicating with all our intermediaries and we hope they can follow our recommended price strategy at least on the price tag. That price has been discussed and we assume that everyone can obtain benefit from that. Besides, if a price war happens, it would damage everyone. However, we still cannot control how much discount they would give to their customers"-- *Interviewee M12.

> *"We expect the web site can be utilized as a billboard. A reasonable retail price can be made and announced to each channel. Of course, we can expect there will be always someone to break the harmony. We will try to figure out what happens. If that is short-term promotion strategies, we will attempt to explain to other intermediaries. If that is a malicious behaviour, we have to figure out some strategies. For example, in the next time, we probably give the popular products to other intermediaries first"---* Interviewee M13

5.2.3 Launching a new product

From the interviews, several managers mentioned that the internet channel is a useful tool to observe the response of a new product. They can utilize the internet channel as a pilot channel and sell new products experimentally. It is because intermediaries are usually unwilling to carry or heavily promote a product when market acceptance is unknown, and they prefer to sell a product that is accepted widely by end customers. Interviewees state that they require a method to investigate the reactions and feedback from the end customer and the internet channel is considered as an option.

Furthermore, when a firm plans to diversify and desires to sell a totally different product type (e.g. from scanner to LCD TV or from DRAM module to audio system),

it can be difficult to sell this new type of product through physical intermediaries. Managers mention that it is hard to negotiate with their channel partners because of lack of brand awareness. The sales support from the intermediaries is often limited. Hence, it is necessary to create a new channel owned by themselves rather than merely depend on traditional channel partners. Further details are provided below.

5.2.3.1 Selling a whole new product type

In this situation, Mi Company can be taken as an example. Currently, since a low-end scanner is not a profitable product for Mi Company anymore, Mi Company has to find a solution for this circumstance, according to interviewee (M16). They attempted to diversify their product lines. Based on their optical and digital image background, they decided to produce PDP/LCD TV[21]. However, the process of product diversification is not as smooth as they expected. This is because they are a new entrant in this area and their brand awareness is not enough compared with other brands such as SONY and LG.

> *"We are not the first choice for the retailer. They have their priority list. They prefer to choose some Japanese or Korean brands because customers are familiar with those brands and retailers can sell those foreign brands quickly"* – Interviewee M16

> *"Although in the beginning, we also try to sell through the intermediary and we do some campaigns in retail stores, the result is not significant and satisfactory for us. To create brand awareness is a long-term journey. The intermediary will not wait for us. Finally, we decide to sell this product line, PDP/LCD TV, though our own channel."* **--** Interviewee M17

Tm Company also encountered a similar situation, when they launched, an audio system, as a new product line in 2006.

> *"When intermediaries desire to sell an audio system in their store, there could be thirty to fifty brands that they can choose. During this time, brand awareness plays an important role. It is because the end customers are easily influenced by the image and reputation of brand, when they*

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[21] Liquid-crystal display televisions (LCD TV) are televisions that use LCD technology to produce an image. A plasma display panel (PDP) is a type of flat panel display now commonly used for large TV displays (typically above 37-inch or 940 mm).

make the buying decision. This consumer behaviour will also influence retailers to choose their product mix. To be a Dram module maker, it is difficult for us to compete with some global brands such as JVC in this area. During this time, we need to donate more marketing expenditure to retailers" --Interviewee M7.

"Brand awareness is really important for a manufacturer, if they want to enter a different area. A recent example is BENQ. As you know, BENQ is a good Notebook maker. However, when they desired to enter the area of cell phones, they still choose to cooperate with Siemens instead of relying on their own brand. They merged the cell phone department that belonged to Siemens before and use the name "BENQ-Siemens". SONY-Ericsson is another example. Although BENQ finally failed, it still reveals the importance of brand awareness."---Interviewee M9

In order to overcome the obstacle of brand awareness and launch a new product type successfully, creating the internet channel is often necessary. Mi Company sells their PDP/LCD TV only through the internet channel. Tm Company decided to launch their new product through the virtual channel first and then to cooperate with intermediaries gradually.

5.2.3.2 In terms of hesitant intermediaries

The discussion in this section is based on the conversation with interviewees in Ms Company. It is suggested that the product price for computer components or consumer electronic products change rapidly because of innovations in new technology. For example, respondent (M15) states that the same Notebook produced by Ms Company could only cost half the current price after one year because another new one is invented and adds several new functions. For this reason, there is high pressure for intermediaries. If they lay in a high stock volume of merchandise, especially for the new product, they would have problems when a newer version is launched. They have to increase their inventory volume while the response from the customer is not clear. A quotation from interviewee (M13) is presented below.

"When a new product is launched, our intermediaries often have a conservative attitude. It is because when we deliver the product to them, the heavy pressure is transferred from manufacturers to intermediaries. They have to face the problem of cash flow, high inventory, technology modification, and slow sales." --Interviewees M13

Nevertheless, from the perspective of manufacturers, it is necessary for them to keep launching new products. As interviewees (M14; 15) mention, one reason is to attract customers.

> *"Why should we launch the new product? As you can see, there is not such a big difference between each type of MP3 player. All the MP3 players have the same function no matter is iPod or other brands. However, customers always expect new types of products. We need to launch new products all the time. If we don't, our competitors will. As you can see, Apple continues to change their shapes and colour of iPod every year but the function is still the same. "*---Interviewee M14

> *"With these new products, we can design a variety of new promotion plans and launch new campaigns. This activity is quite important because we keep reminding customers about our name"*--- Interviewee M15

Meanwhile, respondent (M12) states that one basic reason is still the gross margin. Intermediaries will keep asking their supplier to cut down the price of old products in order to attract customers. However, if the situation continues, the margin of the old product will become very thin and sometimes suppliers cannot earn any profit from this product. Nevertheless, for a new product launch, the margin can be set higher by the manufacturers. For example, according to interviewee (M12), for a one year old product the margin could be ten percent or even less. For a new product, the gross margin can be set higher, although the modification and difference of product characteristics are limited. Then, the intermediaries will start asking manufacturers to reduce the price.

In order to overcome this obstacle of the hesitant attitude of intermediaries to carry the product, Ms Company designs a pre-booking campaign through their internet channel to promote their new products.

> *"Before launching a new product officially, we will arrange a pre-booking campaign on the website. Through that, we can understand responses and reactions from customers and all data will be documented. This information can be utilized to convince our intermediaries because it comes from the real attitude of end customers. "*---Interviewee M14

Meanwhile, interviewee (M14) also mentions that this pre-booking activity is also a kind of supporting service to their intermediaries. For example, based on their own

customer database, they will send a mail advertisement to end customers and invite them to join the online pre-booking activity and other offline road shows. The exposure rate for new products is increasing and, gradually, the effect of word of mouth would emerge. Sometimes, the effectiveness is better than merely depending on the intermediary to perform promotion activities, according to interviewee (M14).

5.2.4 To be a secondary channel

When firms wish to sell their products through the virtual channel, they need to consider the role and expected function of the internet channel. Depending on the target goal of companies, the internet channel can be designed into two different types of channel: supplementary or substitute channels.

5.2.4.1 As a supplementary channel

In this section, interviewees mention that they design their internet channel as a supplementary channel based on two main reasons: lack of shelf space and accessory management.

A. Lack of shelf space

> *"There are so many similar competitors in the same market and there is always not enough shelf space for all products. Therefore, we are looking for a second channel. We expect this second channel can provide a supplementary function to the original channel."*-- Interviewee M14

Managers mention that space performance is one of the prior considerations for retailers, when they decide their product mix. It is because there are thousands of potential goods in a retail store. The shelf space is always not enough.

> *"In general, there are two attributes for intermediaries to choose their product mix: high product margin and quick stock turn. If your product is not a high margin product such as CD/DVD disks, that should be still all right. It is because it can be sold quickly. However, if your product does not have either attribute, you may not have the chance to enter a physical store."* --Interviewee M16

From the perspective of manufacturers, in some circumstance, it is inevitable for them to produce some high-end products which are designed for particular segments. Nevertheless, this kind of product may not fulfil the criteria for physical retailers. Taking Dl Company as an example, interviewee (M1) notes that they keep producing some specific products for niche groups. For instance, some kinds of wireless routers are designed for SOHO or SME[22] customers and the price is expensive.

> *"This kind of product may not be accepted by our channel partners because it could be displayed on the shelf for half a year. However, in our position, we cannot stop making it because we know a requirement is there. Although the requirement amount could be low, we have to keep producing."* --Interviewee M1

Hence, manager (M1) claims that they require an additional channel. This channel is designed as an auxiliary tool and it can be utilized to support the deficiency of their original channel partners. Furthermore, other firms also encounter similar situations. Managers in Ms and Tm Companies mention that their firms adopt the diversification strategy in order to attract more customers and disperse risks. For example, Ms Company now has eight different product lines including VGA, MP3, digital camera, etc. Tm Company has not only Dram module but also flash memory and audio system. Each series of flash memory has a different appearance and storage volume such as 512m, 1G, 4G etc. Nevertheless, the major obstacle for them is the limited space in the retail store and it would be difficult for the retail store to stock all the product lines.

> *"When you are in a computer retail store, you can only find a small counter which is utilized to demonstrate flash memory. Each producer can only demonstrate four to five products in the counter. The range for your choice is very limited. However, for every Dram module makers, they would have at least fifty to sixty different kinds of products. Meanwhile, we often receive the enquiry from customers and they want more choices such as 16 G flash memory"**--** Interviewee M10

> *"The motherboard is our strength but it is not enough for one firm has only one popular item. A large number of firms adopt the diversification strategy. For example, our main competitor ASUS puts emphasis on the*

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[22] The modern concept of Small Office and Home Office or SOHO, or Small or Home Office or Single Office/Home Office deals with the category of business which can be from 1 to 10 workers

*mini notebook and launches EeePC. The reaction is quite positive from customers. However, one shortcoming for the diversification strategy is that our physical channel partners do not have the capacity to accept all our new products. I think that the advantage of virtual market space can be utilized to solve this problem partly."***---**Interviewee M15

B. Accessory management

How to manage a large number of accessories is a challenge for channel managers. For example, as interviewee (M13) mentions, when people purchase a Notebook, they may require an extra battery, AC adaptor, or cable line. However, interviewee (M13) confirms that the accessory is a low margin product and the sale volume is difficult to predict. However, based on customer service, to provide a complete accessory range is necessary. How to resolve this problem is always a confusing problem for both manufacturers and retailers. Interviewee (M13) mentions that one factor to develop the internet channel is attempting to resolve this problem about accessory management.

> *"Our products have many accessories, but their sales volume is quite low. Few channel partners want to keep inventory of these accessories, and it is hard to get shelf space from them. So it is a help to have a website where we can sell our whole range of accessories without being concerned about shelf space. With the internet, we can provide a more complete service to our customers."***--** Interviewee M13

5.2.4.2 As a substitute channel

> *"A crucial issue in a real business world is how to distribute profit and margin properly. If you cannot give your intermediaries enough margins, you would lose them very quickly."* –Interviewee E1

In this section, the discussion is based on the interview data and conversations with respondents within Mi Company. In the previous section, managers regard the internet channel as a supplementary channel. For them, the traditional channel is still the priority choice and they put more emphasis on the physical channel compared with the virtual channel. However, there is another circumstance that is mentioned by interviewees. The priority order can be modified.

As mentioned above, there are two key criteria, high product margin and rapid stock turnover, for retailers to select their product mix. The question is what can a manager do, if their company's product does not conform to either of the criteria? Some observations from interviews within Mi Company might answer this question. When this happens, the expected function for the virtual channel would be more than a complementary channel. It would be more like a substitute channel.

> *"It is because of the rapid increase of digital cameras and multi-functional printers, the role of scanners has been displaced dramatically."*—Interviewee M17

This statement can be supported by Figure 5.2. After 2000 the sales volume for scanners dropped significantly. Moreover, the sales volume of digital cameras exceeded the low-end scanner in 2002. Managers (M16, 17, and 18) agree that the scanner is now not the only device for people to obtain their digital images. Actually the digital camera is more convenient for end customers because of the characteristic of mobility.

Figure 5.2: The global output volume for scanner, digital camera, and functional printer (thousands)
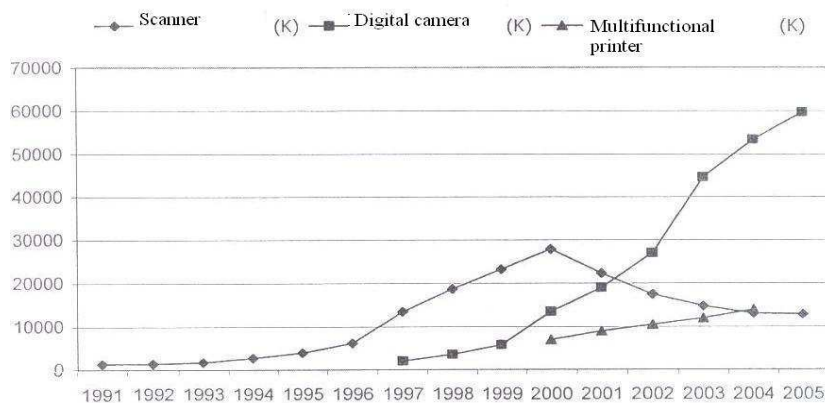
Source: PIDA (Photonic industry and technology development association) (2005) (http://www.pida.org.tw/welcome.asp)

When the demand from the market does not increase and in order to cope with this situation and attract more customers, the firm has to cut their price and margin. In

1996, the selling price for a customer-use scanner was $399 (U.S dollar) but now is less than $ 80, according to respondent (M16). However, the production cost for a low-end scanner cannot be reduced because the sales amount of the low-end scanner is not large enough to reach economies of scale. This is another reason for eroding product margins.

> *"The gross margin for a scanner is not as good as before. Besides, the scanner does not become a compulsory computer component as we expected before. In our original expectation, the scanner would become the standard equipment for PC just like a CD driver. Well, it seems that the direction is going the another way."* --Interviewee M17

Manager (M16) also said that in the 1990s they could maintain at least three levels of channels in each region or county. They could afford to maintain seventy to eighty sales people in each county at the same time. However, now they barely maintain one level of distribution channel.

> *"When the gross margin is lower than 20%, it is difficult to maintain three levels of channels. It is because in my experience, each level requires at least 7-10% margin. With the limited space, channel partners will prefer to sell some high margin products such as printer cartridge, digital picture frame, or GPS system. Therefore, we have to consider how to reduce the level of our distribution channel and try to find a replacement channel"* **--** Interviewee M16

Hence, they develop the internet channel and the difference between Mi Company and other companies is that they regard this channel as a main selling channel.

> *"Indeed, the internet channel cannot solve the entire problem. It seems that it is an inevitable trend for the digital camera to replace the low-end scanner. However, before that day comes, we still need to do something. Besides, we still have other product lines such as the high-end scanner and LCD TV and these products are probably suitable to be sold through the internet. We want to know and learn how to utilize the internet as a distribution channel"*---Interviewee M17

When the gross product margin keeps decreasing and the outside environment is harsh, the expectation for the internet channel would be different. From the interview with respondents within Mi Company, it seems to become a substitute channel rather than a supplementary channel.

5.2.5 Findings and summary of external factors

5.2.5.1 To interact with end customers

It has been mentioned in chapter two (section 2.5.2.2) that to understand the thinking of customers is important for manufacturers, especially when the requirements of end customers are evolving rapidly and the external competition is increasingly fierce. In such a highly competitive environment, the levels of customer switching behaviour tend to be high because price competition is intense and accessing and comparing information on competitors' offers is easy and virtually costless (Schoenbachler and Gordon 2002; Coelho and Easingwood 2004) .

This view is supported by this study. As several managers mention, with the assistance of the internet and prevalence of broadband, customers are more likely and willing to search for the relevant product information by themselves. It can be argued that a new customer behaviour is formed with the development of technology and customers demand more accurate information than before. With a vast amount of information, customers become more knowledgeable and, as mentioned in the literature review chapter, the levels of customer switching behaviour tend to be high. "Consumers now have access to databases and tracking technologies that allow them knowledge about products, inventories, profit margin and competitive offerings. They are no longer at the mercy of firms who set the rules and prices and the internet has truly accelerated the trend toward a more informed, savvy consumer marketplace"(Schoenbachler and Gordon 2002:44). On the other hand, interviewees also realize that sometimes information delivery would be inaccurate or delayed, if they merely rely on their traditional channels. In order to cope with the changing consumer behaviour and making information delivery efficient, manufacturers are willing to design their own web sites and online shops.

At the same time, some managers have a higher expectation of the internet channel and they are not satisfied with it providing merely accurate and up-to-date information to customers. Another important factor to support the internet channel is that managers desire to establish a bilateral relationship with end customers. It means

that they desire to learn how to communicate with the end customer and receive valuable feedback and opinions. Before the prevalence of the internet, this kind of relationship is considered a kind of privilege and is owned by the intermediary and usually the intermediary controls the customers. As respondent (M1) describes, the intermediary interacts with customers and they may even make the decision for their customers—this is one of the reasons the customer may be more loyal to the intermediary than the supplier.

Through the process of bilateral communication with end customers, it is possible for managers to understand their customer profile more. This could be considered as an intangible benefit and is helpful in several ways. For example, an online forum can be formed and the information is generated by members of a virtual community. This can offer useful feedback on the quality of products and their features. In addition, "The elimination of information asymmetries enables a more informed way of evaluating whether an actor in a market relationship is acting opportunistically or not" (Mols 2000:237). Besides, some extra customer service such as membership clubs, free product coupons, and free training courses can be provided by manufacturers to end customers directly and several managers believe that it is useful to improve customer loyalty.

In brief, end customers seem to becoming more positive and knowledgeable. Online search behaviour is becoming common prior to purchase. Manufacturers consider that it is necessary to provide detailed and correct information to end customers and therefore the virtual channel is introduced. Moreover, manufacturers can build a bilateral relationship with end customers which was difficult to achieve before.

5.2.5.2 More than a reduction of business risks

Using data from a survey of independent agents, Dutta et al (1995) note that a multi-channel system can assist a company to reduce its dependence on the intermediary and, furthermore, the risks associated with the utilization of a single channel. Moreover, based on interviews with thirty financial service managers, Coelho and Easingwood (2004) observe that when the multi-channel strategy is adopted, it can

redress the power balance between suppliers and intermediaries. This finding is confirmed by this study.

As mentioned in the previous section, the retailer management issue is a considerable issue for manufacturers. The managing and bargaining process is quite complicated and also fluctuates, especially when manufacturers face powerful retailers such as the chain stores. Besides, manufacturers must donate some extra marketing expenditure in order to get access to the chain store. Several managers (M 3, 6,9,13 and 17) confess that this activity, donating a variety of fees and expenditures, is annoying although necessary. Even for some manufacturers, which are brand leaders in their area and with relative high channel power such as Dl Company, they also have to compromise with their retailers. Manager (M4) in Dl Company notes that every year they have to join the "discount fair" that is arranged by retailers. "To a certain extent, customers are controlled by the intermediary", as interviewee (M4) notes.

Another reason for the manufacturer to develop the internet channel is to support the weakness of the intermediary. This point is seldom mentioned by previous literature. One exception is Porter (2001) who mentions that the internet channel can be utilized as a complementary channel. However, this viewpoint, to support the deficiency of the intermediary[23], (which can be further divided into launching new product and being a secondary channel) has been mentioned several times by different managers in different firms and the empirical evidence is provided.

This might be explained by the following: in a competitive environment, in order to survive, a large number of manufacturers adopt a product diversification strategy. As manager (M15) notes, it would be dangerous for manufacturers to produce merely one or two hot product lines, especially in the IT industry. Interviewee (M15) explains that in the IT industry, technology always changes and the product life cycle is very short compared with other industries. A popular product today could be obsolete tomorrow. Therefore, in order to disperse the risk, they have to keep designing and making new products and different product lines. Meanwhile, in order

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[23] More discussion is in chapter 7

to service all kinds of customers, they also have to produce unusual products for specific groups, and providing accessories is also necessary according to interviewees (M1; 13).

However, all these activities (product diversification, maintaining accessories and offering unusual products) require heavy support and cooperation from the intermediary. Unfortunately, the majority of respondents mention that not so many intermediaries are willing to offer their support. The reason could be pretty simple and straightforward. As an interviewee (E1) notes, "everyone is doing business". The final goal for everyone is to pursue maximum profit. For this reason, the intermediary will choose high margin and fast moving products. A variety of accessories and unusual products are not their considered options. Etgar (1978:53) notes that, "Traditionally, manufacturers and distributors have relied on price and related mechanisms of intermediary markets to secure the required cooperation from other channel members. However, differences in goals, norms, expectations, and perceptions among different members of a distributive channel have often inhibited cooperation and affected detrimentally the execution of channel-wide policy".

On the other hand, the intermediary may not have this ability to cooperate with their suppliers' strategy, according to respondent (M10). The exhibition space is always limited even in a big computer shopping mall. For this reason, the intermediary does not have this capability to carry all kinds of products and they are often hesitant towards new products when the end customers' preference is not clear. In order to cope with the unwillingness and deficient capability of intermediaries, manufacturers may consider it is necessary to figure out a secondary channel

To sum up, in this empirical research, one factor driving manufacturers to design the multi-channel structure is to manage the retailer issue. Manufacturers desire to reduce their dependence on the intermediary. This is because the intermediary often has a conservative attitude to the manufacturer's policy and there is a natural limitation for physical stores. Hence, manufacturers realize the weakness of the

traditional sales channel. In order to overcome this weakness, manufacturers consider development of the internet channel.

5.3 Internal factors

The reasons for manufacturers to develop the internet channel can be external such as customer demand, pressure from intermediaries or limited shelf space in the physical store. However, it can be discussed that the reasons for firms to develop the virtual channel might also be internal. In the fieldwork, two factors can be classified as internal factors: me-too strategy and management support. Quotations and detailed discussions are provided below in support of this view.

5.3.1 Me too strategy

Sometimes, the reason for manufacturers to develop the internet channel can be simple and direct without a long term decision making process. The me too strategy is confirmed by some interviewees because of two main reasons: in order to catch up the online business opportunity and to do some preparation for the future. Respondent (M12) states that not only other manufacturers but also their channel partners such as retail stores are starting to sell products through the internet. Regardless of whether firms are suppliers or intermediaries, using several channels simultaneously to reach the end customer is becoming the norm rather than an exception, according to manager (M12). For example, interviewee (M16) mentions that even for the privately owned store, several store owners also sell products through online platforms (i.e. Yahoo shopping) or auction web sites (i.e. ebay.com) in order to increase their exposure rate. It seems that the online customer is considered as a new gold mine and there is a gold rush between firms, an example described by interviewee (M16). At this time, an atmosphere is formed inside the firm and it seems that we need to do something in order to catch up the opportunity of e-commerce, as manager (M12) described. This thinking is considered as an internal factor that encourages firms to develop their online channel. Unlike the external factors mentioned above are to deal with outside problems that manufacturers face.

The internal factor is more like an internal attitude or a marketing concept driving manufacturers to develop the internet channel.

> *"It is as if everyone finds a new customer segment that they never noticed before. For many firms, the online customer is a new segment for them. Ten years ago, this group is not significant for them. Nevertheless, now this group is growing and moreover, each firm feels that they have the ability to reach this group. Therefore, everyone is going to contact with the online customer and feels that they cannot be left behind"*---Interviewee M12

> *"Why don't we design a virtual channel? A large number of firms in the IT industry have already established their own internet channels. We cannot fall behind them."**--*** Interviewee M18

In Dl Company, respondent (M1) agrees that there is not a complicated decision process behind the development of the internet channel. For them, to sell products through a direct channel is not a new concept. Before utilizing the internet channel, their firms already used other direct sales channels such as stores owned by the company or TV shopping. The internet is merely the latest experiment for them, according to interviewee (M1). Moreover, interviewee (M4) mentions that to prepare for the future marketing trend is also one of their considerations. As a brand leader, Dl Company has a relatively strong bargaining power and it seems that the internet channel in Dl Company is not in a vital position. Nevertheless, a large number of firms now are thinking about the necessity to develop the internet channel and it seems that no one can precisely predict the dominant marketing channel in the future. Respondent (M4) notes that a common thinking held by several firms is to develop the online channel in a basic level (i.e. offer product information and limited product assortment) and wait for the future development and change of e-commerce. Managers in Dl Company also follow this thinking. This thinking is also supported by interviewee (M7) in Tm Company.

> *"To be honest, the reason to develop the internet channel for our firm is not to increase current sales but to make preparations for the future. In case, in the future, the internet channel suddenly becomes an indispensable channel"**---***Interviewee M4

"It is not a surprise that everyone desires to have their online channel. Several reports show that the market and revenue for online shopping is increasing year by year. Everyone desires to occupy a nice position in it. We also have the same thinking. No matter whether the internet will finally become a dominant channel or not; to do some preparation is better than nothing. " -- Interviewee M7

In addition, according to interviewees (M 14; 15) in Ms Company, in their company, managers do not expect a significant sales volume from the internet channel. For them, to launch the internet channel is more like an experiment or a trail procedure. For them, to gain some management experience from the virtual channel for the future is more important than the sales volume.

"To do business with end-customers directly is different compared with doing business with intermediaries. We lack this kind of experience and we want to learn."-- Interviewee M14.

"At this stage, we do not desire to develop a complicated channel system such as the synergy structure you mentioned. We know some customers are getting used to the e-channel while we desire to learn the online customer reaction step by step."--- Interviewee M15

To sum up, for several channel managers, the reason to development the internet channel can be straightforward because several firms including their channel partners are doing the same activity. In order to catch up the online business and service as many customers as they can, a virtual channel has been adopted in the channel mix. Furthermore, some interviewees note that they cannot predict the future marketing trend precisely. To develop the internet channel is a preparation for them and this though is also held by other companies.

5.3.2 Management support

"The lack of senior management support would be a serious obstacle to most of the new company policy development. The development of the internet channel is the same situation." --Interviewee C1

In the fieldwork, several respondents mention that the attitude and personal preference from senior managers are critical decision points for firms to develop their virtual channel. As manager (M9) mentions, how their senior managers

recognize the effect of the virtual channel and interpret the potential of e-commerce will influence their channel strategy heavily.

> *"For some managers, they believe the trend for online shopping is inevitable. However, still some managers do not have so optimistic an attitude towards the virtual market and they think to launch the internet online is a kind of wasted resource"*-- Interviewee M9.

If senior management considers that the internet channel is useful and necessary for the firm, lower level employees will often follow or even accept this assignment to design an online channel and an ambience inside the firm will be formed, according to interviewee (M16). Furthermore, interviewee (M8) states that if senior management can provide tangible or intangible support, the launch process will be relative smooth.

> *"I cannot say that our online channel can achieve a greater achievement than other firms but at least, the unpredictable factors from internal such as different attitudes from different departments can be eliminated to a minimum level"*---Interviewee M16

> *"A simple example, if our senior management does not consider that the internet channel is necessary, the resource to develop the virtual channel will not be allocated properly. For example, many firms prefer to cooperate with some online shopping platform such as Yahoo shopping instead of developing their own online channel. By this way, firms can have e-channel while they do not need to maintain it."*---Interviewee M8

According to interviewee (M8), the online shopping platform is well developed recently and a large number of manufacturers in Taiwan prefer to sell their products through some online shopping platforms such as Yahoo shopping or PC home shopping. For them, this kind of business transaction is more convenient compared with the development of a company owned internet channel. Suppliers define the online shopping platform as a kind of intermediary. The main difference is that these platforms do not have physical stores. However, interviewees in Mi Company mention that these online shopping platforms have their shortcomings. For example, these online shopping platforms do not carry inventory. It means that they receive orders from end customers and then transfer them to the manufacturers. Furthermore, like other physical channels, if manufacturers desire to obtain a noticeable place on their shopping website, they have to provide a certain amount of expenditure. It

means that a variety of fees are needed to be paid. For a manufacturer with a low margin product, this could be a problem.

> *"My boss realizes how difficult it is to sell a product through the intermediary no matter physical or virtual and therefore, our own online channel receives high attention from senior management. The command to construct an online channel is directly from our CEO"* -- Interviewee M17.

> *"Indeed, to cooperate with the online shopping platform probably is the quickest way to develop the online channel. However, they have the shortcoming such as donation fee. Besides, online shopping platforms do not carry inventory and they take the order then transfer to us. In other words, their channel functions are very limited. For us, they are more like an advertising billboard"*---Interviewee M18

Another issue about the development of the internet channel is that in the initial stage, the sales volume from the online channel is often low. It is difficult for the department that is in charge of the online channel to obtain more resource from the management level, according to manager (M14).

> *"It is not a surprise that, some people will doubt the necessity of our own online channel, especially with the low online sales amount."*— Interviewee M14

In addition, although it is cheaper to establish a virtual channel compared with having a physical store, to maintain the internet channel is not free. Some necessary activities such as to update the web site information, to manage the direct logistic system, and to provide a good post-sales service still require a certain amount of expenditure.

> *"In the beginning, it is difficult to keep a balance between income and expenditure and during this time the attitude of managers plays an important role."* **--** Interviewee M14.

Interviewee (M11) in Tm Company also mentions a similar view. In their company, people who are in charge of the internet channel are classified in the marketing department instead of the sales department. This arrangement is supported by the senior management. It means they do not have the quota pressure every month. Furthermore, all the expenditure for the virtual channel is considered as a marketing cost and it is similar to an advertisement cost. Senior managers will not require

strictly that income and expenditure should be balanced, according to interviewee (M11).

> *"In our firm, the internet channel is still in the trial stage. If we classify it as a major sales channel, such as direct sales force, then each month people who are in charge of this channel should be responsible for the sales amount seriously. In our firm, the internet is considered as an assistant sales channel. Indeed, it conducts some sales while the sales amount is not expected to be high by our senior management."---* Interviewee M11

In short, the support from the top level of management plays an important role in the design of the virtual channel, especially in the initial stage. If senior managers consider that the internet channel and e-commerce is a future marketing trend, managers are often willing to launch and support the virtual channel. Furthermore, some tangible or intangible support such as willingness to accept low sales volume will be provided.

5.3.3 Finding and summary of internal factors

5.3.3.1 The influence of internal factors

Through this study the factors driving manufacturers to develop the virtual channel have been extended compared with previous literature. These factors can be roughly classified into two categories: internal and external factors. The internal factors are management support and me-too strategy. The external factors are customer information management, retailer management issue, to launch new products, and to be a secondary channel. As mentioned in chapter four, some authors have discussed the factors for companies to develop the internet channel in the financial service area. Coelho and Easingwood (2005) merely pay attention on the external factors and Hughes (2006) does not provide a clear classification. Harrison et al (2006) offer internal factors and this research supports their classification.

It can be argued that the internal factors influence the channel development process heavily, especially in the early adoption stage. When more and more companies are

going to develop the multi-channel structure and a large number of reports show the growth of e-commerce, an atmosphere would be formed inside the company and motivates managers to consider the development of the virtual channel. This thinking (me-too) should be considered as an internal factor. However, respondent (M8) mentions that if a firm designs the internet channel without a complete promotion strategy such as how to draw the attention from offline customers, increasing the click rate, or cooperating with search engine companies properly that could be a tragedy for their online channel and unfortunately, it usually happens. In the beginning, the click rate is often low because customers are not aware of the existence of the web site. During this time, if the support from senior management is limited or the online sales amount is demanded, it might be difficult to continue maintaining this virtual channel.

Meanwhile a finding from the interviews is that the internal and external factors could interact with each other. It means that there could be several factors simultaneously motivating or forcing firms to redesign their channel mix. For example, pressure from retailers could influence the thinking of managers in a firm. On the other hand, when senior managers perceive other firms or channel partners have already adopted the internet channel, a concept of imitation strategy might be formed. It can be discussed that in a competitive environment, firms have to emulate the moves of their companies. It seems that heavy competition will force firms to adopt the industry norm in order to avoid extinction. Previous literature about multi-channel systems seems to neglect this interactive phenomenon and merely puts emphasis on the benefits that the internet channel can achieve, such as cost reduction.

5.3.3.2 Expectation of cost reduction

As mentioned in chapter two (section 2.5.2.1), cost reduction is one of the important advantages for firms to develop the multi-channel system. Research conducted by Hughes (2006) in the financial services industry illustrates that cost saving is one of the factors for financial service providers to develop the online channel. However, in this study—the Taiwanese IT industry, the majority of informants claim that during

the process of channel development, cost reduction is not their priority consideration. For example, interviewee (M1) mentions several times that the function of the virtual channel in their firm should be considered as a medium between them and customers. All activities about the development of the internet channel are considered as marketing behaviours rather than commercial activities. The major difference between sales and marketing activities is that sales activities can bring benefit to the firm while marketing activities always cost money, as interviewee (M1) describes.

Furthermore, manager (M1) also notes that they already have other direct channels such as TV shopping or directly owned stores. All of these direct channels have the same characteristic: to assistant promotion and serve end customers. Several managers (M5, 8, 10, 12, 14, and 15) in different firms support this view. Besides, interviewee (M8) mentions that for most companies, especially the manufacturer, they do not have the ability to handle the transportation process for small package items. In order to fulfil the online order, manufacturers have to hire logistic companies such as DHL or UPS. Who should pay the delivery cost is always an issue for several firms. In Tm Company, in order to serve their customers, they absorb the delivery cost. However, the cost for online shopping is increased not reduced.

In addition, according to respondent (M14), a large number of people have a common misunderstanding about the internet channel. People often regard the internet as an inexpensive channel. However, to maintain the internet channel within a good quality is not as cheap as many people expect. For example, a large number of firms do not have the expertise to manage and mine the end customer database and usually they have to outsource this part. Nevertheless, the charge for outsourcing is high. According to manager (M14), "For example, not everyone can or is willing to do the customized advertisement like Amazon or eBay. Those companies can be successful because they have invested a lot, especially in the area of customer analysis and customer retention".

Interviewee (M9) supports this statement and mentions that a number of firms adopt limited utilization of the internet channel because they lack people with expertise in

the needed area, even though they are IT companies. Besides, manager (M11) mentions that for a large number of firms, especially in the non-technology industry, to create the virtual channel and a vivid website without any assistance is not an easy task. They have to hire some outside experts or some professional web-design companies to integrate direct and indirect channels. Again the expenditure is high. In other words, moving into multiple channels without the required capabilities is likely to result in less than optimal benefits. Indeed, the online channel can bring several benefits to firms but if the original purpose of firms is to reduce channel expenditure, the online channel might not be the best choice, according to manager (M11). To sum up, several previous studies put emphasis on, cost reduction, the most important benefit in designing the hybrid channel system. However, the view from the firms interviewed in the Taiwanese IT industry is contrary to that espoused in previous literature.

5.4 Chapter Summary

Six factors were identified driving manufacturers to develop the internet channel (Table 5.1): customer information management, retailer management issue, launching a new product, to be a secondary channel, me too strategy, and senior management support. A number of key findings emerged from this empirical research. For example, the factors can be classified into internal and external factors. Internal factors play an important role in the development of the internet channel. This part has seldom been mentioned in the previous literature. In addition, the end customer exhibits more demand for relevant product information. Through the internet the information can be conveyed by manufacturers correctly and, furthermore, manufacturers can establish an interactive relationship with end customers. This relationship was difficult to achieve before. A multi-channel system can assist firms to obtain a more holistic view of the consumer.

A further finding is that the multi-channel system not only reduces the business risk but also supplements the weakness of the intermediary. There are some natural limitations for intermediaries, such as inadequate space and different perceptions

about new product launches. Firms with a multi-channel system can solve this weakness partly. This finding extends what is known from previous literature. Furthermore, for the majority of firm managers cost reduction is not the priority reason for them when they develop the multi-channel system. For them the extra channel is defined as a marketing tool instead of a sales tool. This result is contrary to previous literature on this topic.

Table 5.1: Summary of chapter 5

Factors for manufacturers to develop the internet channel	Statements	Respondents
External factors		
Customer information management	--In order to provide accurate product information --To communicate with end customers directly	M1,2,3,4,7,8,10,11,12,13, 14,19 ,and C2
Retailer management issue	--High pressure from the chain store systems --To set a recommended price	M4,7,10,12,13,14,15, 16,18, and E1
Launching a new product	--To sell a whole new product type --To deal with hesitant intermediaries	M7,9,12,13,14,15,16, and 17
To be a secondary channel	--As a secondary channel --As a substitutive channel	M1,10,13,14,15,16,17,18 ,and E1
Internal factors		
Me too strategy	--In order to catch up the online business opportunity and to do some preparation for the future, manufacturers would adopt the internet channel in their channel mix.	M 1,4,7,12,14,15,16, and 18
Senior management support	--The support from the senior managers is crucial for the development of the internet channel, especially in the initial stage.	M8,9,10,11,14,15,16,17,1 8, and C1

Chapter 6

What are the channel design patterns of the multi-channel structure?

6.1 Introduction

This chapter considers what the design patterns of the multi-channel structure look like, in particular focusing on the functions of online and offline channels.

It seems that channel design issues in the multi-channel structure have been seldom discussed in the literature. For example, Hughes (2006) mentions that structural issues concerning the multi-channel system are ill defined. Steinfield et al (2002 a b) offers a channel design pattern—the synergistic channel structure (Figure 2.4 in chapter 2). Nevertheless, Rosenbloom (2007:5) argues that "Integrating online channels with conventional channels to create a "seamless" experience for customer is, of course, the ideal situation—in theory at least. In practice, however, such seamless integration is still more the exception than the rule because substantial obstacles exist". Yet, Rosenbloom (2007) merely points out the impracticalities of the synergistic channel structure, he does not reveal the possibility of other types of channel structures and design patterns.

A reasonable prediction is that although firms spontaneously develop offline and online channels, they might design the channel structure into different patterns. Based on data from interviews, in this research, it appears that firms with products at different stages of the product life cycle design their channel structures into different patterns. The roles, the functions undertaken, and expectations of each channel are different. The role of the traditional channel for manufacturers can be divided into three different patterns: intermediation, reintermediation, and disintermediation[24].

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[24] The meanings of reintermediation and disintermediation here are different compared to what have mentioned in chapter two. While the terms remain the same, the nature of each pattern of behaviour was found to be different in the literatures, compared with that discussed in previous literature. These issues are fully explained in this chapter.

The role of the internet channel can be classified into three levels: as a supporting marketing channel, as a complementary sales channel, and as a main sales channel.

In order to summarize and present views of interviewees in a structured way, a functional analysis is utilized. As mentioned in chapter two, there are five main channel functions: product flow, information provision, aggregation, promotion, and risk taking. The analysis is presented according to each of the five functions. For each section, discussions and selected quotations from interviewees are presented in advance. Then, a table with channel functions is utilized as a framework to describe the undertaken channel functions for each channel. There are four main sections in this chapter. After the introduction, in the second and third sections, the roles of the online and offline channels are explained in detail. Finally, a chapter summary is presented.

6.2 The role of the traditional channel

6.2.1 Intermediation
—Intermediaries play a dominant role

Several interviewees (M1, 2, 3, 4, 5, and 6) mentioned that in their firms, the traditional intermediary still plays an important role. It means that the intermediary still is in a dominant position. Firms develop the internet channel but still rely heavily on their intermediaries to perform certain channel functions. Under this pattern, the interaction and relationship between suppliers and intermediaries seems not to be interrupted by the development of the internet channel. According to respondents, the main reasons are: to increase market coverage quickly and offer products with specific characteristics.

6.2.1.1 Increasing market coverage

> *"Our product (wireless equipment) is still at the growth stage of the product life cycle and the best method to penetrate the market and increase market share quickly is to utilize as many channels as possible.*

For this purpose, we developed the internet channel. However, comparing each channel, we discovered that our channel partners can do a better promotion job."-- Interviewee M1

According to respondent (M4), although the IT technology has been developed for at least two decades, the popularity of wireless equipment is quite new compared with other computer products. Managers (M2, 4, 5, and 6) agree that when the product is still in the introduction stage, the main goal for them is to increase market penetration and brand awareness. A quotation from interviewee (M4) highlights this point:

"To create market penetration is particularly important for IT companies. It is because for most IT products, their product life cycle is very short and manufacturers have pressure for rapid market penetration in order to avoid obsolescence. Therefore, marketing channels have to be loaded quickly to expose the products to their widest possible user base before product design becomes outdated." -- Interviewee M 4

Manager (M6) notes that at this stage, their firm would not attempt to modify the original channel structure. The main expected function for the virtual channel is to provide information to channel partners and end customers. The traditional intermediary can generate a better penetration than the internet channel because of their extensive distribution network. Therefore, in Ac Company, managers prefer to keep investing in the retail network instead of putting emphasis on the internet channel. This statement is also supported by respondent (M3) in Dl Company.

"When you get in touch with any type of intermediary such as a chain store, actually you are not only making a contact with one entity. You are talking to the whole distribution network that the intermediary represents. For example, a chain store could have three hundred local stores and each store has a minimum of thirty staff. It is more efficient to achieve broad market coverage by this method rather than a sole company web site."-- Interviewee M 3.

Meanwhile, respondent (M5) doubts the effectiveness of attracting customers by utilizing manufacturers' websites. Although e-commerce is flourishing recently, how to attract customers to browse the web is still a major problem for the virtual channel, especially when only a single type of product can be found on the manufacturers' website. Hence, several respondents (M2, 4, 5, and 6) agree that a safer method to

create market penetration and brand awareness is still to cooperate with intermediaries.

> *"There might be thousands of online shops in the virtual world. In my opinion, before creating a consolidated brand image such as HP or Nike, to focus on the internet channel might be meaningless. Without strong brand awareness, it is difficult to attract customers to visit your site, especially the website only offering a single type of product. In terms of product assortment, traditional retail shops can do a better job. In the retail store, customers can compare several brands and products at the same time"* ---Interviewee M5

> *"After all, our product is quite new for end customers. The demand from the market is still high and products can be sold quickly. In a general situation, the traditional intermediary will not reject this kind of merchandise. They will accept and be willing to take a certain volume of inventory. At this time, we can transfer the inventory to them quickly. In order to reduce the inventory volume, they would promote heavily"* --- Interviewee M2

6.2.1.2 Product attribute

> *"Not all the products are suitable to be sold through the internet. As you can see, most customers purchase books, toys, or clothes online but they probably might not buy a complex product such as a mini work station online. When customers purchase an unfamiliar product, they often require a significant amount of interaction, negotiation, and support service from personal contact."* --- Interviewee E2

This opinion is supported by interviewees (M2, 3, 4 and 5) and they agree that product characteristics will influence the decision making for the design of the channel structure. Interviewee (M3) explains that a large number of end consumers now are still unfamiliar with wireless technology. For example, many customers do not understand the meaning of product standard descriptions such as IEEE 802.11a/b/g/n or the bandwidth between 2.4 GHz to 2.4835 GHz, when they choose a wireless PC card for the first time, according to respondent (M3).

For this reason, end customers usually require a direct personal service, when they make a purchase. It means that customers need a personal contact in the sales process especially, contact by experienced, trained, and knowledgeable retail staff. Customers often assume that staff are well-trained and have better professional

knowledge, according to respondent (M4). This function, providing personal contact, is not easily provided over the internet channel. Even though for some young users they can search for relevant information from the internet, for most people, their concern is how to connect to the internet easily and quickly. The specific knowledge of wireless technology is not important for them, according to interviewee (M2).

> *"Although purchasers now will utilize the internet to search the information that they require, if they are not the kind of power user or technology guru, it is quite possible for them to rely on staff in the retail store in order to obtain some advice quickly. When customers face an unfamiliar technology, explanation by human beings is more persuasive and convincing."--* Interviewee M2.

> *"As a manufacturer, we might not have the ability to set up a large number of service centres across regions. The intermediaries still have the advantage to provide detailed personal service, post-sales maintenance, and product distribution. However, it is because of the levels in the distribution network that sometimes the information from customers will be delayed. We cannot receive customer opinions and responses quickly. "---*Interviewee M5

Although the internet channel can provide an efficient information flow, interviewees (M2, 3, 4 and 5) mention that when they design the channel structure, multiple aspects would be considered. For example, specific product attributes such as an unfamiliar item for customers will influence customer preferences and then these preferences or requirements (personal contact) will affect the channel design pattern. Interviewee (M3) agrees that to maintain a harmonious relationship with the intermediary is a conventional approach and requires a lot of investment. However, it is still worth maintaining a good relationship with intermediaries.

> *"You do not need to do everything by yourself. Cooperating with intermediaries might not save money but can save the time and energy."---* Interviewee M3

6.2.1.3 Functional Analysis—intermediation

It seems that designing a multi-channel structure is more complicated than previous literature suggests. In this section, although firms launched their internet channel, their intermediaries continue to play a dominant role. From Table 6.1, it can be

observed that the physical channel can perform a better promotion function than the virtual channel, especially with products requiring detailed explanation and personal service. Meanwhile, the intermediary can offer a better aggregation function than the online shops owned by manufacturers which merely carry a single product line. Furthermore, in this section, managers mentioned that their channel partners are willing to take the inventory because the demand from the market is increasing. Therefore, to cooperate with traditional intermediaries is still an optimal scenario for them.

Table 6.1: Functional analysis of intermediation

Channel functions	Statements	Respondents	Capability of channel function performance
Product flow	The physical channel is good at performing product flow.		◎
Information provision	Information provision is still conducted by the traditional intermediary. However, one shortcoming is that manufacturers cannot receive customer opinions and responses quickly.	M,5, and 6	○
Aggregation	The traditional intermediary can often offer a greater depth of product assortment than a single manufacturer's website.	M3 and 5	◎
Promotion	The physical channel is good at increasing awareness of the product being sold, to educate consumers about the products' features and characteristics.	M2, 3, 4 and 5 and E2	◎
Risk taking	When the demand from the market is high, inventory burden can be transferred quickly to intermediaries. A complete network across regions is necessary to provide post-sales service.	M2,5, and 6	◎

◎: Unique contribution of channel function

○:Capable of performance of channel function

△[25]: unsuitable or uneconomical of channel function

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[25] These three classified levels are based on the statements from interviewees in this research. These classifications might be subjective but reflect the attitude from interviewees.

6.2.2 Reintermediation

—Intermediaries are still important but some functions are shifting

Unlike the statements mentioned by respondents in the last section, during the interview process, several interviewees (M 7, 8, 10, 11, 12, 13 and 15) mentioned that their channel structure has been slightly modified by the development of the internet channel. Manufacturers are attempting to redesign their channel structure and are willing to pay more attention to the online channel.

As mentioned in chapter two, this concept, reintermediation, implies lengthening of the channel rather than shortening it because an extra virtual channel is added to the channel structure. More intermediaries appear in electronic marketing channels while conventional marketing channels continue to exist alongside electronic channels (Rosenbloom 2004). For example, when a consumer electronics manufacturer considers their channel structure, both the virtual (i.e. Amazon.com) and physical (i.e. PC World) intermediaries might be considered. In this section, the meaning of reintermediation is slightly different compared with what has been mentioned in the literature review chapter. Manufacturers develop their own virtual channel to support a deficiency in the physical channel instead of relying on outside third parties. Meanwhile, some marketing channel functions are gradually transferred to the company-owned online channel. The opinions from interviewees about reintermediation can be presented under three points: declining margins and intensive competition, requirements from customers, and irreplaceable functions of the intermediary.

6.2.2.1 Intensive competition and declining margins

> *"In a normal family, having a PC is as usual as having a TV. It is not surprising that the majority of computer components are reaching the maturity stage. The Dram module industry is also at this stage."*— Interviewee M7

> *"With no doubt, the motherboard industry is at the maturity stage. When the first PC was invented, the motherboard existed. As you can see, recently no matter whether PC or even the Notebook, all are in the plateau*

stage in terms of sales amount, especially in European and American areas. The growth rate and demand from the market is not as high as before." ---Interviewee 12

When discussed with several interviewees (M7, 9, 10, 12, 13, and 14), they repeatedly mentioned that the shifting of the product life cycle in the IT industry is rapid. Entering the maturity or even the decline stage will not take a long time. For example, as manager (M10) notes, ten years ago, the floppy disk was common to see. However, the floppy disk disappeared and the CR-Rom might be the next one, as manager (M10) predicts. Furthermore, at the maturity stage, a variety of homogeneous competitors exist in the same market and competition is extremely intense. A price war is a common situation and as a result, product margins keep decreasing.

> *"About ten years ago, the sales price for a memory module would be three or four times the cost. However, now the gross margin for our product is merely ten percent and for the OEM business area is worse.*—Interviewee M8

With the low margin, respondents (M11, 13, and 14) mention that the levels of intermediaries have been reduced gradually in order to save cost and maintain the competitive advantage. Meanwhile, this intensive competition affects marketing functions that were undertaken by the intermediaries. For example, at the maturity stage, a large number of homogeneous competitors coexist. Therefore, the supplier no longer has as strong bargaining power over the intermediary as before because the intermediary can aggregate products over a larger number of suppliers and is not dependant on any one supplier. Moreover, channel partners are only willing to carry the inventory of popular items rather than slow moving items and accessories.

> *"By conducting a diversification strategy, each year our firm will launch at least two dozen new products. However, contrary to our original expectation, it is not easy to negotiate with intermediaries to accept all new products."* **---**Interviewee M12

Furthermore, even the most popular product, the motherboard, respondent (M12) in Ms Company mentions that the order volume from intermediaries is less than before. In other words, the function of holding inventory is weaker than before. With the trend of e-commerce, the virtual channel becomes a possible option. At least, the

online shop can offer the complete product assortment for customers without the need to pay the donation fee[26] for intermediaries each year, according to interviewee (M12).

6.2.2.2 Customer requirement

In section 6.2.1.2, several respondents mentioned that their product (wireless equipment) requires more assistances and explanations from intermediaries. Therefore, the relationship with channel partners is still valuable to them. In this channel pattern, interviewees offered a different opinion. Respondents in two different firms, Tm and Ms, mentioned a similar circumstance, that more and more customers are willing to search for the relevant product information or even order products online by themselves. As respondent (M14) mentions, people are getting used to shopping online for standardized products.

> *"In the beginning, the design of our website was quite simple and we only provided some messages such as company background, contact information, and very simple product information. However, we received several requests from customers. They asked us to provide the complete product information and even an online shop."* --- Interviewee M10

> *"We have done some marketing research before launching our online shop. Some customers mentioned that there was no difference for them to purchase a flash memory disk online or offline because they do not require the extra explanation from staff in a store. They understand the difference between 1, 2 and 4 G. Furthermore, it might be more flexible (time or location) for them to shop online"* --- Interviewee M11

> *"Each year we will arrange several road shows in order to promote our products and have a direct contact with end customers. More and more customers mention that for electronic consumer goods, such as MP3 player or even the Notebook, they prefer to compare information online by themselves instead of asking staff in shops. Especially for some young people, they mention that it is not difficult for them to purchase a Notebook online or offline because they are familiar with product characteristics and know how to operate it"* --- Interviewee 14

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[26] As mentioned in section 5.2.2.1, in order to get access into the retail stores, each year manufacturers have to pay a variety of fees (e.g. shelf space fee or new product launching fee).

Respondent (M15) notes that the popularity and success of online intermediaries in Taiwan such as Yahoo online shopping might illustrate that more and more customers get used to searching for information online, especially when they feel that they are familiar with products with a high level of standardization such as toys or clothes. Hence, several managers (M10, 11, 13, 14, and 15) agree that although intermediaries still perform the function of information provision and promotion, with the change in consumer behaviour and products with a high level of standardization, the importance of the intermediary to perform these two functions is decreasing gradually. A quotation from interviewee (M11) highlights this point.

> *"When products become highly standardized, the operation procedure will be minimized and become more convenient for end customers. The computer operating system such as Windows is a good example. You do not need to learn any computer languages such as DOS anymore. In our area, the situation is the same. You just buy the flash disk and use it. You might not need extra advice from intermediaries because the product is highly standardized and accepted by end customers."*—Interviewee M11

6.2.2.3 Irreplaceable functions of intermediaries

Although some marketing functions carried out by intermediaries have been modified because of intensive competition and modifications of consumer behaviour, several respondents (M, 8, 10, 12, 13, and 15; P2; E1) keep mentioning that they still rely on intermediaries and do not want to modify the channel structure dramatically. Firms will hedge on both sides, according to interviewee (M7). The major considerations for them are the functions of product flow and post-sales service undertaken by intermediaries. Interviewee (E1) notes that one challenge for online shopping is that few customers will conduct their purchases online regularly. Firm managers feel that they are in paradox—to invest more in a logistic system or not.

A. Product flow

> *"How to fulfil customers is one major problem for many manufacturers who desire to create their own online shop. For example, the process and shipping of a variety of small items, often one unit a time, is expensive and complicated for manufacturers. They are not familiar with this process.*

Order process and shipping costs can be high relative to the sales volume produced." —Interviewee P2

Interviewee (M13) notes that until now, the sales amount from online is still a small proportion of the total sales. Therefore, their firm might not desire to establish their own direct-marketing infrastructure because the expenditure could be more than the cooperation with the intermediary.

> *"Everyone keeps talking about the growth of e-commerce. Indeed, the sales amount from our online shop is increasing steadily while the proportion is still small. The sales amount is often fluctuating and unpredictable. Hence, it might be risky to create our own logistic system. As a metaphor, the intermediary is a cash cow for us."*--- Interviewees M13

Why is a synergistic multi-channel system not created? Then, the problem of product flows can be solved perfectly. This question was asked during the interviews. However, the response is negative from respondents:

> *"You mention the advantages of a synergistic multi-channel such as pick-up service. However, if you cannot offer some benefits or incentives to channel partners, they will not accept to provide this kind of service for you. I think the more possible scenario is that they will choose other suppliers who can offer better margins and require easier sales processes"* ---Interviewee M 10

> *"From our perspective, what you mention about a synergistic multi-channel structure has a major shortcoming—to share information with each channel. Why should we share the information with a totally different company? How do different companies manage confidential information?"* ---Interviewees M 15

B. Post-sales service

Similar to the situation with product flow, interviewees (M 8, 12, and 14) agree that intermediaries can offer a better post-sales service than suppliers, especially in terms of product return and maintenance. Manufacturers may not have the ability to provide several post-sales service centres. This statement corresponds to what interviewee (M5) suggests in section 6.2.1.2.

> *"Even for Dell, such a big company, in Taiwan, they do not handle post-sales service by themselves. Dell outsources this part to their contract*

partners. If customers desire to repair or return products, they need to call these contract partners and have to pay an extra maintenance fee." --- Interviewee M8

"Although everyone criticizes the donation fee paid to intermediaries each year, at least, there is one advantage. They provide the maintenance service for us. They hire several engineers to provide technology advice and repair service. I have to say that post-sale support and service is complex and trivial for manufacturers, especially when customers are too spread out or too many in numbers"-- Interviewee M12

"As you know, when you purchase a product from a retail store, the product warranty is provided not only from the manufacturers but also from retailers. When you buy a product, you get double warranties. For us, the intermediaries can share our responsibility and provide some post-sales service."---Interviewee M14

6.2.2.4 Functional analysis—reintermediation

In this section, reintermediation, the relationship with traditional intermediaries is still important to manufacturers. As Table 6.2 illustrates, two channel functions, product flow and providing post-sales service are irreplaceable for manufacturers. In this research, several interviewees mentioned their firms have no plan to build their own fulfilment system. Nevertheless, the functions of information provision and promotion undertaken by intermediaries are not as unique as before. It seems that customer behaviour has been modified slightly with the popularity of the internet and the growth of e-commerce. For some highly-standardized products, customers prefer to search for information or even make the order and payment by themselves. In addition, it is because of intensive competition and declining margins that intermediaries are only willing to carry popular items with a relative small inventory volume. From the view of manufacturers, how to deal with a new product launch, slow moving items, and accessories are problems for them.

Table 6.2: Functional analysis of reintermediation

Channel functions	Statements	Respondents	Capability of channel function performance
Product flow	The sales amount from the virtual channel does not achieve a significant amount and economics scale. Therefore, it is worthwhile to cooperate with intermediaries rather than build a company-owned logistic system.	M 10,13,14, and 15; P1; E1	◎
Information provision	Intermediaries still undertake this function while more and more customers are getting used to searching for information online.	M10, 11, 13, 14, and 15; E1	○
Aggregation	Intermediaries still undertake the aggregation function while merely focusing on popular items.	M12 and 14	○
Promotion	At the maturity stage, intermediaries still undertake this function, although the importance is not as high as before. It is because customers are more familiar with the product attribute and characteristic.	M 8, 12, 13, and 15	○
Risk taking	Order volumes from intermediaries decrease. Intermediaries prefer to carry low volumes of product from different competitors. From this perspective, the function of holding inventory is decreasing. However, the function of providing post-sales service by intermediaries is still irreplaceable.	M 8, 12, and 14	○

◎: Unique contribution of channel function

○:Capable of performance of channel function

△: unsuitable or uneconomical of channel function

6.2.3   Disintermediation

– The intermediary ends the relationship with the manufacturer gradually

In chapter two, disintermediation happened when the suppliers of a good or service have the ability to circumvent intermediaries and sell products to customers directly (Evans and Wurster 1997). One important motivation for suppliers to conduct this strategy is that the intermediate transaction cost can be saved (Simpson et al 2001). This phenomenon, disintermediation, is mentioned by some interviewees in this study but the meaning is different compared with what was mentioned in chapter two. Interviewees (M16, 17, 18, and 19) in Mi Company confirmed that for their company, the importance of traditional channel partners is decreasing dramatically. For some

products such as LCD and PDP TV, the virtual channel undertakes the main sales function. However, interviewees mentioned that when they considered the channel structure, the issue to be considered is more complicated than mere cost reduction. For example, the pressure from outside such as uncooperative channel partners would also push them to consider this strategy. The opinions from interviewees about disintermediation are presented into two points: internal and external aspects.

6.2.3.1 Internal aspect --low margins

> *"Our product, especially for the low-end scanner, is truly at the decline stage. The reason could be from several dimensions but the main factor is the emergence of new technology. The low-end scanner has dramatically been replaced by the digital camera. The sales volume and margin both keep declining."*—Interviewee M16

According to respondent (M17), without enough margins there would be a serious impact on several dimensions such as new product development or promotion campaigns. The most serious influence is still the channel structure. For instance, interviewee (M18) notes that it is very difficult to maintain a complete distribution system, if the margin is low. As mentioned in section 6.2.2.1, several managers (M11, 13, and 14) mention that the levels of intermediaries become fewer. Interviewees in Mi Company also confirm this situation. Their firm also follows this trend and has a more radical response. For example, manager (M16) notes about seven or eight years ago, there could be three to four levels of intermediaries such as distributors, regional dealers, local agents or brokers, and final retail stores within a firm's channel portfolio (Figure 6.1). This channel structure is very similar to the current channel structure employed by Dl/Ac Company (Figure 4.2). At that time, each level of intermediary could obtain a reasonable margin. However, with the decreasing margin, it is difficult for manufacturers to maintain several levels of intermediaries and the levels of intermediaries have been reduced gradually in order to maintain margins (Figure 6.2[27]).

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[27] The Figure is the same with Figure 4.3. Nevertheless, in order to present a clear comparison, this figure is illustrated in here.

Figure 6.1: The previous channel structure in Mi Company

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┌─────────────────────────────────────────────────────────────────────────────────┐
│                              Mi Company                                           │
│                          ┌─────────┬───────────┬──────────┬─────────┐             │
│                          │ Direct  │ Telephone │ TV       │ Direct  │             │
│                          │ Salesman│           │ shopping │ Store   │             │
└──────────────────────────┴─────────┴───────────┴──────────┴─────────┘
```

Subsidiaries		Enterprise Customers/Tenders		
Distributors				
Brokers/Agents				
Regional dealers				
Private own Stores	Chain store system			

End customer
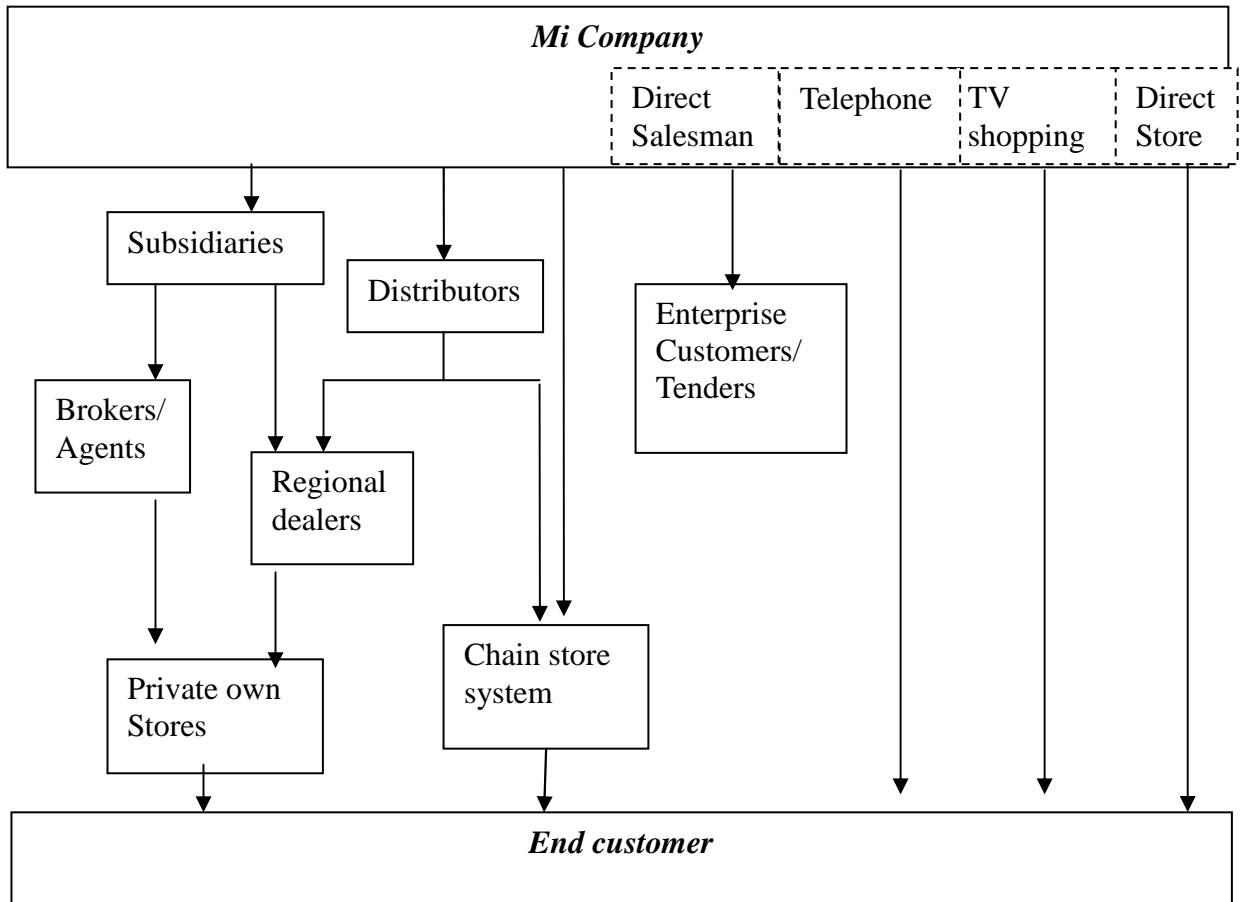
Figure 6.2: The current channel structure in Mi Company

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┌─────────────────────────────────────────────────────────────────────────────────┐
│ ┌──────────┐               Mi Company        ┌─────────┬──────────┬───────────┐   │
│ │ Internet │                                 │ Direct  │ TV       │ Telephone │   │
│ │          │                                 │ salesman│ shopping │           │   │
│ └──────────┘                                 └─────────┴──────────┴───────────┘   │
└───────────────────────────────────────────────────────────────────────────────────┘
```

Enterprise Customers/Tenders (for the high end scanner)

Outside Internet platforms

Chain store systems

End customers
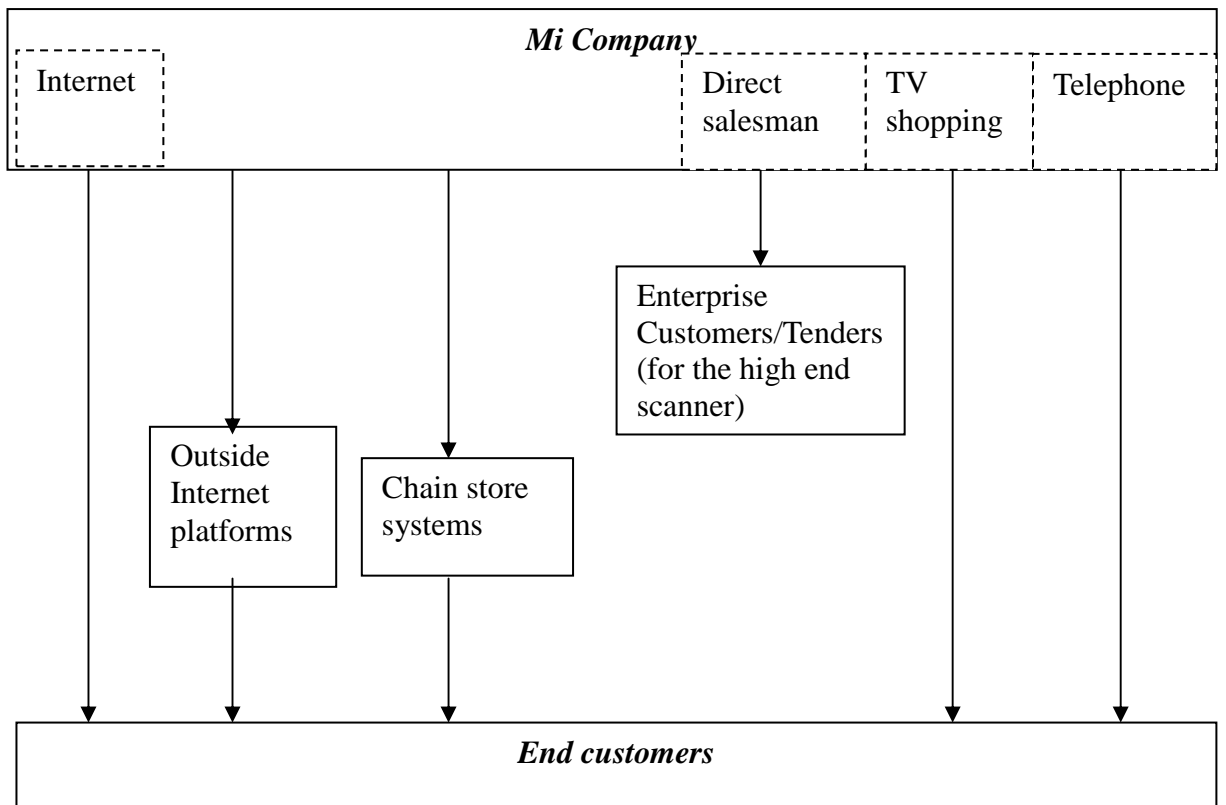
According to interviewee (M 18), now there are few privately owned stores which continue to cooperate with them.

> *"This kind of store (privately owned) is often smaller and often will not make contact with suppliers directly. They rely on the upper level of intermediaries. Each level will erode a certain margin and this is a disadvantage for us."*---Interviewee M 18

> *"The more levels that should be maintained, the more expenditure should be invested. For example, the local subsidiaries or branches should be set in order to respond to channel partners quickly. Sales people are also required because in Taiwan, doing business relies heavily on keeping personal relationships with your channel partners and it is important to visit your channel partners frequently."* –Interviewee M16

Nevertheless, interviewee (M16) mentions that they still maintain the cooperative relationship with the chain store system, although to maintain this relationship is not cheap and requires expensive donation fees each year. However, the expectation for the traditional channel is different compared with other firms mentioned above.

> *"Although our firm puts more emphasis on the areas of OEM, high-end scanner, and digital TV, we still desire to keep brand awareness in the area of the low-end scanner. The main purpose to cooperate with the chain store is to remind end customers of our existence. The main expectation for traditional partners is to undertake the promotion function instead of creating a big sales volume. The physical store has gradually become an exhibition centre instead of a sales channel. "*---Interviewee M16

Why does a firm choose to have such an expensive exhibition room?

> *"The internet channel is not our first virtual channel and we have tried others before. For example, we have tried TV shopping. However, we find that the return rate form TV shopping is very high, about 40 percent. The main problem is not the product quality. The majority of customers say that the main problem is the product does not correspond with the image on the TV screen. When they touch the real product, they feel the image is not the same. Therefore, we think it is necessary to keep holding a physical exhibition space."*—Interviewees M17

6.2.3.2 External --reluctant channel partner

"Channel partners do not work for you."—Interviewee E1

"Without enough margins our product becomes very unattractive to most channel partners and then, it is difficult to find a space in the physical store."—Interviewee M18

Respondent (E1) notes that for most of the intermediaries, they have their own objectives and different business operating models. Hence, they have their own standard about how to develop business, retain customers, and sell products. For instance, as mentioned in the previous chapter, the intermediary will select their own product mix by two criteria: high product margin and rapid stock turn. Therefore, it could be argued that the intermediary would not do what manufacturers want them to do. As interviewee (M16) claims, channel partners are rarely as loyal to a product or a manufacturer as sales representatives who are employees of manufacturers themselves. For example, an obvious change is that intermediaries might not pick up low-end scanners in their product mix. Even though some intermediaries continue to hold the low-end scanner in their product assortments, the order and inventory volume are low, according to interviewee (M16).

"Indeed, you can still find some brands of scanner such as HP or Epson in the retail store. Nevertheless, from my knowledge, that is a bundle sale. It means that intermediaries have to accept the bundle of scanner and printer at the same time. Although the printer is not a product with high margins, the cartridge has a very high margin. Selling the cartridge is attractive to intermediaries but even with this, the inventory level of scanner is still low"--- Interviewee M16

Meanwhile, interviewee (M17) mentions that the intermediary can offer a weaker post-sales service than before. Taking the maintenance service as an example, the low purchase rate for scanners means that intermediaries might not hire a specific engineer to perform the maintenance task. According to the explanation from respondent (M17), although many firms are classified as an IT Company, the distinction between each category such as software or hardware is huge. For example, people who can fix cell phones might not be familiar with printers. With fewer and fewer people buying low-end scanners, the convenient way for intermediaries is to return faulty products to manufacturers instead of hiring their own engineers.

Furthermore, corresponding to what interviewees mentioned in section 6.2.2.2, interviewees in Mi Company agree that the internet improves the ability of information searching for end customers. As interviewee (M19) notes, the low-end scanner is a highly standardized product without complicated instructions. What customers should do is to connect their PC and scanner through a USB cable line. It does not require any particular knowledge. It is easy for customers to obtain information online and customers can shop online and complete the transaction easily. The channel function of information provision carried out by intermediaries is weaker than before.

Finally, during the interview, interviewee (M16) has a different interpretation of the meaning of disintermediation compared to what has been mentioned in chapter two.

> *"In a precise description, we are eliminated by our intermediaries. The relationship between suppliers and intermediaries is ending gradually. Hence we need to do some preparation."*—Interviewee M16

In brief, it is difficult to cooperate with the intermediary who has a reluctant attitude and this forced Mi Company to look toward a replacement channel, according to interviewee (M17). This external pressure pushed them to adopt the disintermediation strategy. Therefore, suppliers are forced to reduce their usage levels of intermediaries and eventually they choose the direct sales channel. As Rosenbloom (2004) notes, if appropriate intermediaries at the wholesale or retail levels are not available, the manufacturer may well have virtually no other choice but a direct sales channel. One contrary observation to the previous literature is that the strategy, disintermediation, is pushed by the intermediary instead of the manufacturer.

6.2.3.3 Functional analysis—disintermediation

In this section, disintermediation, respondents noted that their channel structure has suggested a radical modification and the channel partners play a quite different role in performing the channel function. This channel pattern is different compared with the previous two channel patterns. As Table 6.3 illustrates, intermediaries still undertake the function of product flow. However, intermediaries might not undertake

other functions as before. For example, when intermediaries consider their product mix, the low-end scanner might not be an ideal option for them. In other words, intermediaries might not undertake the aggregation function in the same way. Furthermore, channel partners would not be willing to maintain a significant volume of inventory and based on respondents, they offer less post sales services than before.

Table 6.3: Functional analysis of disintermediation

Channel functions	Statements	Respondents	Capability of channel function performance
Product flow	Although sales amount from the traditional channel is decreasing gradually, for tangible products, this function still cannot be conducted by the virtual channel.		◎
Information provision	It is similar to the last section (reintermediation). Respondents mention that more and more customers are willing to search for information and shop online, when the product is highly standardized.	M 16, 17, 18 and 19	○
Aggregation	More and more intermediaries would not choose the low-end scanner in their product mix.	M16 and 18; E1	△
Promotion	The intermediaries become just an exhibition room.	M 16	△
Risk taking	Fewer and fewer intermediaries are willing to carry the inventory of the low-end scanner. The inventory level is decreasing. Furthermore, they provide less post-sales services than before.	M 16 and 17	△

◎: Unique contribution of channel function

○:Capable of performance of channel function

△: unsuitable or uneconomical of channel function

6.2.4 Summary of the role of the traditional channel

To develop a multi-channel structure is more difficult than merely putting online and offline channels together. It seems that when firms design their multi-channel structure, several factors will be considered. This point has seldom been mentioned in previous literature. In this study, it seems that the stage of the product life cycle is one of the factors to influence the design pattern of multiple channel structures. It seems that although companies in different product life cycle stages would all develop a multi- channel system, the channel design patterns would be different. In this study of the Taiwanese IT industry, the role of the traditional intermediary for manufacturers seems to be divided into three broad levels: intermediation, reintermediation, and disintermediation.

As Figure 6.3[28]illustrates, when companies are at the growth stage, the importance of the intermediary for them is relatively high (compared with other firms in the maturity or decline stage). When managers consider their channel design pattern, they still put emphasis on their original channel. There are two possible explanations: in order to increase the market coverage and the specific product attributes. Several major channel functions are suitable to be undertaken by intermediaries. For example, newly launched products often require the assistance and instruction from retail staff and this is a special product attribute in the IT industry.

In the maturity stage, the role of the intermediary is still important while some channel functions undertaken by intermediaries have been modified slightly. It is because of intensive competition that intermediaries might not perform some channel functions such as aggregation or holding inventory as well as before. Besides, in this stage, products often become highly standardized and customers can conduct their purchases easily by utilizing the internet channel. However, in this empirical research, respondents mention that the expenditure to establish a new fulfilment infrastructure is an important point that encourages continuation of the relationship with

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[28] In Figure 6.3, the introduction stage is not included because of lacking a sample company which is in this stage. Therefore, it is unclear in an introduction stage how important the intermediary would be for the manufacturer. It is a limitation in this research and requires further research.

intermediaries. Therefore, although the role of the intermediary has been modified, the traditional channel partner is still vital.

Finally, in the decline stage, the role of the intermediary has been modified significantly. In this research, interviewees in Mi Company mention that the intermediary is not their main channel to distribute products anymore and the importance of the intermediary is declining. However, one contrary finding to the previous literature is that the intermediary is the control part. It means that the strategy of disintermediation is conducted by the intermediary rather than the manufacturer. It is because the low margin results in the intermediary more likely having a reluctant attitude to cooperate with manufacturers.

Figure 6.3: The role of intermediary for manufacturers and manufacturers' product life cycle
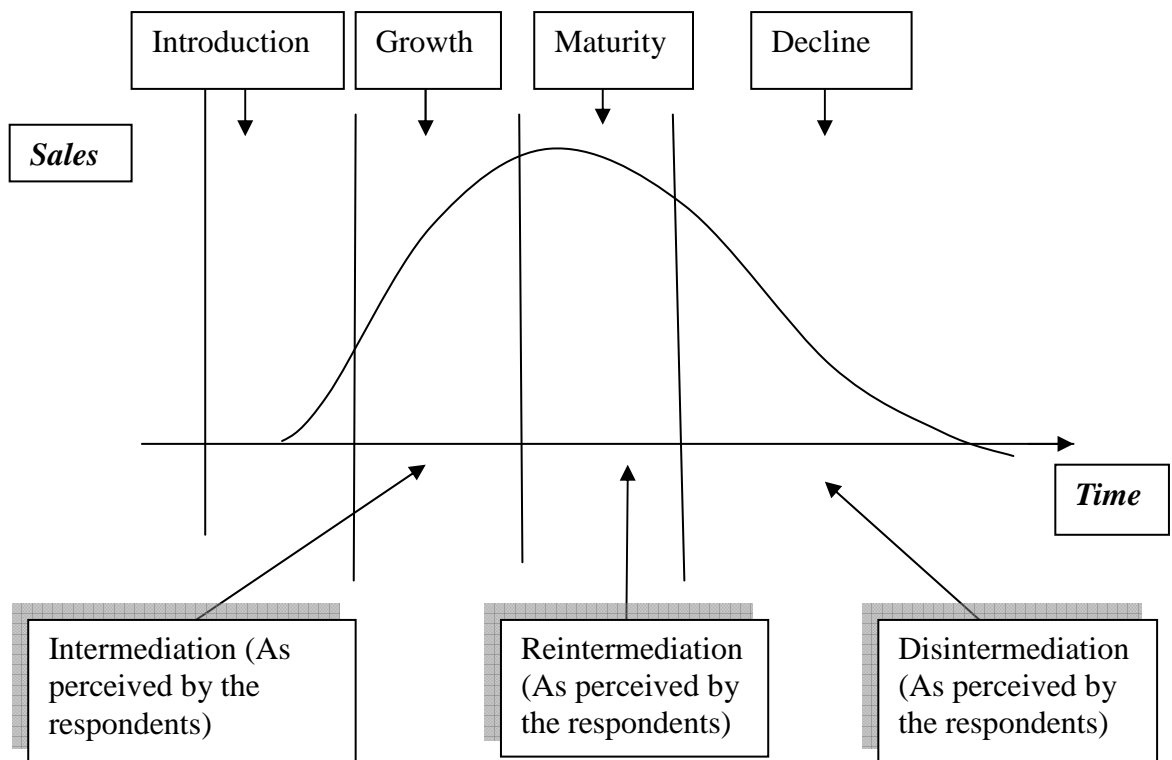
6.3 The role of the internet channel

Webb and Lambe (2007) suggest that it may not be enough to understand simply the virtual or physical channel in a multi-channel system. It is necessary to investigate the interactive relationships that exist between the physical and virtual channels, when research focuses on channel design patterns for the multi-channel system. Hence, the role of the internet channel and its channel functions performed should also be explored. In this research, the role of the internet channel is highly related to the physical channel. As the role of the intermediary has been classified into three levels, from the viewpoints of respondents, the role and function of the internet channel can also be classified into three levels : as an assistive marketing channel, as a complementary sales channel, and as a main sales channel.

6.3.1 As an assistive marketing channel

6.3.1.1 An information provider and receiver

According to the statements from interviewees (M 1, 2,3,4,5, and 6), in their firms, their original channel structure has been modified to a small degree after the development of the internet channel. For them, the role of the internet channel has been defined as an assistive marketing channel. It means that the main expected function for the virtual channel is to assist other channels by undertaking the function of information provision. A quotation from interviewee (M1) highlights this point:

> *"For the current stage, the sales amount that the online channel contributes is very limited but we are not surprised or upset. It is because in the beginning, our online shop has not been designed as a sales channel. In a more precise definition, we regard the internet channel as our private promotion medium and a convenient communication tool with end customers."*—Interviewee M1

Respondent (M2) mentions that the main expectation for their web site is to offer up to date product information and, moreover, to receive customer information outside the channel system. In other words, it is an electronic medium to cope with the trend that more and more customers will conduct their online search before conducting the

final purchase. To create substantial sales is not their main expectation. Meanwhile, they expect that the negative influence of the development of the internet channel can be reduced to a minimum level because several channel functions are still undertaken by intermediaries.

> *"As I mentioned before, for most of the end customers, they do not have the specific knowledge of wireless equipment or they do not want to have it. However, there is a paradox. We cannot deny that more and more customers will search for information online before buying products. More important, if everyone owns a web site, it would be better to have one. You know just in case. Meanwhile, we try to use the virtual channel to receive customer information and answer their enquiries. For us, this is a kind of customer service"*--- Interviewee M2

> *"The internet channel is not our only direct sales channel and we also have others such as TV shopping or fully company-owned store. However, from our perspective, all of these direct sales channels have the same function—exhibition and sometimes to collect feedback. The physical distribution network is still important for us, at least now."* **---**Interviewee M1

> *"Several famous manufacturers such as HP or IBM have their online shops. However, most of their online shops often exist in an inconspicuous web site corner. We adopt the same strategy"*---Interviewee M5

Interviewee (M2) suggests that they have the great advantage to cooperate with intermediaries and use the distribution network without endless argument or bargains because the demand from the market is still strong. As interviewee (M2) states, "It is a seller's market". As a result, very likely intermediaries are willing to hold inventory and share some post-sales service. Therefore, following the concept, to cooperate with intermediaries, manager (M4) expects customers can browse their web site to obtain some product information and then go to the retail store to make the final purchase.

> *"You mention the crisis of free-riding and cannibalization. However, we hold a reverse thinking. We provide the information of our intermediaries on the web site and highly recommend customers to contact them. Through this way customers can obtain a complete service and the intermediary can be satisfied. We can also receive the full support from our channel partners. If everyone can be happy, why should we compete with channel partners directly"* -- Interviewee M4

Furthermore, managers (M 1, 2, 4, and 5) keep emphasizing that the philosophy of going direct and becoming a retailer is a totally different concept for them. As a professional manufacturer, they feel that it is not necessary to confuse the role between the manufacturer and retailer. A quotation from interviewee (M5) reflects this ideology:

> *"We make and they sell. It is an easy way for each other. Our strength is making wireless equipment not to negotiate with huge numbers of end customers, although to receive information from the end customer is important"*--- Interviewee M5

Respondents (M1,2,4, and 5) mention that following this strategy, highly valuing the intermediary and reducing the impact of the internet channel, it might be easy and convenient for manufacturers to manage the relationship between channel partners. On the other hand, when the role of the internet is regarded as an assistive marketing channel, the demand from customers, such as information searching and answering questions in time, can also be satisfied and fulfilled. In order to encourage customers to visit the local physical store, interviewee (M1) said that they publish all the product information online while the product assortment sold online has been selected carefully. They adopt a limited assortment strategy. They put more emphasis on products which are designed for SME and SOHO segments. Interviewee (M4) explains that products for SME or SOHO might not be carried by intermediaries because the product is often expensive and requires more specific knowledge. Order frequency and sales amount are often uncertain. Therefore, it might not be worth assigning or creating a sales team in charge of this group of customers.

6.3.1.2 Functional analysis—as an assistive marketing channel

In this section, managers note that in their firm, the internet channel is defined as an assistive marketing channel. As Table 6.4 illustrates, the main function undertaken of the virtual channel is information provision. Managers expect with the assistance of the internet channel they can show the newest product information quickly because they perceive that more and more customers will search for relative information

online before going to physical stores. Meanwhile, the opinions or suggestions from customers can be received by suppliers through the internet channel quickly.

It has been mentioned in section 6.2.1.2 that the wireless equipment product requires more detailed explanations. Therefore, although the internet channel can transfer information quickly, interviewees note that they still rely on intermediaries to conduct the promotion task. Interviewees also mention that the market demand for wireless equipment is still strong and they can have several advantages to cooperative with intermediaries. For example, intermediaries are willing to hold inventory and share some post-sales service. Hence, in order to maintain a good relationship with intermediaries, managers note that their online product assortment is considered carefully and puts more emphasis on selling products for specific segments such as SOHO or SEM.

Table 6.4: Functional analysis – as an assistive marketing channel

Channel functions	Statements	Respondents	Capability of channel function performance
Product flow	The tangible product seems unlikely be conveyed by the internet channel		△
Information provision	With the assistance of internet technology, product information can be updated quickly on the web site. On the other hand, customers can leave their message on the web site. It is useful for manufacturers to receive information from outside.	M 1,2,3,4,5, and 6	◎
Aggregation	In theory, an online shop can offer a variety of product. However, in order to maintain a cooperative relationship with intermediaries, managers mention that they would not launch all their product lines online.	M1 and 4	○
Promotion	As mentioned in section 6.2.1.2[29], the internet channel might not be suitable for products which require detailed explanations and human contacts.	M2, 3, 4 and 5 and E2	△
Risk taking	The development of the internet channel means that manufacturers cannot transfer the burden of carrying inventory to their channel partners. Meanwhile, how to provide the post-sales service through the internet channel or cross regions by a single manufacturer is a problem.	M1 and 2	△

◎: Unique contribution of channel function

○:Capable of performance of channel function

△: unsuitable or uneconomical of channel function

6.3.2 As a complementary sales channel

6.3.2.1 More than an information provider

Unlike the role of the internet channel (an assistive marketing channel) mentioned above, several managers note that they have a higher expectation of the new virtual channel. According to them, the role of the electronic channel in their firms is

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[29] In this study, in order to understand the channel design patterns of the multi-channel system, the interactive relationships between online and offline channels are studied. However, it is inevitably that some statements already mentioned in previous sections will be mentioned again because these two channels are highly connected with each other. Some similarities and overlaps exist. Nevertheless, in order to offer a more holistic view, the author considers these repeated statements and overlaps are necessary.

regarded as a complementary sales channel. It means that the expectation for the internet is not only an information provider but also a sales burden sharer. Quotations from interviewees (M7, 12, and 14) highlight this:

> *"Of course, the internet channel is convenient for us to make a contact with end customers directly. It is good at information transmission. However, from my perspective, I expect the internet channel can be utilized more than an electronic tool to publish and receive information. After all, to develop a high quality website is not cheap."*—Interviewee M7

> *"We have had our online shop for five years. Although the sales amount is still a small proportion of the total retail sales, the increasing trend can be easily seen. In our firm, the sales amount has increased six times. This phenomenon might reflect the modification of customer behaviour. It seems that more and more customers accept the online B2C transaction. We highly evaluate and keep focusing on this. "*--Interviewee M12

> *"Every channel has its own advantages and disadvantages. For me, the physical and virtual channels are complementary, and help each other to enrich the firm, to enrich our activities and the value of the firm"*— Interviewee M14

Interviewees (M 11, 14, and 15) mention that the internet channel can be utilized as a complementary channel for firms to solve some troublesome problems that are both difficult for suppliers and intermediaries. Interviewee (M14) notes that every firm inevitably would have some popular products and some unpopular, slow-selling products, and accessories.

> *"However, the boundary for popular and unpopular products is vague. Taking cell phones as an example, after six months, the most popular cell phones could be obsolete."***---** Interviewee M14

From the perspective of the retailer, it is natural that they do not want to carry these products because these products do not correspond to their criteria of selecting product mix and, moreover, the physical space in store is limited. For example, stocking accessories is always a conflict issue with intermediaries, according to interviewee (M15). It is because the demand for accessories is uncertain. Retailers prefer to transfer orders to suppliers after they receive the order from customers. Nevertheless, it often takes time and end customers might complain. Furthermore, as mentioned in 6.2.2.1, some intermediaries now are only willing to carry inventory of

popular products. How to manage the unpopular and slow-selling products is a difficult issue for managers. The common method before the development of the internet channel was to negotiate with the intermediary. For instance, they would ask the intermediary to order a higher amount for certain popular products and give them the out of season and slow-selling items freely as an incentive. Another method is that they give a higher discount for popular products but intermediaries have to accept some slow-moving products. Nevertheless, the effectiveness of this bundle package is not so good, especially when firms are in the maturity stage and the intermediary can change suppliers easily.

> *"Making an order is more complicated than product transportation. It also means the issues of cash flow, inventory level, and risk management. After transportation, we transfer this burden to intermediaries and they take the responsibility to face the uncertainty. It is common to see that channel partners only order three or four popular products. However, we have eight product lines and each product line contains a series of products"*—Interviewee M15

Therefore, even though suppliers provide some free products as an incentive, the intermediary may not be willing to take the risk to make a large order. This is the natural problem of the physical channel and no one should be blamed, according to respondent (M14). Interviewees in Ms and Tm companies mention a similar situation. In order to solve this problem, interviewee (M10) mentions that the special characteristic of the internet has been considered, when they encounter the limited shelf space in physical stores.

> *"The internet channel has no space limitation. We consider this characteristic and sell all our product lines online, including slow-selling products and accessories. It means that we create a broader product assortment[30] than our intermediaries. Of course, we keep communicating with channel partners and explain we do not desire to compete with them. What we want is to solve the problem for both of us. We expect they can keep supporting us such as offering the post-sales service"*---Interviewee M10

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[30] The meaning of the broader assortment should be clarified here. It does not mean the manufacturer can offer more product types than the intermediary. It means that in some specific categories such as motherboard or flash memory, the manufacturer can offer a more complete product line online compared what intermediaries can offer offline.

Aggregation is one of the channel functions mentioned in chapter two. According to Coughlan et al (2006), by aggregating a variety of products in a physical store, retailers can offer a broader product assortment for their customers compared with a single manufacturer. Nevertheless, here, the function of aggregation seems to shift slightly to the online channel. How does it work, when the internet channel is designed as a complementing channel? The answer from interviewees is positive. Interviewee (M11) mentions that compared to intermediaries end customers are more easily attracted by some promotion methods.

> *"I could not say that the problem (out of season and slow-selling products) can be solved perfectly by the development of the internet channel. However, customers are easily influenced by some tricks such as 30% discount or three for two. Another example is that we can design a package including popular and unpopular items to sell. It is a simple tip but it works, especially for end customers. It is better than to abandon the item or to give it free to intermediaries. The inventory can be reduced gradually by utilizing the internet channel."*—Interviewee M11

> *"Now, intermediaries will encourage customers to shop online for accessories or products that they do not carry and intermediaries are quite happy to carry limited volumes of accessories."*--- Interviewee M15

6.3.2.2 Conservative attitudes toward the virtual channel

In this section, the internet channel is designed as a complementing sales channel. Nevertheless, several interviewees emphasize and predict that the sales amount from the virtual channel might not exceed the physical channel. They mention that the internet channel will finally become the usual shopping channel for many firms and the channel structure would be modified in a certain degree. However, it seems to be unlikely for firms to rely on the internet as a major sales channel such as Dell before 2007, according to interviewee (M8).

> *"After the failure of so many dot.com firms and the modification of channel structure of Dell, the role of the internet channel seems to become clear. Perhaps the most possible scenario is: the internet is only another channel that firms have to manage. It is not particularly different from telephone, mail catalogue, or TV shopping. We do not think that the internet channel would have the opportunity or ability to change the whole business environment or to do incredible stuff. "* –Interviewee M8

Interviewee (M7) notes that eventually most manufacturers would adopt the multi-channel system and this is an unavoidable trend because every one can sell online. However, managers have to choose their priority—the physical or the virtual channel. Interviewee (M7) puts emphasis on this point:

> *"Ten years ago, Dell created its direct model and that was really impressive. Many companies such as Compaq and even Acer in Taiwan desire to imitate this model but no one can succeed. Compaq faces the problem of channel conflict. We finally understand that we have to put emphasis on one side. Although the internet channel can have several advantages, some functions provided by intermediaries are irreplaceable. The priority and balance between offline and online should be considered before the development of the internet channel."*—Interviewee M7

Interviewee (M9) provides another explanation for why the original channel structure would not be modified dramatically by the development of the internet channel. One of the major deficiencies of the internet channel is how to overcome the "touch" and "experience" issue. Even though a large amount of information can be provided through the internet, personal experience cannot be conveyed by the computer screen, according to interviewee (M9). Intermediaries are required to provide a minimum level of promotion. For example, the customer expectation could be different from what they get in reality and what they see on the website. This statement corresponds to interviewee (M16). In section 6.2.3.1, manager (M16) mentions a similar statement and in their firm, the return rate for TV shopping is very high.

> *"As you can see, in Taiwan, even for some intangible products, we still prefer to buy the insurance or airplane ticket through the direct personal contact. Indeed, the internet changes our shopping behaviour but it still cannot overcome its natural limitations."*—Interviewee M9

Therefore, interviewees predict that before these problems (product flow, touch and experience issue, and providing post-sales service) are overcome, the internet can only be regarded as a supporting channel for firms. Moreover, firms would invest limited resources in the development of the online channel.

> *"Since the internet channel in our firm is considered as a secondary channel, why should we invest more resource to develop a 'synergistic channel structure' you mentioned. This kind of channel structure requires us to cooperate with intermediaries heavily. Moreover, an infrastructure*

across different firms is required. We do not think it is necessary."---
Interviewee M7

6.3.2.3 Functional analysis – as a complementary sales channel

In this section, interviewees mention a higher expectation of their internet channel. Interviewees expect the internet channel can be designed as a supporting channel to resolve troublesome problems that are both difficult for suppliers and intermediaries. In the mature stage, intermediaries can have several alternative choices and they might not perform the aggregation function as well as before. Hence, interviewees mention that they utilize the internet channel to support the weakness of their intermediaries. It is because the internet channel has no space limitation that suppliers can launch all their product lines online. The function of aggregation is shifting slightly to the online channel (Table 6.5). Nevertheless, the internet channel is still defined as a supporting sales channel instead of the main sales channel. Interviewees mention that they have a conservative attitude toward the internet channel. For them, the internet is one of many channels that they have to manage. They do not want to compete with their intermediaries directly because at this time they remain depending on the traditional channel to perform the function of product flow and providing post-sales service.

Table 6.5: Functional analysis – as a complementary sales channel

Channel functions	Statements	Respondents	Capability of channel function performance
Product flow	As mentioned in section 6.2.2.3, managers agree that they still rely on intermediaries to perform this channel function.	M 10,13,14, and 15; P1; E1	△
Information provision	It corresponds to the statement in section6.3.1.1. The internet channel is good at information flow. Precise information can be published on the website. Meanwhile, firms can receive customer information quickly.	M7, 8, 9, 10, 11, 12, 13, 14 and 15	◎
Aggregation	The internet channel has no limitation for space. Firms can launch all their product lines online and provide a broader assortment than their intermediaries. **However, this broader assortment still focuses on one particular category such as Dram module.** Intermediaries can provide a product assortment across different areas such as hard drivers, software, mouse, and printers.	M10,14, and 15	○
Promotion	Compared with intermediaries, customers are easier attracted by online promotion. However, some managers mention that the internet channel cannot offer the feeling of "touch and experience" to end customers.	M9 ,10,11,and 15	○
Risk taking	By developing the internet channel, manufacturers have to carry inventory and provide post-sales service by themselves. However, in this section, interviewees mention that the internet channel can help to reduce the inventory of less popular and slow selling products.	M11	○/△

◎: Unique contribution of channel function

○:Capable of performance of channel function

△: unsuitable or uneconomical of channel function

6.3.3 As a main sales channel

6.3.3.1 A new substitute distribution channel

Geyskens et al (2002) offer a proposition that the potential of an internet channel addition is positively related to product-demand growth. It is because different channels, direct and indirect sales channels, can share the growing market at the

same time. However, in this research, managers in Mi company (M16, 17, 18, and 19) claim another possible explanation for firms to add the internet channel. Even in a declining market, firms would attempt to adopt the multi-channel system and the importance of the internet channel is regarded highly.

> *"Our channel structure is really modified by adding the internet channel and the sales amount that the internet channel contributes in the B2C market is high. For example, in the scanner market, the virtual channel contributes almost twenty percent of total sales. Moreover, for the digital display, the virtual channel contributes the entire sales amount."*— Interviewee M16

Interviewee (M18) states that without the internet channel their firm is highly likely to become a pure OEM company.

> *"We are not the only firm in the scanner market to face the recession problem. We were number one in this area and even in the world. Nevertheless, we cannot stop the change of technology. As you can see, some of our competitors modify their main product line or turn into a pure OEM company. Some are even worse; they disappear forever"*— Interviewee M18.

As a result, interviewee (M17) states that finding a new substitute distribution channel is an inevitable challenge for them. They also have tried other kinds of direct or virtual channels such as mail catalogue or TV shopping. Nevertheless, the result is not satisfactory. According to interviewee (M18), the mail catalogue has almost disappeared because of the emergence of e-commerce. Besides, although TV shopping can be useful to create broad awareness, the expenditure is high. Moreover, within a very limited time period on TV, it is difficult to give a detailed and correct introduction to products, according to interviewee (M16).

> *"For example, the producer of the TV program might not want you to explain the difference between PDP and LCD TV. All you need to do is to say that LCD is better than PDP, if you are going to sell LCD TV today. Actually, there is a difference and neither is better. Different products are suitable for different situations and purposes. We can publish all the information online and it is not difficult to understand. Nevertheless, with the time limitation on TV, a clear image cannot be transferred to consumers.* ---Interviewee M16

Interviewee (M17) explains that this might be another reason to explain why the return rate is high for TV shopping. Hence, they discover that the internet channel might be the most suitable virtual channel for them and also the acceptable channel for end customers.

> *"The reason is not complicated. More and more customers are getting used to the internet channel. We believe this trend will increase steadily, especially for standard products. Meanwhile, we can control our website fully, such as to design promotion activities and offer detailed product information. All our product lines, including high/low-end scanners and the digital display can be launched online with no space limitation."*— Interviewee M17

> *"We have more flexibility to do online promotion because we do not need to share the margin with intermediaries. Time period and discount rate can be controlled ourselves. However, one major problem is still the product delivery. For some large items such as digital TV, we can deliver ourselves. For some small items, we have to rely on outside third party such as DHL to do the delivery service. It erodes some margins."*--- Interviewee M16

Nevertheless, a major problem of the development of the internet and the modification of the original channel structure is channel conflict. This statement is confirmed by interviewees (M16) and they encounter complaints and dissatisfactions from the intermediary. However, interviewee (M16) states that they do not push the trigger and the problem is coming from the modification of the whole environment. Managers continue to communicate with their intermediaries in this point.

6.3.3.2 Functional analysis—as a main sales channel

In this section, the internet channel is considered as a main sales channel. As mentioned in section 6.2.3.2, more and more channel partners are not willing to include the low-end scanner in their product mix. In order to stay in business, interviewees state that they have already tried several other channels. They discover that the internet channel might be the most suitable channel for them and end customers. The function of information provision can be undertaken well by the internet channel. Customers can obtain complete information online and place order and payment easily. Meanwhile, one advantage for the virtual channel is that it has

no space and time limitation. This statement corresponds to the opinions in section 6.3.2.1. Interviewees note that they can offer a more complete product assortment than their channel partners in the scanner category. Furthermore, without sharing margins with intermediaries, respondents mention that they are more flexible to design their promotion activities. Now, the internet channel contributes a solid sales amount, although manufacturers have to carry the inventory and provide post-sales service themselves.

Table 6.6: Functional analysis – as a main sales channel

Channel functions	Statements	Respondents	Capability of channel function performance
Product flow	Product flow is still a main problem for the internet channel. Interviewee notes that they have to cooperate with outside companies to solve this problem.	M16	△
Information provision	Detailed product information can be published on the website.	M16,17,18, and 19	◎
Aggregation	As mentioned in 6.2.3.2, more and more channel partners will not include the low-end scanner in their product mix. Through the internet channel, a complete product assortment of the scanner and digital display can be launched online.	M16 and 17	○
Promotion	Online promotion can be more flexible. However, managers still say that it is necessary to maintain a minimum level of relationship with the chain store. The physical store is considered as an exhibition space.	M16	○
Risk taking	Manufacturers have to undertake inventory and provide post-sale service by themselves. However, in the decline stage, the virtual channel contributes a solid sales amount. It seems to solve partly the problem of holding inventory.	M 16	○/△

◎: Unique contribution of channel function

○:Capable of performance of channel function

△: unsuitable or uneconomical of channel function

6.3.4 Summary of the role of the internet channel

In this research, the role of the internet channel can be classified into three different types: as an assistive marketing channel, as a complementary channel, and as a main sales channel. Table 6.7 is a summary table for channel functions undertaken by the physical and virtual channels in this research. Although in each firm, the virtual channel can take online orders and receive payments from customers, the expectations in different firms for the internet channel are different. This finding is different compared with previous literature (i.e. Standfield 2002 a b) and contributes to an extension in knowledge of the multi-channel system.

When the role of the internet channel is considered as an assisting marketing channel, the main expectation for the virtual channel is to undertake the function of information provision. It means that the virtual channel is defined as an information provider and receiver. It is because in the growth stage, managers state that several channel functions such as promotion are more suitable to be undertaken by intermediaries. To maintain the relationship with intermediaries is a more economical choice for them. Furthermore, in the maturity stage, respondents state that the internet channel is utilized as a complementary channel to support the weakness of the intermediary. The internet channel can share some channel functions with the intermediary, especially when the intermediaries are unwilling or suitable to undertake them such as assortment. Nevertheless, interviewees in this study agree that the sales amount from the virtual channel is unlikely to exceed the physical channel. For them, the internet channel is only one of many channels that they have to manage.

In this study, when the product is in the decline stage of the product life cycle, managers mention that in their firm, the internet channel is regarded as a main sales channel. Several channel functions now are undertaken by the internet channel except the function of product flow. Respondents note that with low margins, it is difficult to attract and negotiate with traditional channel partners. They have tried several direct channels while they consider the internet channel is suitable not only

for suppliers but also for customers. Several channel functions have shifted from the traditional channel to the virtual channel. However, the problem of channel conflict emerges.

Table 6.7: A summary table for channel functions carried by the physical and virtual channel

Product life cycle	Growth		Maturity		Decline	
Channel functions/channel types	Physical	Virtual	Physical	Virtual	Physical	Virtual
Product flow	◎	△	◎	△	◎	△
Information provision	○	◎	○	◎	○	◎
Aggregation	◎	○	○	○	△	○
Promotion	◎	△	○	○	△	○
Risk taking	◎	△	○	○/△	△	○/△

◎: Unique contribution of channel function

○:Capable of performance of channel function

△: unsuitable or uneconomical of channel function

6.4 Chapter Summary

The design pattern of the multi-channel structure combining online and offline channels has been seldom discussed (Kiang et al 2000). Steinfield et al (2002 a b), in their empirical research, offer a pattern—the synergistic multi-channel structure (Figure 2.4). They assume that the online and offline channel can achieve a highly integrated level. However, Steinfield et al (2005), in another research, claim that the synergistic multi-channel structure is uncommon. Rosenbloom (2007) argues that a seamless channel structure is still more the exception than the rule. In this research, the synergistic multi-channel structure suggested by Steinfield et al (2002 a b) is not found. This result corresponds with previous empirical research (Steinfield et al 2005; Hughes 2006). It seems that these two channels, online and offline are not easy to integrate with each other in this context. Moreover, in this study, product life cycle is a factor that appears to influence firms to design their channel structure.

One finding in this research is that when firms are in different stages of the product life cycle, they will design their multi-channel structure into different patterns (Table

6.8). When firms are in the growth stage, the role of their intermediaries is important (intermediation) because intermediaries are more suitable to undertake several channel functions such as promotion and risk taking. Hence, in the growth stage, the internet channel is considered as an assistive marketing channel and the main function is to receive and provide information. When firms are in the maturity stage of the product life cycle, in this study, the internet channel is considered as a complementary channel because intermediaries are still important but some functions are shifting (reintermediation). The traditional channel still undertakes the main channel functions such as product flow and providing post-sales service. In an article discussing the design of online and offline channels, Porter (2001) suggests a strategy to use the internet as a complement to the traditional channel. This research supports this viewpoint. In the decline stage of the product life cycle, the role of each channel seems to be different compared with previous stages. It seems that several channel functions shift from the traditional channel to the internet channel because the intermediary gradually ends the relationship with the manufacturer. In this stage, the internet channel is considered as a main sales channel. A phenomenon, disintermediation, emerges with this strategy pushed by the intermediary instead of the manufacturer.

Table 6.8: A summary table for chapter 6

The role of the traditional channel	Conceptualization	The importance of the channel	Product life cycle
Intermediation	Intermediaries play a dominant role.	Relatively high	Growth
Reintermediation	Intermediaries are still important but some channel functions are shifting.	Moderate	Maturity
Disintermediation	The intermediary ends the relationship with the manufacturer gradually.	Relatively low	Decline
The role of the internet channel			
As an assistive marketing channel	The internet channel is considered as an information provider and receiver.	Relatively low	Growth
As a complementary sales channel	The internet channel can contribute more than an information provider and it helps the manufacturer to support the deficiency of the intermediary	Moderate	Maturity
As a main sales channel	The internet channel acts as a new substitute distribution channel and contributes a substantial sales amount.	Relatively high	Decline

Chapter 7

How can channel conflict arising from the development of the internet channel be minimized?

7.1 Introduction

In quasi-experiment research, Brown and Fern (1992) mention that conflict episodes in a single structure appear to be self-contained while those in dual channel structures seem to be ongoing. They suggest that different conflict management mechanisms are required for single and dual channel structure systems. In the internet era, Webb and Lambe (2007) claim that channel conflict and its sources would be more complex after the development of the internet channel because, for many intermediaries, they feel that they are bypassed by their suppliers. As Tamilia et al (2002) note, intertype channel conflict emerges.

The objective of this chapter is to explore the sources and the resolution methods for channel conflict arising from the development of the internet channel. Since this research focuses on the conflict that arises from the development of the internet channel, the sources of channel conflict in a multi-channel system with the development of the internet channel are relevant. As Eliashberg and Michie (1994:77) suggest, "Logically, to understand and manage the channel conflict, we must first identify conflict determinants and sources". Hence, the aim for this chapter is to explore the sources of conflict in the multiple channel structure and then the approaches which manufacturers have attempted to use to resolve conflict. There are four main sections in this chapter. After the introduction section, four channel conflict sources: goal incongruity, domain dissonance, perceptual differences, and inefficient communication are discussed in detail. Consequently, in this research, six conflict resolution styles: communication, differentiation, avoidance, accommodation, compromise/collaboration, and competition are identified through interviews. Finally, there is a brief chapter summary.

7.2 Sources of channel conflict due to the development of the internet channel

In this research, there are four main sources of channel conflict: goal incongruity, domain dissonance, perceptual difference, and ineffective communication. These have been identified through the interviews.

7.2.1 Goal incongruity

The higher the level of goal incompatibility, the higher the likelihood that this will be a source of channel conflict. It is because incompatibility tends to promote incongruent decisions (Eliashberg and Michie 1994). Goal incompatibility among channels exists when the objects of all channel coalitions cannot be achieved concurrently. Goal incompatibility can take the form of conflicting objects among channel coalitions related to growth rates, revenues, profits, and market share (Webb and Hogan 2002).

A. Before the development of the internet channel

In the interviews, some interviewees agreed that goal incongruity is a source of conflict between them and their channel partners and this kind of disagreement already exists before the development of the internet channel. Managers (M7; M 8) offer an example and they note that as a supplier, they would like to boost the production capacity as much as they can in order to create profitability and sales growth. This philosophy often translates into an aggressive effort to build sales. The manufacturer will often suggest the intermediary to increase the order volume and therefore the manufacturer could reduce their own inventory level and transfer the burden to other channel partners. However, the goal for many intermediaries is to maintain the current customers. The product brand of a particular manufacturer for them may be just one of many brands sold. They are often satisfied with the existing level of business and prefer a gradual expansion. In brief, it seems that the business goal for suppliers is to maintain profitability and boost sales growth while, on the

other hand, the business goal for intermediaries is to increase their product assortment to serve the end customer and achieve risk diversification.

B. After the development of the internet channel

After the development of the internet channel, the business goal for suppliers and intermediaries is more diverse and the tension between channel partners also increases. For example, in Mi Company, interviewee (M16) notes that the goal for them to develop the internet channel is to increase the sales for the low-end scanner. As mentioned in the previous chapter, the internet channel for Mi Company is regarded as a main sales channel. They actually utilize this channel to bypass the intermediary and the business goal for them is to maximize their own profit and revenue. Under this philosophy, their goal is conflicting with the goal of their intermediaries, according to another interviewee (M17) in Mi Company.

> *"Indeed, I agree that we are very likely to be considered as a direct competitor by the intermediary. We sometimes will do some aggressive online promotion in order to attract customers. Under this circumstance, the business objective between our firm and the channel partner is in conflict. Each side sells the same product, the low-end scanner, to end customers and both of us desire to create our own profitability."---* Interviewee M17

For other firms, to develop the internet channel is not to compete with their intermediaries directly but it still results in a certain level of tension between channel partners. As mentioned in the previous chapter, for some firms, the objective of the online channel is not to compete with their channel partners but to resolve some retailer management issue such as setting a recommended price. Nevertheless, interviewee (M12) notes that they have received a different opinion from some of their channel partners.

> *"One of our expectations of the online channel is to set a reasonable retail price for everyone in order to avoid a price war and create a fair regulation. However, for some intermediaries, especially the privately own store, they feel this strategy limits them in attracting customers. As I mentioned before, in order to compete with the chain system store, the privately owned store will set an abnormal price to attract customers.*

Nevertheless, we are not pleased to see this situation because it might cause confusion between channel partners."---Interviewee M12

The purpose of the online channel in some firms might be to collect information directly from the end customer. The function of online shopping is considered as providing an extra convenient service to the end customer. However, this goal, to contact the end customer directly and offer an extra shopping service, might be conflicting with their intermediaries about the issue of customer control, according to interviewees (M 14 and 15).

> *"One objective of an intermediary is customer retention and by maintaining customers they can generate revenue. I would say there is a balance between suppliers and intermediaries. We make the product and they contact the end customers. Everyone has a clear objective to achieve. Nevertheless, they might feel the internet channel breaks the balance. Although our objective is to contact the end customer directly and online shopping is an extra service, indeed, this aim obstructs the intermediary to achieve customer retention.*"---Interviewee M14

> *"In the beginning stage, the intermediaries hope that our firm only utilizes the website to launch some simple information about our company background or product detail instead of selling products to the end customer directly. Perhaps the image of Dell and Amazon is too strong and aggressive to everyone. They feel that they would lose the control of customer, if our website provides the shopping function. It means that they desire and insist on being the starting point of the relationship with the customers."*—Interviewee M15.

In short, goal incongruity (Table 7.1) seems to be a source of tension between channel partners. When firms desire to develop the internet channel, they would carry several new business goals, and these goals might be incompatible with the goals of intermediaries.

Table 7.1: The summary table of goal incongruity

The issue of Goal incongruity	Statements	Respondents
To boost inventory/ risk diversification (**before the development of the internet channel**)	Suppliers would suggest the intermediary increases the order volume while intermediaries prefer to cooperate with several suppliers in order to provide a richer assortment.	M 7 and 8
To create sales	Each side, suppliers and intermediaries, desire to create their own sales revenue.	M16 and 17
To setting a recommended price/ to attract customers	Suppliers desire to set a recommended price in the market while intermediaries consider that this activity will limit them to attract customers.	M12
To collect customer information/ to conduct customer retention	Suppliers want to collect information directly from the end customer. However, intermediaries consider that their ability to conduct customer retention is influenced by the development of the internet channel.	M14 and M15

7.2.2   Domain dissonance

Domain in the marketing channel refers to a channel member's claims in terms of: (1) range of products, (2) population served, and (3) services or functions performed (Rosenberg and Stern 1971; Magrath and Hardy 1988; Stern and El-Ansary 1992).

A. The modification of channel character

Based on conversations with interviewees, several managers agree that the overlap of domain is a serious issue for them because for most of them, this is a new type of conflict that they encounter. In the previous channel system (single channel structure), they might encounter goal incongruity while conflict that is sourced by domain dissonance is seldom encountered. A possible reason is that the definition of role for each channel member is defined quite clearly (Figure 7.1). As mentioned above by respondent (M14), each side has a clear business objective to achieve.

> *"We focus on producing products and improving the quality. The traditional channel partners put emphasis on selling and maintaining effective communication with the customers. The boundary for each is clear without doubt and argument"*—Interviewee M14

It seems that following these different objectives, manufacturers and intermediaries dominate their own different domains. For instance, the manufacturer focuses on production and the area of B2B. On the other hand, the intermediary puts emphasis on customer service and the area of B2C. Nevertheless, as mentioned in a previous chapter, with the development of the internet channel, manufacturers can construct a bidirectional relationship with the end customers. The definition of roles for suppliers and intermediaries under this circumstance is vague. From the perspective of the intermediary, suppliers are also competitors. In other words, manufacturers carry out the function of retailing that previously was the exclusive domain of the intermediary.

> "*Before the development of the internet channel, our main customer is the intermediary. We seldom contact the end customer directly. It means that we merely put emphasis on the area of B2B and the boundary issue is definitely clear (Figure 7.1) for everyone. Nevertheless, with the online channel, we can reach the area of B2C (Figure 7.2) and provide a broader range of product line. Of course, our intermediaries will have negative opinions*"--- Interviewee M8

> "*Everyone now can sell online easily no matter if they are suppliers, intermediaries, or individual persons. For the intermediary, they will not be pleased to see this situation because if we open an online shop, it is just like we open another retail store in the same street.*"---Interviewee M18

Figure7.1: The domain before the development of the internet channel
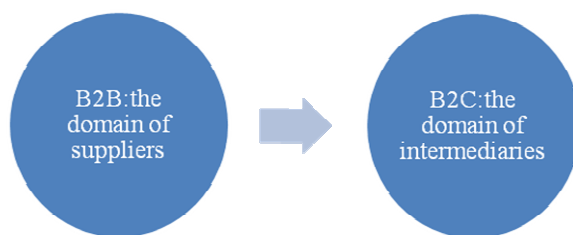
Figure 7.2: The domain after the development of the internet channel
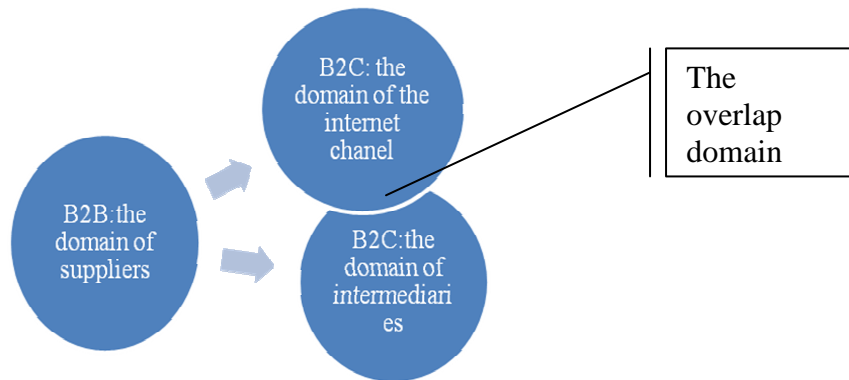
B. Unpredictable customer flow

Manager (M12) mentions that the internet empowers the buyers to choose their ideal suppliers. Before the prevalence of e-commerce the order of supply chain is manufacturers, intermediaries, and then customers. It is hard for the end customers to contact manufacturers directly. The territory is defined clearly. However, with the internet, customers can ignore this sequence and make an order to the upper channel player. This is also a reason that suppliers would be considered as a threat to their intermediaries.

> "Although we also have other direct sales stores before the development of the internet, intermediaries can tolerate it because the number of stores is few. We would not be considered as a rival or undertake the same tasks. But after developing the internet channel, the geographical limitation is broken. Opening times and locations for stores are not important anymore. People can find the virtual store easily with few clicks and we become a direct threat." ---Interview M12

Interviewee (M17) also agrees that the flow of customers is hard to be predicted. It means consumers may not be fixed in one particular channel. They cannot regulate or force end customers to utilize any particular channel, when they do the shopping behaviour.

> "One special characteristic for online shopping is unpredictability. You can not predict who will come and when will they come"---Interviewee M17

Although manager (M1) claims confidently that in their company the customer segments for the virtual and physical channel are well defined some interviewees mention an opposite view. Manager (M1) believes that customers who shop online are some sort of technology gurus and power users and, in general, this number is few. It means that the sales for intermediary would not be influenced dramatically. Most people who desire to purchase wireless equipment would still go to retail stores. Nevertheless, for some firms with standard products such as MP3 or Flash memory or even digital displayers, respondents do not have such an optimal attitude as suggested by respondent (M1). The customer segment for the physical and virtual channel is often vague. As mentioned in section 6.3.2.2, when the product is in the growth or the decline stage of the product life cycle customers usually are more familiar with the product characteristics and attributes. Hence, the willingness to shop online for a familiar product is higher than an unfamiliar product. In this situation, conflict is highly possible because the same population is served.

> *"For some young people, they mention that it is no different for them to purchase a notebook online or offline because they are familiar with this product and know how to operate it"* --- Interviewee 14

> *"A large number of people purchase books or DVDs from Amazon because they know there is no difference for them to shop online or go to a physical shop. In the IT industry, the situation is the same. If the product requires limited staff assistance, the possibility for people shopping online is high."*—Interview M 17.

In brief (Table 7.2), when manufacturers develop the internet channel, the overlap domain really results in conflict between channel members. It is because of the modification of role of manufacturers and unpredictable customer flow that tension between channel partners is hard to avoid.

Table 7.2: The summary table of domain dissonance

The issue of domain dissonance	Statements	Respondents
Function performed	There is an overlap between the performed functions. With the assistance of the internet channel, manufacturers now can conduct the retailing service	M8 , 14, and 18
Population served	Manufacturers cannot control the flow of the customers. Meanwhile, when people are more familiar with a product, the possibility for them to shop online is high.	M1, 12, 14 and 17
Range of selling product	This point is not discussed in this section. Nevertheless, as mentioned in chapter 6, for some firms, their online product line is the same as their intermediary. For example, Mi Company launches all their series of scanner online.	

7.2.3 Perceptual difference

Channel members will usually perceive the marketing reality different because they are in a different position and channel level (Magrath and Hardy 1988; Stern et al 1996).Perception refers to the way that a channel member interprets outside environmental stimuli and information. Although the same information can be received, it is quite common for channel members at different channel levels to have different interpretations (Rosenbloom 2004). In this research, conflict seems to emerge not only from outside the firm but also from inside the organization. It seems that perceptual differences occur among company staff. The discussion in this section is based on the interviews in Mi Company.

Although, in theory, people in the same organization would be working toward the same business goal, they could still have differing perceptions of reality. This is a particular phenomenon that is expressed by interviewee (M16) who states that when their top management distributes this assignment for them to develop the new distribution channel, sales people in their firm have a quite opposite attitude.

> *"Even for me, I would feel that to develop the virtual channel is an extra burden because to be honest, I do not have high expectation for the new channel. Four or five years ago, e-commerce was still in its initial development stage and no one can guarantee whether customers would accept this new type of channel or not. For example, online transaction fraud and revealing personal information are common in Taiwan and until*

now a large number of customers still have a hesitant attitude toward e-commerce. It seems that no one can give a clear prediction to e-commerce." – Interviewee M16

Although people in Mi Company share the same business goal: to increase the maximum sales amount and profit, people in different levels and positions have different perceptions about the development of the internet channel. According to interviewees (M 16 and 17), staff in the front line have to consider some technical issues such as website design, boosting online sales amount, and moreover, to contact the intermediary.

> *"Our sales people state that if the internet channel is developed, it would be very difficult for them to negotiate with the intermediary and meanwhile, the channel relationship is hard to maintain."* – Interviewee M16

> *"Actually, the burden for sales people is heavy. They have to explain the company strategy (online channel) to the intermediary and handle some negative and emotional opinions. Meanwhile, they still have to achieve a sales target every month. It is not surprising that they will complain."*--- Interviewee M17

It is because, in Mi Company, the internet channel is utilized as a tool to compete with their intermediaries directly. All of these uncertain challenges (from customers and intermediaries) make the front line staff, especially the sales people, have different perceptions about adding a new channel compared with their senior managers (Figure 7.3).

> *"People in different positions will have different ideology and considerations. The consideration for senior managers is how to keep the firm operating. However, for the front line sales people, their concern is how to negotiate with the intermediary. Upper management does not focus much on conflict while sales people have to face the intermediary everyday"*—Interview M16

Figure 7.3: The different perceptions about the development of the internet channel in Mi Company

The perception from top management about the development of the internet chanel

The perception from sales people about the development of the internet channel
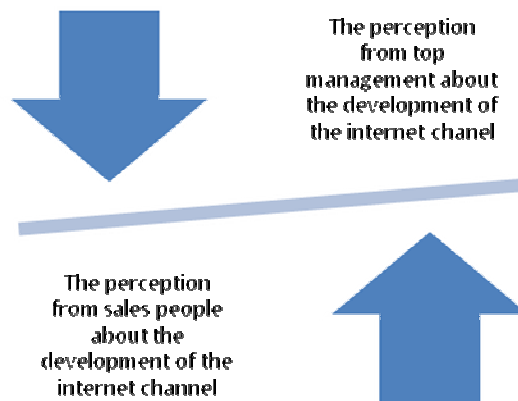
7.2.4 Ineffective communication

Communication can be defined as the formal as well as informal sharing of meaningful and timely information between channel members (Anderson and Narus 1990). Mohr and Nevin (1990) describe communication in channels as the glue that holds together a channel of distribution. It is because efficient communication can provide the basis for sending and receiving information among the channel members and between the channel and its environment. Rosenbloom (2004) also mentions that an efficient flow of information is fundamental for an efficient movement of products or services through the channel. However, in the area of marketing channels, very little literature discusses (except Etgar (1979) the correlation between channel conflict and communication.

During the interviews, no respondents mention that they have invited their intermediaries to join the online channel development process and the information about the innovation (online channel) adaptation is not passed to the lower channel level. It means that suppliers do not attempt to communicate with their outside channel partners, when they redesign their channel structure and this new added channel might have a certain level of impact on the original channel structure.

A. From the perspective of the manufacturer

Interviewees (M4 and M10) explain that they do not feel their channel partners, regardless of whether they are the privately owed stores or chain stores, would be interested in information about the development of the online channel. From their previous experience, they assume that the intermediary would pay more attention to the information about product price, margin and discounts, and return privilege.

> *"Everyone is doing business whether they are small or big intermediaries. The most common issue and point of argument between suppliers and traditional intermediaries is how much margin we will offer to them and their competitors. "*---Interviewee M4

> *"In my opinion, the most common topic between manufacturers and intermediaries is price and related issues. For example, for the chain store, they can take a large inventory volume while they also ask for a higher discount. It means they want a cheaper price. For the privately owed store, they might not ask for the discount as usual as the chain store but they will ask to return some over-season product. About the channel design issue that you ask, unfortunately, it seems seldom to appear on the table"*---Interviewee M10

In addition, respondent (M14) notes that for some staff, especially the sales people, the communication with channel members is merely a daily "routine".

> *"Every day we would contact with our channel partners by phone, e-mail, or even MSN. However, it is pretty common that this contact gradually becomes less meaningful. It is quite common for our sales people to contact intermediaries simply for specific transactions and contact usually drifts away after the termination of each transaction. The information sharing and meaningful interaction between channel partners becomes less and less."* – Interviewee M14

Respondent (M14) expresses a view that the development of a new electronic channel is not a big issue in the IT industry. After all, the significant achievement of Dell has been discussed for more than ten years. They assume everybody knows and can understand this behaviour.

B. From the perspective of the intermediary (as perceived by manufacturers)

However, some interviewees (M4, 10, and 13) mention that some of their intermediaries have complained about this arbitrary behaviour (new channel development). Some intermediaries feel that they are not respected by the manufacturers. The quotations from managers (M 4, 10 and M13) give a detailed explanation.

> *"They thought we will cooperate with online platforms instead of developing our own online shop. Just like we assume they will not be interested in this information. Everyone is based on assumptions to predict other channel partners' behaviours. Hence, some of them complain. We have to explain that our online channel is designed as an assistive marketing channel and will not hurt them."*---Interviewee M4

> *"In the beginning, our sales people did not bear in mind the need to explain this strategy (new channel development) to the intermediary. Nevertheless, some staff report that we underestimate the dissatisfaction and negative reactions from the intermediaries. From their perspective, they share so many risks and burdens such as cash flow, inventory, and post-purchase services for us. However, without consulting with them in advance, they thought they have been isolated out of the decision-making process on programs that directly affect their business"* – Interviewee M10

> *"Indeed, some intermediaries complain. They mention that they can understand why we develop the internet channel. However, they thought although everyone conducts the same behaviour, some boundary issues such as online price and product line are still vague and need be discussed with each other. All these issues are required to be discussed and defined clearly between channel members in order to avoid unnecessary confusions and arguments. They feel we intend to keep all information and take advantage of it. What can I say?"* – Interviewee M13

Webb (2002) offers a similar proposition. "Instead of introducing the new internet channel under a veil of secrecy, suppliers should take the time to clearly explain their e-commerce strategy in advance. Resellers need to understand what segments are being targeted, and how the supplier's online efforts can help them rather than hurt them. Failure to communicate these points will result in an atmosphere that is ripe for channel conflict" (Webb 2002:100). In this research, the empirical support is presented.

In conclusion, ineffective communication (Table 7.3) means that necessary information in channel members cannot flow smoothly. Misunderstanding could be caused, when other channel members feel they are ignored and do not receive information to which they feel deserved.

Table 7.3: The summary of ineffective communication

The issue of Ineffective communication	Statements	Respondents
From the perspective of the manufacturer	Manufacturers assume that the intermediary would pay more attention to the information about product price, margin and discounts, and return privilege. Furthermore, sometimes the communication between suppliers and intermediaries becomes 'routine' work.	M 4, 10 and M14
From the perspective of the intermediary(**as perceived by manufacturers**)	Intermediaries complain about this arbitrary behaviour (new channel development). Some intermediaries feel that they are not respected by the manufacturers. Meanwhile, some boundary issues should be negotiated between suppliers and intermediaries.	M 4, 10 and M13

7.2.5 Findings and Summary

In this research, channel conflict arising from the development of the internet channel can be classified into four categories: goal incongruity, domain dissonance, perceptual differences, and inefficient communication (Table 7.4). Inefficient communication has seldom been discussed as a source of channel conflict in previous literature. In this research, it might be considered as an additional source of channel conflict and some empirical evidence is provided.

Firms at different channel levels would have different business goals or philosophies and it is hard to coordinate within each party. Therefore, conflict happens usually and this has been mentioned in previous articles. In this research, when manufacturers develop the electronic channel, some managers mention that their goal is to build a connection with end customers. However, intermediaries often feel their business

philosophy, customer control, has been disturbed. Furthermore, some intermediaries believe that the setting of online prices might impede them to attract customers.

Several interviewees mention that domain dissonance would be a serious source of channel conflict, when the internet channel is developed. It is because manufacturers now are undertaking the same function (retailing) and customer segmentation is often vague. Therefore, conflict between channel partners is not easily resolved. Different interpretation and perception is also a source of channel conflict. Interviewees in Mi Company confirmed that even in the same business organization, people in different positions will have different interpretations of the outside stimuli and the development of the online channel. Furthermore, some interviewees state that intermediaries would complain about the lack of necessary information, especially information which directly affects their business.

Table 7.4: Sources of channel conflict in this research

Conceptualization— sources of channel conflict	Brief Summary	Respondents
Goal Incongruity --To boost inventory/ risk diversification -- To create sales -- To set a recommended price/ to attract customers -- To collect customer information/ to retain customer	After developing the internet channel, the business goal for suppliers and intermediaries is more diverse and the tension between channel partners is also increased.	M7,8,10,14,15,16 and 17
Domain Dissonance -- Function performed -- Population served -- Range of selling product	After the development of the internet channel, suppliers and intermediaries are competing for the same customer and selling the same product because the manufacturer now can undertake the retailing function through the internet.	M1,8,12,13,14,17, and 18
Perceptual Difference -- the different interpretation of outside stimuli	Even in the same firm, people in different positions will have different interpretations to the development of the internet channel.	M 16 and 17
Ineffective Communication --From the perspective of the manufacturer --From the perspective of the intermediary(as perceived by manufacturers)	Suppliers do not communicate with their intermediaries about the development of the internet channel. On the other hand, intermediaries complain that they do not receive the necessary information.	M 4, 10, 13, and 14

7.3 Approaches to resolving channel conflict

One of the main objectives in this chapter is to explore how firms resolve channel conflict following the development of the internet channel. As Hunt (1995:420) claimed, "Properly managed conflict increases the probability that conflict aftermath will be positive, and therefore, the conflict will be viewed as functional. On the other hand, poorly managed conflict will result in negatively perceived conflict aftermath

and, therefore, conflict will more likely be viewed as dysfunctional". In the literature review chapter, several conflict resolution methods have been classified into four categories which are avoidance, accommodation, compromise/collaboration, and competition (Table 3.2). From the interviews, two additional resolution styles, communication and differentiation, have been suggested by interviewees. Following an order of communication, differentiation, avoidance, compromise/ collaboration, and competition more detailed discussions and quotations are presented below.

7.3.1   Communication

> *"Most arguments that happen in channel members can be solved with good communication, clear communication, and consistent communication. Continuing communication could be the most useful and the only method to solve tensions between channel partners. If communication is not working, other methods seem to be redundant"* --- Interviewee E1

Based on interviews, one particular finding is that communication is helpful to resolve not only external conflict but also internal conflict. Following the taxonomy, internal and external communication, detailed discussion and quotations from managers are presented below.

7.3.1.1 Internal communication

As mentioned in section 7.2.3, even in the same business organization, top management and staff have different perceptions of the development of the electronic channel. Employees, especially the front line sales people, are likely to resist this new technology adoption. Moreover, different perceptions easily result in negative emotions and this harmful emotion is likely to spread through different subunits in a firm. Moreover, destructive emotion is frequently associated with channel conflict. Under this circumstance, interviewees in Mi Company state that what managers can do is to communicate with staff more frequently or dismiss the uncooperative staff. Of course, to dismiss people would be the last option, according to respondent (M17). They expect, through more formal and informal communications, that the ideology and goal in the mind of top level management can be translated to lower levels,

according to interviewee (M16). More meetings and presentations across departments are arranged. Managers would encourage people to express the obstacle that they face.

> *"No matter what kinds of dissatisfactions exist; company policy still needs to be conducted insistently. However, we also realize that staff have to vent their dissatisfaction and upset emotions. In order to handle this negative emotion, our CEO assigns a senior director to conduct a series of communication programs"**---*** Interviewee M16

> *"Mangers will attempt to talk to the front line staff informally just like a conversation between friends. Sales people can talk about their dissatisfactions and the difficulty to negotiate with the intermediary. For most of the sales people, they are worrying about their business targets and we can understand this point. However, we desire to create a common consensus across departments. Indeed, if we do not develop the internet channel, the intermediary might not complain right now. Nevertheless, it is perhaps five or six years later that we have to give up the low-end scanner totally. It is hard to say which one is better."**---***Interviewee M17

By exchanging different concepts, senior managers attempt to educate their staff regarding why the development of the new channel is necessary, as mentioned by interviewee (M17) above. This kind of education will be performed by developing written and unwritten rules expressing the value of the firm. For example, a senior director is assigned to be in charge of the development of the internet channel and the CEO in Mi Company has written several e-mails to every staff to explain the e-commerce policy. Meanwhile, interviewee (M16) keeps emphasizing that people who are in charge of internal conflict should have a high level of authority. For internal staff, people would follow this authority and for external intermediaries, they can perceive the determinations of the manufacturer.

> *"The coordinator should have strong power and authority because it represents the determination of top management. In other words, he is a symbol and icon. People who are internal can perceive clearly about what the company policy is. Usually, people would follow this strategy and accept the modification with no questions. On the other hand, for external intermediaries, they can also realize that we highly evaluate this policy."* --- Interviewee M16

Interviewees in Mi Company expect that the divergence between different levels can be eliminated gradually and they attempt to form an atmosphere inside the firm.

Interviewee (M17) mentions a critical point that if people inside the firm do not have the same common consensus, it is hard to persuade the intermediary why they develop the internet channel.

> *"When the common consensus is achieved, our sales people can explain to intermediaries that this policy has been discussed seriously and consistently inside the firm. If our intention is firm and unchangeable, complaints from intermediaries would decrease because they know that nails are in the coffin."* --- Interviewee M17

In short, in this research, the method to resolve internal conflict seems to be simple and straightforward. When internal channel conflict happens, the first activity that managers take is to communicate with their employees. Senior managers would attempt to educate their staff and hope the value of the firm can be translated into each individual.

7.3.1.2 External communication

From interviews, the majority of managers express a similar concept about their initial strategy to resolve channel conflict. Several resolution methods can be adopted at the same time. Nevertheless, interviewees state that when tensions or disagreements happen in the channel system, the first thought through their mind is that there should be some problems within the communication system. For example, as mentioned above, communicating with the intermediary gradually becomes a routine for sales people. The first task for managers is to inspect the whole communication system carefully. Interviewee (M7) offers an example.

> *"There is one significant difference between the intermediary and customer. The relationship with each individual customer ends after a transaction. Nevertheless, the relationship between manufacturers and intermediaries often takes a long time to establish. It means that the established relationship might not be ended easily without a significant reason. Sometimes tensions or dissatisfactions from the intermediary might be a sign for us. They want us to pay more attention to the arguing point and to communicate with them"* **---**Interviewee M7

In this research, communication seems to be the most common conflict resolution method mentioned by interviewees. In order to explain clearly, the next few

paragraphs follow an order of communication and channel conflict, communication and the product life cycle, and communication style to provide more detailed explanation.

A. Communication and channel conflict

Why is communication useful to resolve channel conflict? A possible explanation is that most of conflict happens by mistake. Through frequent communication, each party has the chance to clarify their real intentions. Meanwhile, several interviewees state that in a real business world, each channel partner has a common consensus to restrain conflict in the early stage. In other words, each party would attempt to figure out an agreement that is accepted by each other by constructive communication.

Interviewee (M13) states that the majority of conflicts are sourced by mistake. For example, after the development of the internet channel, the intermediary mistakenly believes that manufacturers intend to be a competitor. Therefore, the efficient method to eliminate the panic is to improve the quality and quantity of communication process and make the message clearly expressed. For example, according to interviewee (M13), after the development of the internet channel, they realized that some intermediaries would be upset. Therefore, they would ask their sales representatives to visit their intermediaries more frequently instead of contacting by phone or mails.

Through the face-to-face communication, sales people can record the dissatisfaction from the intermediary in detail and at the same time, they attempt to explain the company policy clearly. Every day sales people have to write a daily report to their managers. This report contains opinions, feedbacks, and complaints from the intermediary. If the dissatisfaction level from a particular intermediary is rising, channel managers would visit this intermediary directly. Interviewee (M13) notes that misunderstanding is inevitable in the channel relationship regardless of whether the internet channel is developed or not. Constructive communication could help to

avoid such an event happening again and lead to a better understanding for each party.

> *"Conflict between channel partners is not a big deal. The most important thing is to learn how to communicate and negotiate with the intermediary"*---Interviewee M13

Besides, respondent (M7) states that minor levels of conflict always exist in the channel system. For example, before development of the internet channel, intermediaries always criticize price, product quality, promotion support, or even delivery time. As Dwyer and Walker Jr (1981) mention, latent conflict would become overt, when numerous mutual influence attempts are made together by channel partners. How do managers resolve this latent conflict that happens frequently? The majority of interviewees claim that there is no single panacea for all channel conflict. What they can do is to communicate with their intermediaries frequently. As interviewee (M7) mentions, "see your clients everyday". Through this interaction, the intentions from each side should be clarified explicitly.

Although the development of the virtual channel becomes a new argument point and probably increases conflict, the majority of respondents still believe that conflict can be constrained by constructive communication. Why are they so confident? Interviewee (M10) provides a possible explanation. Usually, each channel party realizes that in order to obtain the maximum profit, a long-term and harmonious relationship within channel partners is necessary. It is because each member realizes that the success of each firm would rely on the cooperation between channel partners and moreover, this cooperation would lead to outcomes that exceed what the firm can achieve alone.

> *"Indeed, intermediaries complain about the internet channel. However, everybody also knows the best business model is to create a reciprocal environment instead of fighting along. For example, manufacturers require intermediaries to provide post purchase service. Intermediaries rely on suppliers to provide some promotional support. Hence, the best way to manage disagreement is that each party sits down and figures out a proposal accepted by everyone."* **---** Interviewee M10

The over-reaction seems unlikely to be adopted by either suppliers or intermediaries, according to interviewee (M10) and a practicable method is depending on the communication procedure to decide the boundary issue. Interviewee (M12) offers a similar statement and he insists that conflict would be constrained in the beginner level and manifest conflict[31] seldom occurs.

> *"What you mention about manifest conflict is unlikely. Of course, the intermediaries can turn to support other suppliers without the development of the internet channel. However, the situation now is almost everyone has the online channel. They might complain but the intermediary cannot stop this trend. To bargain with suppliers and take some benefits is better than ending the relationship."*---Interviewee M12

As previous literature suggests, " Rather than allowing these conflicts to run their course capriciously, however, adroit partner firms develop mediating mechanisms to defuse and settle their difference rapidly" (Anderson and Narus 1990:56). Genuinely destructive conflict is rarer than most scholars suppose (Bucklin et al 1997). Even though the internet channel could have a significant impact on the traditional distribution channel, a self-restraint method such as bilateral dialogue is more likely to be adopted. It is because when each channel partner regards the relationship as valuable and worthwhile, channel partners are more likely to work out their disagreements as early as possible by some amicable methods such as constructive communication or concept exchange. An example offered by manager (M14) could explain this concept in more detail.

> *"Manifest conflict happens rarely. For example, in our firm, accounts have been classified into several tiers. In a usual situation, the first tier accounts would keep complaining while business relationship can still be maintained. It is because our product line is popular in their stores. When conflict happens, each party would attempt to discuss disagreements and figure out a proper solution because each party depends on the other. Under this circumstance, several factors such as previous relationship (Guanxi[32]) would be considered in the communication process and the relationship would not be broken easily. On the other hand, if they are not*

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[31] As mentioned in the literature review chapter, channel conflict can be classified into four episodes: latent, perceived, felt, and manifest conflict.

[32] *Guanxi* could be defined as "to the existence of direct particularistic ties between two or more individuals" (Tsui and Farh 1997:60). Furthermore, *Guanxi* is briefly translated as personal connections on which an individual can draw to secure resource or advantage when doing business as well as in the course of social life (Davies et al 1995).

key accounts, the relationship would be stopped without any argument. It is because our product line contributes small amount of sales and the dependence between each other is low." **---** Interviewee M14

Although this example does not particularly focus on conflict within the multi-channel system, it provides a basic principle about how managers handle the partnership.

In short, respondents mention conflict would be constrained in the early stage. It is because each channel party recognizes that the success of each firm depends in part on the other firm. Therefore, to maintain a long-term relationship and create a reciprocal environment is necessary. Therefore, it is likely that each channel member would initially adopt the amicable method, constructive communication, to resolve channel conflict.

B. Communication and the product life cycle

Webb and Lambe (2007) state that in the decline stage of the product life cycle, the extent of external channel conflict will be greater than in previous stages (introduction, growth, and maturity). It is not surprising that intermediaries would attempt to maintain a long term relationship with manufacturers, when firms carry a product line in the growth or maturity stage because each party can still obtain enough margins. However, if a manufacturer carries a product in the decline stage, the intermediary may not be so keen on maintaining a long-term relationship because of the limited margin.

Following this logic, manufacturers with products in the decline stage of the product life cycle should adopt a quite different conflict resolution method. Nevertheless, interviewees from the firm (Mi Company) in the decline stage of the product life cycle state that several methods would be adopted to manage the channel relationship while the primary adopted method for them is still the communication method.

> *"Of course, we still attempt to communicate with our intermediaries. Some of them have a good business relationship with us for more than*

fifteen years. We attempt to explain that the modification of channel structure is caused from the change of outside environment. No one should be blamed for this problem." **---** Interviewee M17

As Hibbard et al (2001) mention, in marketing relationships, the intermediary is more likely to be sympathetic, when the manufacturer does not hold direct responsibility for the destructive activity. Therefore, external factors sometimes could enhance the relationship and increase the probability of an intermediary's passive acceptance rather than disengagement from the relationship. A quotation from interviewee (M16) seems to explain clearly.

> *"Actually, the relationship between our channel partners is better than our original expectation. I cannot say that we are close as before. However, most of the intermediaries can understand and accept the modification. Perhaps, they feel that venting and complaining is not useful. For example, they have already found some alternative product lines to replace the low-end scanner. Besides, the sales amount of the low-end scanner in the retail store is decreasing day by day. The clash for the total sales amount is not big, when we are starting to sell online."* --- Interviewee M16

In brief, although a firm with a product in the decline stage of the product life cycle would adopt several conflict resolution methods at the same time; constructive communication is still their priority choice. During this time, intermediaries seem to accept the explanation passively because they consider that complaining is not useful. Meanwhile, they would attempt to search other alternative products.

C. Styles of communication

Since several respondents suggest that constructive communication is useful to ease channel conflict, a consequent question emerges. How is this constructive communication conducted? This section explains the styles of communication.

Communication can be broadly classified into formal and informal and this dichotomy has been widely used in previous research (i.e. Mohr and Nevin 1990). Formal communication generally refers to communication flows that are planned, structured, and routinized, such as formal meetings, join participation at conferences or industry associations. Formal communication may be recorded. For example, there

may be minutes of a meeting. On the other hand, informal communication is more personalized and spontaneous and perhaps even occurs outside the organization, such as face-to-face contacts. In contrast to formal communication, there is often no official record of the interaction. Hence, informal communication is less overt and more difficult to observe.

Mohr and Sohi (1995) suggest that formal communication can contribute to a dealer's sense that information is complete. Furthermore, formal communication can encourage the willingness of channel members to initiate and develop routines and procedures for communication. However, in this study, interviewees express a different attitude. When communicating, there is a tendency to adopt more informal styles. For example, interviewee (M13) notes that conflict occurs randomly and cannot be resolved by formal routine meetings or conferences alone. A more informal response is necessary because that is flexible enough to cope with the often unplanned and unforeseen conflict.

> *"It does not mean that the formal communication is not important or useless. Nevertheless, communication with intermediaries should be conducted every day because the outside environment, such as material price, a customer trend, or competitor strategy, is changing all the time. Moreover, different channel partners under different circumstances could have different conflict issues."* **---** Interviewee M13

The statement mentioned above by interviewee (M13) is supported by the majority of managers in this research. For example, respondent (M3) mentions that in general, one manager is in charge of managing the virtual channel and dealing with the possible channel conflict. Under his/her supervision, several sales representatives visit channel partners usually and conduct the front line communication job in a face-to-face interaction.

> *"The ideology might not be changed in a single meeting or one-time conversation. It takes a long time and several informal visits. For example, it takes a long time to persuade our channel partners that our online channel is designed as a promotional tool. They will not get hurt by the development of the online channel. Instead, their exposure rate will increase because we offer the information of intermediaries online"* **---** Interviewee M3

Moreover, respondent (M9) notes that communication through unplanned forms may be met with less resistance and it is a more suitable style in Chinese society. Manager (M9) emphasizes that in Chinese society doing business is more than signing a contract. Instead, Guanxi is the most important element to maintain a relationship and keep business operating smoothly. Interviewees (M9, 10 and 14) provide examples about the effectiveness of Guanxi.

> *"It is quite necessary and important to build a good Guanxi with your intermediaries. Sometimes, when intermediaries evaluate the business relationship, price may not be the only criterion and previous working experience would be more important. For a recent example, the DRAM production of Samsung is over capacity. The price of the DRAM chip in the market decreased dramatically. In order to maintain the price, Samsung asked a favour from Kingston[33]. Kingston still purchases a high amount of chips, when the demand from the market is low. Why? I think Guanxi plays an important role."*--- Interviewee M9

> *"The relationship between suppliers and intermediaries is not merely determined by a contract. In my opinion, it is more complex than that. For example, if an intermediary can carry a larger inventory but they always haggle with the price or are unwilling to cooperate with the promotional activity, we might attempt to choose other partners who carry lower inventory but the cooperation level is high. On the other hand, if we can consistently offer technical or promotional supports to the intermediary, the intermediaries might not change suppliers easily, even some of our products with higher price. Guanxi is an unspoken consensus between channel partners and it takes a long time to establish. Once intermediaries trust the supplier, cooperation generally follows as intermediaries consider themselves less threatened."*---Interviewee M10

> *"Sometime when a sales person cannot reach the monthly quota, he will call the intermediary who has good Guanxi with him. The intermediary might agree to increase the inventory volume as doing a favour. However, the favour is not free. The sales person has to visit the intermediary frequently and sometimes give some incentives such as a better margin or rebate to the intermediary. It means a reciprocal relationship is expected"*---Interviewee M14

It might be expected that if a manufacturer has a good Guanxi with their intermediaries, it could be easier for them to resolve conflict. The explanation is because this dyadic relationship between the supplier and retailer has proved

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[33] Kingston is the biggest DRAM module manufacturer in the world.

effective in resolving conflict. Therefore, the supplier or intermediary might regard their channel partners as cooperative and willing to negotiate. This often takes place in the context of a long-term relationship. Channel partners, no matter whether the supplier or intermediary, would utilize previous experience to resolve the new emerging conflict.

> *"If a partnership (Guanxi) can be maintained for five years or even longer, it illustrates that the supplier or intermediary can get certain advantages from channel partners. At least, the advantage is bigger than the disadvantage. In order to maintain the advantage, each channel partner will try to learn how to resolve the difference between each other, when conflict occurs. It means that everyone is self-constrained and negotiable. Previous experience can be used as a sample or model to deal with new emergent disagreements."*---Interviewee M2

However, Guanxi is hard to establish in a formal way, as several interviewees express this view. In Chinese society, the development of Guanxi seems to extend beyond institutionalized, structured, formal communication. A specialized language and common consensus is often developed between channel partners through informal networks such as chatting with intermediaries as a friend or visiting intermediaries at the weekend. When partners know each other very well, it is possible for intermediaries to reveal specific information about themselves, their needs, or their resources. All of these activities are informal, in nature and sometimes are not explicitly considered as a part of doing business.

> *"If you want to build a good Guanxi with your channel partners, you have to learn their jargon and chat with them frequently. You need to 'talk' to them. No intermediary would like to do business with a sales person who only brings the contract"*---Interviewee M16

> *"It is just like making a friend. Would you think your friendship will be consolidated, if each year, you merely send a Christmas card to your friends"****---***Interviewee 11

To sum up, the form of communication generally can be classified into two styles: formal and informal communication. In Chinese society, mangers prefer to communicate with their channel partners in an informal way. It is because a special personal connection, Guanxi, plays an important role in partnership development and

management. In general, this special connection is developed and maintained outside the organization by an informal style of communication and development.

7.3.1.3 Summary for communication

In summary (Table 7.5), the study reveals that several conflict resolution methods tend to be adopted but communication is the priority resolution method, when conflict occurs by the development of the electronic channel. Several interviewees express consistent attitudes. When they encounter conflict, either internal or external, initially they prefer to communicate with staff and partners who are dissatisfied. For internal conflict, senior managers with high authority would be assigned to arrange a series of meetings across departments. For external conflict, according to managers, communication is the most common and frequently adopted strategy. It is because each channel partner realizes that this is necessary to create a reciprocal environment for the long-term. Through communication, the intention of each partner can be clarified and conflict can be limited to a latent level. Managers who represent firms at different stages of the product life cycle express similar attitudes. Besides, in Chinese society, informal communication seems to be more effective than formal communication. One possible explanation is that Guanxi plays an important role in business operations.

Table 7.5: Summary for communication

Types of communication	Statements	Respondents
Internal communication	Managers will attempt to communicate with staff in the firm and expect the value from senior managers can be translated into the lower level.	M16 and 17
External communication		
(A) Communication and channel conflict	Each channel member would initially adopt the amicable method, constructive communication, to resolve conflict because it is necessary to create a reciprocal environment for the long-term relationship.	M7,10,12,13, and 14
(B) Communication and the product life cycle	Even though the firm is at the decline stage of the product life cycle, they still attempt to communicate with their intermediaries. Managers desire to explain that they do not cause conflict deliberately.	M16 and 17
(C) Styles of communication	In this study, the majority of interviewees mention that they conduct the communication with their intermediaries in an informal way.	M2,3,9,10,11,13,14,and 16

7.3.2 Differentiation

From the interviews, differentiation is another conflict resolution strategy that has been mentioned and supported by managers broadly, while it has seldom been mentioned in the literature. Based on interviews, this style can be further classified into two sub-categories which are product and price differentiations.

7.3.2.1 Product differentiation

As mentioned in section 7.2.2, one of the sources of channel conflict is domain dissonance. Domain in the marketing channel refers to a channel member's claims in terms of: (1) range of products, (2) population served, and (3) services or functions performed. In order to resolve the domain conflict, some interviewees mention that they would differentiate their online and offline product lines intentionally. Through this method, they expect customers can also be segmented. For example, interviewee (M1) notes that in their firm, products that are sold through the online channel have been selected deliberately. Some specific models of products such as specific design

for SME or SOHO or high unit price would be considered to sell through the internet channel.

> *"The product for SME or SOHO requires more specific technical knowledge and support. The normal intermediary might not be capable to carry these products in their inventory. They might not feel us as a threat, when we sell this kind of product line online. By eliminating the overlapping marketing domain, the supplier will enhance the perception of intermediaries that the supplier is attempting to be fair."*---Interviewee M1

In Ms Company, respondent (M14) mentions that their online channel puts more emphasis on carrying accessories and less popular products compared with traditional channels. Sales of these kinds of products are hard to predict and therefore, it is difficult for intermediaries to decide inventory levels. If such products are sold by suppliers through the internet channel, the management cost for intermediaries can be reduced.

> *"The intermediary might think since those items (accessories and unpopular products) are not their main profit source, it is not a big deal for the supplier to sell online."*---Interviewee 14

Furthermore, interviewee (M12) states that in their firm, they arrange some online pre-booking activities for the launch of new products. However, even if the reactions from customers are positive, they still prefer to cooperate with intermediaries for the necessary promotions and sales. The key objective for the development of the online channel is not to compete for the same high demand products but to create a reciprocal business environment for a long-term relationship.

> *"As I mentioned before, at this stage, there are still many aspects for which we have to rely on our intermediaries. For example, to provide some post sales service is a big challenge for us. In other words, a harmony Guanxi is still necessary. Hence, it might not be wise to compete with the intermediary for the same product"*---Interviewee M12

In addition, some interviewees mention that they adopt a package differentiation strategy for different channels. For the internet channels, they would offer a semi-packaged product. Interviewee (M14) provides an example. When customers purchase a notebook in their online shop, they would offer a different standard of product compared with the physical store. Customers have to pay extra to purchase

accessories such as USB cable line, mouse, software or an extra memory stick. All these items will be contained in a complete package which is sold through the traditional channel. Respondent (M16) also mentioned this method, package differentiation, during the conversation.

> *"By utilizing this strategy, the price comparison becomes vague. For example, the intermediary might complain that we set a lower online price. Nevertheless, our sales people can explain that our online products are semi-packaged and customers have to pay some extra fee to buy other accessories. When the comparison cannot be done, the voice of complaint will be gradually lower"***---**Interviewee M16

Meanwhile, in Tm Company, interviewee (M11) mentions a similar method to resolve channel conflict.

> *"It is inevitable to sell one or two popular products online. If your online shop does not have any popular items, how to attract customers will be a problem. We have considered this point. Nevertheless, when we launch the popular products online, we will do some little modification. For example, the same product might be given a different name or series code. Sometimes, we redesign the product appearance. You can say this is a trick but it gives our sales person a way to explain"*---Interviewee M11

In brief, in order to resolve the domain conflict, interviewees suggest that they would segment online and offline product lines and adopt a different product package deliberately for different channels. It seems to correspond to the suggestion by Hibbard et al (2002:58) that "in the case of a supplier adding a new channel, differentiating the products sold through existing channels and the new channel--even relatively small or cosmetic changes—may allow existing channels more selling latitude".

7.3.2.2 Price differentiation

> *"Before the development of the online channel, price is already the most common point of argument between manufacturers and intermediaries. Now, the supplier becomes a competitor. I think the argument about price will become harsher. "***---**Interviewee C2

During the interviews, interviewees in Tm Company mention another segmentation method which is based on price setting[34]. Some authors (Alba et al 1997; Steinfield et al a b 2002) note that it would be very likely to cause channel conflict if manufacturers sell their products through the internet channel at a lower price. For many intermediaries the most significant threat posed by the internet is that profits will be eroded drastically by intensified price competition when consumers can search and compare the prices of merchandise easily. In Ms Company, interviewees mention that they adopt an identical price strategy. It has been mentioned above that when suppliers develop the internet channel, intermediaries would expect suppliers to set a higher online price.

"Intermediaries expect that we set a higher price online. It is because they can show the online price to customers and demonstrate that their price is cheaper than the price on the manufacturer's website." – Interviewee M12

However, according to respondent (M13), the senior management is unwilling to accept this suggestion. Manager (M13) notes that online price setting has been discussed several times in their firm. In the end, their senior managers adopt an identical price strategy across all channels in order to avoid customer confusion.

"Top management believes that customers who are willing to buy our product online directly show a kind of trust to our firm and the brand. If we set a higher online price, indeed, it can avoid complaints from intermediaries. Nevertheless, senior management consider that is cheating to our customers"---Interviewee M13

In order to attract customers, some intermediaries would set an unreasonably lower price. Other intermediaries question whether suppliers offer a special treatment to specific groups. If suppliers adopt an identical price strategy through all channels, it is useful for suppliers to set a reasonable retail price in the market. Under the identical price across channels, it seems workable to alleviate the doubt between different intermediaries.

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[34] In this research, interviewees provided four different online price setting methods which are higher, identical, lower, and differential method. Identical and differential methods are discussed in this section. Higher price is discussed in the avoidance section. Lower priced method is discussed in the competition section.

"Of course, there will some intermediaries who are unwilling to cooperate. We will try to communicate with them initially. We expect they can follow the recommended price and under this price, they have the authority to give discount to customers. If they still do not want to cooperate, we will prior give new and popular products to other intermediaries. " --- Interviewee M13

Interviewees in Tm Company suggest a different price setting method. Interviewee (M9) notes that it is because of limited shelf space and pressure of inventories that each year intermediaries would select certain popular items such as 1G or 2G flash memory disks to carry in their physical stores.

*"This is the natural limitation for the physical store. For example, in some privately owned stores in the computer market, the space might be smaller than a convenience store. They have to choose the most popular product in their product assortment. They might not sell the 16G or 32 G flash memory."***---**Interviewee M9

Hence, there is a flexible space which can be manipulated by suppliers to set the online price. It is possible for suppliers to set a differential price (Figure 7.4). It means that the online price is not static but dynamic. As mentioned in chapter two, it is easier to change online prices than prices in the physical store. Interviewee (M10) notes that their online shop contains all their product lines (i.e. from 512 M to 32 G). Nevertheless, for the product line that the intermediary might have such as 512 M, 1, and 2 G flash memory stick, they set a higher online price. For other product lines such as 16 or, 32 G, they can set a lower online price. By utilizing this dynamic price strategy, channel conflict relative to the online channel can be minimized and each party can benefit. As interviewee (M10) notes, they create a buffer zone.

"Each party can benefit by the fluctuation price strategy no matter whether they are suppliers, intermediaries, or customers. For customers who prefer to shop at a physical store, intermediaries can demonstrate they have a cheaper price. On the other hand, people who get used to shopping online would find out that our price is more attractive for the large storage item."—Interviewee M10.

Figure 7.4: The differential price strategy setting by Tm Company
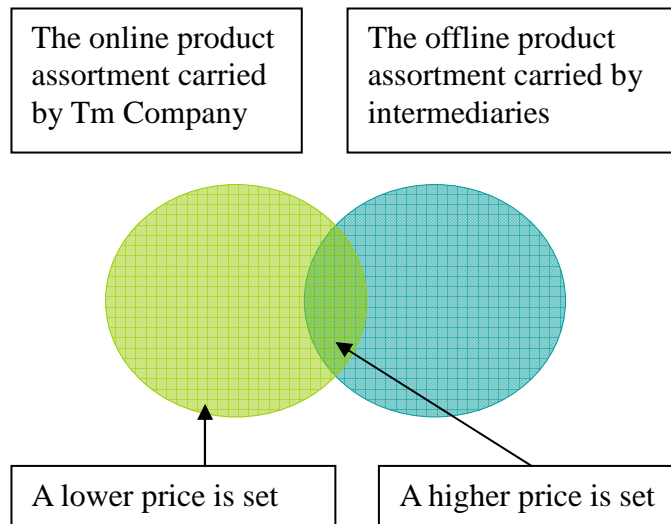
In short, the online price issue is a critical issue between channel partners. Intermediaries would regard suppliers as rivals, if the online price is lower than the price in physical stores. In this study, some interviewees mention that they adopt an identical price through all channels. Other managers suggest a dynamic price strategy. In cases where the product is carried by the intermediary, a higher online price is set. In cases where products are not carried by intermediaries, a competitive price is used.

7.3.2.3 Summary for differentiation

In this research, in order to resolve the possible channel conflict, interviewees across different firms note that they would adopt the differentiation conflict resolution style. This style can further be divided into two sub-groups (Table 7.6): product and price differentiation. Product differentiation contains three main points. Manufacturer managers note that they will offer different product lines for different channels. Furthermore, some interviewees mention that their online channel carries more accessories and less popular products. Meanwhile, to offer different product packages for online and offline channel is also mentioned by interviewees. Price differentiation is another differentiation method. For the product carried by the intermediary, interviewees mention that they will set a higher online price. On the

other hand, for the product not carried by the intermediary, interviewees note they can set a lower and competitive online price.

Table 7.6: Summary for differentiation

Differentiation	Statement points	Respondents
Product differentiation	-- to offer different product lines for online and offline channels -- The online channel places more emphasis on carrying accessories and less popular products. -- using the different package strategy	M2,11,12,13,14,and 16
Price differentiation	-- to set a higher price for products which are carried by intermediaries -- to set a lower price for products which are not carried by intermediaries.	M9 and 10

The previous two conflict resolution styles (communication and differentiation) have been mentioned and supported broadly by interviewees. The former two styles are new and rarely mentioned in the previous literature. Meanwhile, it can be observed that those two conflict resolution styles seem to be used across different firms and product types. Below, four further conflict resolution styles (avoidance, accommodation, compromise/collaboration, and competition) are discussed. The next four resolution styles have been identified in previous literature. However, most previous research does not focus on the multi-channel structure. Hence, most previous research discussed the conflict resolution strategy under the circumstance of a single channel structure. In addition, a difference between the former resolution styles and the next four styles is that the following seems to be used according to different business circumstances. Different resolution methods are used based on different product attributes, the role of their intermediaries, and the stages of the product life cycle.

7.3.3 Avoidance

Avoidance conflict resolution style is taken when channel partners physically or psychologically remove themselves from the conflict scene often by denying discussion of the conflict, being indirect and evasive, and changing topics as a method to avoid dealing with the conflict at hand (Gross and Guerrero 2000). This

resolution style has been mentioned by interviewees in Dl and AC Company. This resolution style can be further classified into two sub-groups: to set a higher price and transfer online orders.

7.3.3.1 Higher price strategy

According to Webb (2002), a solution to the channel conflict problem is to deliberately set a higher online price than the retail price in stores, thereby raising awareness of the brand without really competing with intermediaries. Corresponding to previous literature, some interviewees state that their firms set a higher online price. Two common characteristics among these firms are that they represent products in the growth stage of the product life cycle and their product (WLAN equipment) requires some explanation and face-to-face support from intermediaries. As mentioned in the previous chapter, when firms carry product lines in the growth stage of the product life cycle, the role of the internet channel would be considered as an assistive marketing channel. Their intermediaries in this scenario undertake the main fulfilment responsibility. Moreover, interviewee (M1) mentions that the intensive business growth strategies of market penetration and product development depend on the intermediaries' distribution networks instead of the suppliers' online shop. When the product is in the growth stage, numbers of customers are increasing so opportunities are good and there is plenty of business.

> *"We have enough margins to share with our intermediaries and we do not need to compete with them. By using their network, the exposure rate is much better than a single website. "*---Interviewee M1

In the growth stage of the product life cycle, brand awareness is the first priority issue for firms. Therefore, to set a higher price is a win-win strategy for all channel partners, according to interviewee (M2).

> *"We have adopted several resolutions such as improving communication, arranging training program, and segmenting online and offline product lines. However, what is the real concern for intermediaries is still the price. To set a higher online price is the easiest way to ease their misunderstanding, panic, and complaints."* --- Interviewee M2

*"When we set a higher online price, intermediaries think that we do a favour to them. It is because our web site also provides the reference link to connect to our intermediaries. We believe that the possibility for customers to search for information online and shop at a physical store will be high."**---* Interviewee M1

"We meet the expectations for the majority of intermediaries. By this method, the relationship can be consolidated"---Interviewee M3

7.3.3.2 Online order transferring

Another avoidance methods mentioned by interviewees (M5 and 6) in Ac Company is to transfer online orders. The product line in Ac Company is also wireless equipment. Managers (M5 and 6) note their firm has an online channel and also takes orders from end customers directly. Furthermore, it is similar to Dl Company mentioned above. Interviewees in Ac Company note that they also set a higher price for their online channel. Moreover, they transfer online orders to the nearest intermediaries when they receive the orders.

*"We take online orders because we want to offer a convenient service to the end customers. The relationship with our channel partners is not changed at all. Before the development of the internet channel, sometimes customers might call us and say they want to buy our products. We will recommend suitable intermediaries to them and transfer their demand to the intermediary. The main difference after the development of the internet channel is that the internet replaces the telephone but everything is the same. The channel structure is not modified. "**---*Interviewee M5

*"Indeed, in a strict definition, our firm does not operate a multi-channel system. The online channel merely performs the function of information provision and does not have any real impact on the original channel structure. However, by utilizing this strategy, to transfer online order, customers can shop online and get the convenience. Intermediaries can receive the order and we can maintain the relationship. We keep the domain area for each other clear and we might not be considered as a competitor. It does not matter where the customer purchases our product. What we are really concerned with is whether customers purchase our product. If everyone (suppliers, intermediaries, and customers) can be happy then this strategy is useful."**---*Interviewee M6

To sum up (Table 7.7), in order to resolve conflict quickly, the avoidance conflict resolution style would be adopted. Firms can set a higher online price or for an extreme example, transfer the online order to their intermediaries.

Table 7.7: Summary for the avoidance strategy

Avoidance	Statements	Respondents
To set a higher online price	Manufacturers can attempt to set a higher online price in order to avoid the price competition with their channel partners.	M 1,2,3,5, and 6
Online order transferring	The online channel can take orders from the end customer directly but transfer order to the suitable channel partners.	M5 and 6

7.3.4 Accommodation

Accommodation is more than just a method of keeping the peace between channel partners (Rahim 1992). Bradford et al (2004) mention that accommodative conflict management behaviour is utilized when suppliers desire to create an environment where each party allows others to have their way or accept the other members' perspective. It means that manufacturers may desire to construct an official relationship or harmonious environment with their intermediaries actively rather than avoiding conflict passively (Coughlan et al 2006). In the literature review chapter, three accommodative resolution methods were discussed: exchange of persons, membership of trade association, and education and propaganda. In this research, evidence is found for the use of education and propaganda mechanisms. In addition, some managers also mention two mechanisms: joint promotional activities and launching e-kiosks in physical stores that might be classified in this category.

7.3.4.1 Education and propaganda

This method, education and propaganda, is mentioned by some interviewees. Interviewees in Dl Company mention that their firm arranges training programs on a regular basis for their intermediaries. Interviewee (M2) states that their product (WLAN equipment) requires more specific knowledge compared with other

electronic consumer goods. Each season their firm will invest considerable resources to arrange a series of training programs for intermediaries and their employees. It is because in an area of rapid technological development product, education and training is essential, according to interviewee (M2).

"I think the training program is really necessary for intermediaries, especially for the privately owned store. Although the price in the privately owned store might not be as cheap as the price in the chain store, one advantage for the privately owned store is that they can develop a deeper relationship with customers through an explicit explanation. We allocate resources to arrange several training programs in order to enhance their understanding and knowledge of wireless technology"---Interviewee M2

Furthermore, during the training program, intermediaries can be gathered at the same time in one location. With the opportunity to meet a large number of intermediaries at the same time, managers in Dl Company attempt to explain and educate their channel partners that the development of internet channel is necessary.

"In original, this kind of training program is held by technological staff in our firm to explain the detailed function for each product. Now, managers who are in charge of the online channel also join the training program. Managers try to explain the main objective of the internet channel and how we avoid the dissatisfaction between channel partners. For example, the goal and expectation of the new channel in our firm is to realize the market outside the traditional distribution system and to collect some information from customers."---Interviewee M3

In Ms Company, interviewee (M13) mentions that their firm arranged a conference to explain their blueprint and strategy for e-commerce, especially for the identical online price setting. Respondent (M13) notes in that meeting, some statistical data was demonstrated to the intermediaries.

"We want to educate channel partners that the population for online shopping is increasing year by year. This can be illustrated by the statistical data from some research centres or government reports. It is not a surprise for firms (manufacturers or intermediaries) to take this business opportunity and develop the internet channel. For example, not only suppliers but also retailers are developing their own online channel. We want to catch this trend of e-commerce and learn the customer behaviour in the virtual world."---Interviewee M13

Meanwhile, other information was also utilized during the conference. For example, interviewee (M14) notes that they showed the data of total sales amount of the traditional and online channel to their intermediaries.

*"We told our intermediaries that the real situation is better than their expectations. For example, sales though the traditional channel are not decreasing dramatically. In fact, the sales amount for both channels is increasing steadily and cannibalization between channels does not exist at this stage. We expect the misunderstanding and concern issues surrounding the direct channel can be eased."***---**Interviewee M14

According to interviewee (M13), they try to educate their intermediaries that each channel partner can benefit from the new electronic channel. For example, the internet channel is beneficial to reduce the inventory cost for accessories or less popular items. With this product segmentation method, managers in Ms Company believe that each channel can play different roles cooperatively and serve different demands from customers.

*"We attempt to persuade the intermediaries to think of profitability and benefit in terms of cross- channel coordination rather than individual gross profit margins."***-**--Interviewee M13

7.3.4.2 Joint promotional activities

Two methods, exchange of persons and membership of trade associations, have been mentioned in previous literature (i.e. Stern et al 1973; Anderson and Narus 1990). A common characteristic of these two mechanisms is that channel partners in different supply chain levels can have more chance to interact with channel partners and establish a formal relationship. Such connections can lead to reduce levels of conflict. Nevertheless, in this research, interviewee (M12) notes that they would not deliberately exchange persons with their intermediaries.

"It is strange to send our people to intermediaries. Manufacturers and intermediaries are different firms and have different confidential information. It is not likely that will invite a stranger or even a channel partner into our organization. Besides, we have hundreds of intermediaries. Who should we invite?"---Interviewee M12

However, interviewee (M13) notes that they adopt a similar method to enhance the relationship with their intermediaries. As mentioned before, Ms Company will arrange the pre-booking activities online for the new launch of products as a first wave promotion. After these online activities, they will arrange a series of promotional activities such as road shows and exhibitions around Taiwan. During this time, they would invite several regional intermediaries to join these promotional activities. For instance, the promotional activities will be arranged in several retail stores. People from different levels of the supply chain have a chance to work together temporarily. This method, joint promotional activities, is also mentioned by other interviewees in Tm Company. Nevertheless, in Tm Company, the frequency of occurrence is less. Interviewee (M10) states they would invite intermediaries to join the annual electronic product exhibition in Taipei. Interviewee (M10) notes that they will pay the cost for the exhibition.

> *"To join the worldwide formal exhibition is not free. We have to pay several fees to book a place. During the exhibition, we will enquire the intentions of our intermediaries. If they are willing to join the exhibition, staff from each side can work together and we will pay."****---***Interviewee M10

According to interviewee (M13), these activities can achieve two main functions. One is to promote their new products together with their intermediaries. As interviewee (M13) states, people from the headquarters usually are not familiar with the marketing situation in the local market. They require the assistance from local retailers.

> *"In each county, we will choose four to five retailers and use their locations to arrange road shows. Each road show lasts for two to three days. By this method, our people from headquarters can have a deeper understanding of the local markets. Although Taiwan is small, the local market and customer reactions in different counties are quite different."*---Interviewee M13

Consequently, the supplier can demonstrate that they continue to put emphasis on the traditional channels after the development of the internet channel. They still keep investing resources to both channels and the relationship with intermediaries is highly valued by suppliers. For example, interviewee (M12) mentions that a certain

amount of promotional allowance will be granted to intermediaries who join and assist in arranging the promotional activity.

> *"For example, we will discuss with each intermediary separately to decide the promotional allowance. The amount depends on the real situation in local regions. By using this fee, they can print some DM or launch some campaigns through local media such as radio. In other words, we give them this money to attract customers to their stores. Customers who are attracted to the shop might purchase not only our product but also other items. Nevertheless, the result is good for the intermediary."*---
> Interviewee M12

Moreover, through these promotional activities (road shows and formal exhibitions), a large number of customers can be attracted. Managers mention that if there are any inquires or orders from end customers during promotional activities they will transfer customers to the proper local intermediary instead of taking orders themselves. Interviewee (M12) explains two reasons for this. Initially, customers can receive a better service from intermediaries.

> *"For example, by contacting with intermediaries directly, customers can return the product directly to the local retailer."****---***Interviewee M12

Consequently, it is a good opportunity for suppliers to ease the concern of intermediaries. Manufacturers are not necessarily direct rivals for intermediaries, yet, as manager (M12) states, suppliers cannot control the flow of customers. While the internet channel is a necessary development, manufacturers are willing to invest more resource to arrange more promotional activities. As a result, not only brand awareness but also the volume of customers who visit the physical store is increasing.

7.3.4.3 Launching e-kiosks

During the interviews, interviewees in Tm Company mention that their firm is going to install a facility, e-kiosk, in the physical stores of intermediaries. An e-kiosk is a computer with touch screen and the ability to connect with the internet. In the initial stage, the chain store outlet is the first cooperative target for the manufacturer to launch the e-kiosk. The e-kiosk means that in the physical stores, customers can utilize this facility to link to Tm Company's website. As mentioned earlier, limited

shelf space in the physical stores can be a problem for a large number of firms, especially firms with a variety of product lines. The e-kiosks give exposure to the product without the need for intermediaries to physically carry the inventory.

According to interviewee (M10), they expect this problem (limited shelf space) can be solved by the e-kiosk, due to the deep content on product features that can be found on the website. Respondents (M 7 and 8) mention that it is also convenient for staff in the physical store. One reason for suppliers to develop the internet channel is to provide accurate product information to customers. Staff can utilize the information that is published by Tm Company to provide a better customer service.

> *"When customers ask for information on a flash memory stick, staff can use the touch screen to show the shape of memory stick and some relative product information. The website can offer detailed and accurate information. All product lines are online so customers can pick up their ideal product."* **---** Interviewee M7

> *"The display space in the physical store can become very flexible. Intermediaries only need to demonstrate one or two samples and other products and information can be provided by the e-kiosk. The information about product standards and features will be accurate. Intermediaries also save money for DM."* --- Interviewee M8

The problem of free-riding seems to be mitigated partly by this accommodative method. As mentioned in chapter three, free-riding happens when the end customer checks products in the physical store while shop for the product online. Interviewee (M8) notes that if customers do not have the ideal product in the physical store, staff can enter their specific reference number and book the order online for customers.

> *"For example, if a customer wants to buy a larger storage of memory stick or with a different shape or colour, staff in the retail store can help the customer to book online. We give each physical intermediary a different reference code. When they enter their specific reference code, we know the order is coming from an intermediary instead of an end customer"* --- Interviewee M8

Furthermore, according to interviewee (M8), they do not mind that intermediaries give the reference number to customers and customers can shop online during their free time. It has been mentioned several times that from the managers' perspective,

where customers purchase the product is not important for suppliers. They are concerned whether customers purchase their product or not. In addition, the response from the intermediary is positive, according to interviewee (M10).

> "*I think the boundary issue for each other is clearer now. Intermediaries only need to carry popular products in their product assortment. For some uncommon products such as the large storage of memory stick, they can help customers to book online. Furthermore, they can feel that we still keep investing in the traditional channel.*"---Interviewee M10

Intermediaries feel more comfortable about the multi-channel system and are reassured that manufacturers have no intention to bypass them or compete with them directly. As interviewee (M8) claims, "if we desire to compete with our intermediaries, we should put resource into the internet channel instead of the physical channel". This statement corresponds with previous literature. Eyuboglu and Kabadayi (2005:12) state that "if a manufacturer has made substantial specific investment in an intermediary, the intermediary will not perceive it as a threat if the manufacturer switches to a multiple channel system. The dealer's sense of security will be essentially unaffected because his/her awareness of the manufacturer's switching cost and resulting dependence".

7.3.4.4 Summary for accommodation

In conclusion, this research has identified three accommodative conflict resolution methods: education and propaganda, joint promotional activities and launching e-kiosks (Table7.8). Some interviewees mention that their firm will arrange some formal meetings to propagandize the role of the internet channel in the whole distribution system. Managers desire to educate their intermediaries that the internet channel merely undertakes a supportive function and the traditional channel partners will not be harmed.

Some managers mention that after the development of the virtual channel, their firms arrange more promotional activities than before. By doing so, more customers can be attracted to the physical store. Manufacturers can also demonstrate that they keep investing in the traditional channel and the importance of the intermediary is highly

valued. Launching the e-kiosk is a strategy that seems seldom to be mentioned in previous research. There are several advantages for this facility. First, using this facility, displace space in the physical store can be arranged efficiently. Second, the problem of free-riding seems to be resolved partly. Third, through investing this facility in the physical channel, the dealer's sense of security will be unaffected.

Table 7.8: Summary for accommodation

Accommodation	Statements	Respondents
Education and propaganda	Formal meetings are arranged to discuss the issue about the development of the online channel with the intermediary. Manufacturers want to educate their channel partners that the trend of e-commerce is inevitable but they might not desire to compete directly with the intermediary.	M 2,3,13, and 14
Joint promotional activities	Manufacturers invite their channel partners to join some road shows and exhibitions. By the opportunity to cooperate with each other and invest more resources, manufacturers can illustrate that the intermediary is still highly valued.	M10,12 and 13
Launching e-kiosks	The e-kiosk is an electronic facility can be utilized to connect to the internet. With this facility, the intermediary can help customers to book online. Furthermore, by investing this facility, the intermediary can be aware that the dependence from the supplier is still high.	M7,8, and 10

7.3.5   Compromise/ Collaboration

As mentioned in the literature review chapter, when firms are concerned not only for themselves but also for other firms, they might try to adopt compromises or collaboration approaches to resolve conflict. The main difference between these two methods is that the compromise approach does not explore conflict in as much depth as the collaborative method (Rahim 1992). In other worlds, the collaboration approach involves cooperation between the parties that involves openness, exchange of information and examination of differences to reach a solution acceptable by both parties. The compromise approach lets each side achieve its goals but merely to an

intermediate degree (Ganesan 1993; Coughlan et al 2006). Information, goals and priorities for each channel partner are not exchanged.

7.3.5.1 Mediation and arbitration

Although the third party mechanism is mentioned in section 3.5.4.1, the majority of managers mention that mediation and arbitration in Chinese society is not a proper method to resolve conflict with intermediaries. As mentioned before, suppliers and intermediaries are often pursuing a long term and reciprocal relationship. Moreover, taking litigation or similar activities in Chinese society means that the relationship will be terminated forever. As interviewee (M8) describes, "the face is broken".

> *"When the face is broken, it is unlikely to do any substantial business any more. You can say the relationship is over."*---Interviewee M8

In a usual situation, it will be the final option for channel members regardless of whether they are suppliers or intermediaries. Although mediation and arbitration are not litigation, their characteristics are very similar, according to interviewee (M7). All these activities require a third party from outside to act as a judge.

> *"Going to court is a very bad sign for business. It is not about rational but about emotional feeling. It means that you do not have a good relationship with your channel partners and furthermore you do not know how to manage the problem properly between channel partners. If you usually go to court or take similar activities, I think no one would be happy to do business with you"*---Interviewee M7

> *"In Chinese society, mediation and arbitration are utilized only when some serious conflict happens between channel partners such as the argument of patent or trademark. Conflict arising from the development of the internet channel seems to be at a minor level"*---Interviewee E2

Interviewee (M14) also mentions that the process of mediation and arbitration is still too cumbersome and too costly for a large number of firms. Sometimes, a resort to litigation in the courts would offer a more powerful verdict than arbitration, if the partnership is already at a dangerous stage, according to manager (M13). Therefore, in this research, respondents note that mediation or arbitration might not be a suitable strategy for managers to manage the daily partnership

7.3.5.2 Compensation

A compromise method that has been mentioned by interviewees is compensation. Several interviewees note that before the development of the internet channel, economic incentive was a common way adopted by managers to mitigate the tension between channel partners or even improve the performance (i.e. volume discount). For example, interviewee (M 9) mentions that in order to spur the order volume from intermediaries, suppliers can offer a better payment term as an economic incentive for those intermediaries who order a higher product volume.

> *"It depends on their purchase volume. In a normal situation, the payment term is about 20 days but if they purchase a larger volume, the payment term can be negotiated"*---Interviewee M9

A similar example, interviewee (M1) notes that in Taiwan, if the transaction between channel partners exceeds a certain amount, intermediaries have to provide a fund to suppliers as a mortgage or deposit. The higher the transaction amount is, the higher is the deposit required. In order to encourage intermediaries to boost the order volume, sometimes they will set a lower level for this deposit. Interviewee (M12) offers another example. Conflict issues often are trivial. Managers may not have the time or ability to resolve all the dissatisfaction. If an important intermediary keeps complaining, managers sometimes will offer an exclusive product for them to promote in limited time.

After the development of the internet channel, some interviewees note that compensation remains a common method to ease the dissatisfaction from intermediaries. For example, it has been mentioned above that although suppliers will adopt a product segmentation method to avoid channel conflict, it is unlikely to avoid the overlapping product line completely. Under this circumstance, interviewee (M13) notes that for the overlap product, the margin rate is adjusted. It means that suppliers offer more gross margins to the intermediary as a kind of compensation.

> *"Indeed, we put more emphasis on selling accessories and less popular products. However, everyone has a different definition of the less popular product, especially when intermediaries are in different regions and facing*

different customers, they might have dissimilar judgments. Therefore, it is not a surprise that the online and offline product lines will overlap sometimes. We have told our sales people that if intermediaries complain about this, the margin for an overlap product can be discussed. However, other standards such as Guanxi or their purchase volume for the overlap product still need to be considered during the negotiation process." --- Interviewee M13

By contrast, respondent (M10) notes in their firm they do not compensate for any specific intermediaries or products. This is because if the compensation policy cannot be conducted fairly, it is highly likely to cause another conflict. However, after the development of the new electronic channel, the rebate rate for achieving target sales amount increased. Interviewee (M10) mentions that they expect intermediaries can put more emphasis on boosting the sales amount instead of complaining about how the internet channel affects their business.

"After all, in the future it is very likely that every firm has several distribution channels, especially the online channel. Perhaps, it is time for not only manufacturers but also intermediaries to think about how to utilize the virtual channel and take advantages from e-business"--- Interviewee M10

7.3.5.3 Collaboration

A collaborative approach is the resolution of conflict by developing solutions that integrate the requirements of both parties. According to some scholars (Dant and Schul 1992; Rahim 1992; Ganesan 1993), a prior assumption for the collaborative method is openness, exchange of information about goals and priorities and examination of differences to reach a solution acceptable to both parties. Although a number of previous studies (i.e. Dant and Schul 1992; Ganesan 1993) suggest that the collaborative method such as setting a super-ordinate goal is useful to resolve channel conflict, in this research no manager has mentioned this method. As manager (M7) notes, suppliers and intermediaries are two different entities and it is not easy to share deeper or confidential information with each other.

"If there is no particular reason, it is seldom to see that the supplier and the intermediary really cooperative with each other deeply. Although we call the intermediary as 'partners', in the actual situation, we are on opposite sides. We are the seller and they are the buyer. What you mention

about collaboration, I think it only exists in specific circumstance. For example, if supplier A and intermediary C desire to compete with supplier B, under this circumstance, A might cooperate with intermediary C sincerely in order to compete against B. In this time, A and C have the same enemy and therefore, it might be possible for them to share information with each other. Otherwise, this strategy seems to be not realistic." **---**Interviewee M7

As Ganesan (1993:187) mentions, "Even when both parties are long-term oriented, however, not all conflicts are resolved by a collaborative strategy because the exchange of priority information is an effortful process, justified only when potential benefits are high. Such an effort is likely to have high pay-offs only when the conflicts between retailers and suppliers are major". Furthermore, interviewee (M1) also notes that in their firm the conflict caused by the internet channel has been controlled effectively by other resolution methods such as setting a higher price or product segmentation. The internet conflict is not a major conflict issue between them and intermediaries. Therefore, interviewee (M2) states that it is not wise to adopt a resolution which requires high integration and cost.

"As I mentioned, I do not think our intermediaries will get hurt from the internet channel. In other words, the conflict arising from the development of the internet channel is minor. Instead, a possible scenario is that the intermediary can gain advantages from the internet channel. Hence, I do not think it is necessary to do what you mention about setting a super-ordinate goal. Another thing is that the impact of the internet channel is not for a short time. How long should we cooperative with the intermediaries?"---Interviewee M2

Interviewee (M17) provides another possible explanation for why this collaborative method is lacking in the multi-channel system. Interviewee (M17) mentions that in a usual situation, suppliers are often regarded as the conflict trigger by intermediaries. It means that the conflict within the multi-channel system is caused by manufacturers deliberately. As manager (M17) states, under this circumstance, how can each party make concessions on the conflict issue and adopt the collaborative strategy? Intermediaries often regard them as the victim of the development of the new channel and suppliers should make some compensation for them.

"The situation in our firm is that the intermediary asks you to close the online channel instead of trying to cooperative with you. It is because they

might not face the same pressure as we have. Besides, intermediaries have several different product lines and the low-end scanner is just one of their assortments. It is not necessary for them to make a big effort to collaborate with us." **---**Interviewee M17

7.3.5.4 Summary for compromise/ collaboration

To sum up (Table 7.9), according to the literature, compromise and collaboration conflict resolution approaches will be adopted to resolve channel conflict when firms are concerned not only with themselves but also with other channel partners. However, in this research, few firms mention the compromise or collaborative resolution approaches. Compensation strategy is the method mentioned by interviewees. After the development of the internet channel, increasing rebate for achieving target volume and margins for the overlap product will be utilized in order to compensate the intermediary. Other compromise methods such as mediation or arbitration are not supported by interviewees in this research. One possible explanation is that in Chinese society, when any member of a channel adopts the semi- litigation activity, it means that the partnership will be terminated soon. Besides, the collaborative resolution style is also not supported by interviewees. One possible explanation is that the collaborative conflict resolution approach is costly and takes time. The majority of managers prefer to adopt a method which would require less effort while it can also lead to solutions that are agreeable to both parties.

Table 7.9: Summary for compromise/ collaboration

compromise/ collaboration	Statements	Respondents
Mediation and Arbitration	Several interviewees notes that in Chinese society, taking the litigation or semi-litigation activities means that Guanxi between channel partners is broken totally. Therefore, mediation and arbitration would be the last method to resolve channel conflict.	M 7,8,13, 14, and E2
Compensation	In Tm and Ms Companies, interviewees mention that they increase the rebate for the achievement of target volumes and margins for the overlap product after the development of the internet channel.	M 1,9,10,12, and 13
Collaboration	The collaboration conflict resolution style is not supported by interviewees in this research. The major obstacle for this resolution approach is that it requires a high of information exchange between each channel partners.	M 1,2,7,and 17

7.3.6   Competition

Coughlan et al (2006:251) claim that "Conflict is costly. But this does not mean that an organization always should avoid conflict and the benefits of change may be worth the costs of conflict". In this research, this conflict resolution style, competition, is mentioned by interviewees in Mi Company.

> *"The main expectation and function of our online shop is to sell products to end customers. We are competing directly with our intermediaries."* **---** Interviewee M16

Hence, unlike other firms adopting a higher online price or compensation strategy, interviewee (M16) mentions that they set a lower online price compared with the physical channel.

> *"It is not a surprise that we adopt this strategy. We perceive the loyalty from our channel partner is decreasing quickly and we can expect that the relationship would be terminated soon in the future. We have to do some practice and preparation before the termination of the partnership."*--- Interviewee M16

On the other hand, although Mi Company sets a lower online price, interviewee (M17) emphasizes that the difference in price is still controlled in a reasonable range.

"In a normal situation, an acceptable range for intermediaries is between 2-3 percent."---Interviewee M17

However, if some promotional activities such as annual membership festival are arranged by intermediaries, during this period, the range of the price difference will be enlarged. The difference between online and offline price will be increased up to 5-10 percent and by utilizing this method, the click on rate of the online shop can have a significant improvement.

"We set a lower price during the intermediary's promotional period because we believe this time is a peak for customers to search information. For example, a customer might be attracted by the intermediary's promotion and wants to buy a scanner. He might compare the online and offline price. This has been confirmed by the click-on rate of our website. During the promotional period, the click on rate of our website has a significant increase. If we can offer a better price, it is very likely for customers to shop online."---Interviewee M17

Can intermediaries accept this aggressive method? The answer from interviewees in Mi Company is straightforward. Of course, they will complain. However, interviewee (M17) mentions that intermediaries will keep complaining but this dissatisfaction hardly results in behaviours. It has been discussed earlier that managers in Mi Company would attempt to explain to their intermediaries that the low-end scanner is in its decline stage of the product life cycle. However, as a firm makes and sells the low-end scanner, managers in Mi Company have to figure out a method to keep the firm operating. According to interviewee (M16), the majority of intermediaries can accept this environmental change and agree that no one should be blamed for this problem.

"For most intermediaries, they can accept our explanation and the lower online price. We try to explain the obstacles that our firm faces and promise that the online price will be controlled in a reasonable range. After all, we have a long term relationship with some intermediaries. Guanxi between each other was good. For those who do not accept the lower price method, they just finish the contract and relationship. They do not need to complain or express in behaviour."---Interviewee M16

Furthermore, respondent (M16) notes that other resolution methods will also be adopted in order to ease the dissatisfaction from the intermediaries. For example,

according to interviewee (M16), their online products are sold in a semi-package with different series code in order to differentiate the product in the physical store.

> *"These minor differences in configuration can help price differentials work in a channel mix and can also make it easier for customers to understand when and why they are supposed to use one channel instead of another. For example, if customers need the full-package and complete service, they should shop at the physical store."*---Interviewee M16

Furthermore, although the price difference between the virtual and traditional channel can be up to 5-10 percent, this significant difference will be constrained in a specific time period and limited product amount. For instance, if the promotional period in the physical store is ten days, the online promotional sales would only be conducted for five days or a weekend. In addition, the firm may offer merely one hundred units of low-end scanners which are sold at a special low price.

> *"The promotional time period and product units are constrained. It is a trick to attract end customers."*--- Interviewee M18

Interviewee (M18) also mentions that on their website, they also provide a complete reference link to connect with their intermediaries. As manager (M18) notes, since the flow of customers is hard to predict, why do we not do our intermediaries a favour? All these activities mentioned above are designed to mitigate the dissatisfaction from intermediaries and offer more space for each other. Nevertheless, interviewees in Mi Company agree that they can expect that the number of cooperative intermediaries will still decline gradually.

In conclusion, in a multi-channel system, the competition approach means that manufacturers compete with their intermediaries directly. In this research, this approach is mentioned by interviewees in Mi Company. Managers mention that the main function for their online shop is to sell their products directly and therefore, they set a lower online price. This viewpoint is quite different compared with interviewees in other firms. However, other conflict minimization methods are also adopted at the same time. Communication between channel members continues. Besides, the lower online price is controlled within a reasonable range that is

acceptable to the intermediary. The product which is sold at a special price is also restricted to a limited amount and time period.

7.3.7 Findings and Summary

7.3.7.1 Findings for the conflict resolution strategy

In the literature review chapter, several conflict resolution methods have been classified into four main categories: avoidance, accommodation, compromise/ collaboration, and competition. In this research, two more resolution styles: communication and differentiation have been mentioned by interviewees (Table 7.10). Furthermore, as mentioned in the previous chapter, when firms are in different stages of the product life cycle, the internet channel would be designed differently in order to undertake different functions and roles (Figure 6.3). In this study, it seems that figure 6.3 can be extended a little, as figure 7.5 illustrates. It seems that firms in the different stages of the product life cycle might not only design the internet channel differently but also adopt different conflict resolution methods.

For example, when a manufacturer is in the growth stage of the product life cycle, the intermediary is important for them and the internet channel is considered as an assistive marketing channel. The firm might attempt to keep a harmonious relationship with the intermediary, and therefore, they would adopt some "smooth" conflict resolution approaches: communication, differentiation, avoidance, and accommodation. When firms are in the mature stage of the product life cycle, the relationship with the intermediary is still valued by the supplier. However, it seems that firms might not adopt the avoidance approach because their expectation of the internet channel is more than a medium to publish some product information. They expect that the internet channel can generate some sales, especially for the accessory and less popular items. As mentioned in the previous chapter, the internet channel is designed as a complementary sales channel. Therefore, firms might adopt some conflict resolution approaches between avoidance and competition such as communication, differentiation, accommodation, and compromise.

If a firm is in the decline stage of the product life cycle, people in the firm might foresee that the relationship with intermediaries would be terminated in the future. They have to make some preparations and the internet channel might be designed as a main sales channel. During this time, in order to compete with intermediaries, the firm might adopt the competition approach. In this study, the firm in the decline stage of the product life cycle adopts several conflict resolution approaches: communication, differentiation, competition, at the same time.

Although some research has discussed the conflict resolution mechanisms, few previous studies have discussed the conflict resolution method under the circumstance of the multi-channel system. Most previous research discussed the conflict resolution strategy under a single channel structure circumstance. This research extends previous studies. Moreover, several conflict resolution strategies might be adopted at the same time and firms in different stages of the product life cycle will adopt different methods to resolve channel conflict. This point is seldom mentioned by previous studies and this study provides some empirical evidence.

7.3.7.2 Summary for the conflict resolution method

Communication can be divided into internal and external communication. Some interviewees mention that when their firm develops the multi-channel distribution system, not only external intermediaries but also internal sales people express negative reactions. During this time, a series of internal meetings and dialogues across departments will be arranged by senior managers with high authority. Through this internal communication, managers expect that the company policy and value from top management can be translated to the individual level.

External communication is mentioned by interviewees across firms when they face channel conflict from outside. Interviewees note that the majority of conflicts are mistaken. Through constructive communication, the intentions of each party can be clarified clearly. Constructive communication could help avoid such an event from happening again. Besides, interviewees mention that latent conflict always exists in

channel members. Nevertheless, each channel member also has a common consensus to maintain a long-term relationship and establish a reciprocal environment. As previous authors (i.e. Walton and Mckersie 1965; Pruitt 1981) suggest, a long-term relationship can only exist when channel partners explicitly communicate the real needs underlying their proposals. Therefore, managers prefer to conduct constructive communication with intermediaries instead of adopting over-reacting behaviours.

Even though products are in the decline stage of the product life cycle, managers would still keep communicating with their intermediaries. They attempt to explain the modification of the channel system is caused from outside pressure such as innovation of new technology and no one should be blamed for this decision. As Hibbard et al (2001) mention, in marketing relationships, the intermediary is more likely to be sympathetic when the manufacturer does not hold them directly responsible for the destructive activity. Besides, in Chinese society, managers prefer to adopt an informal way to communicate with channel partners. This point is slightly different compared with previous research (i.e. Mohr and Sohi 1995). It is because conflict occurs every day and everywhere and it is unlikely to solve all the problems through few formal meetings or conferences. Furthermore, Guanxi is established through this informal interaction. The majority of managers agree that Guanxi is an important element in Chinese business relationships.

Differentiation is also mentioned by interviewees across firms. This approach can be divided into two sub-groups: price and product differentiation. Firms can set a fluctuating price to product lines which are seldom carried by intermediaries. In addition, some interviewees mention that their online product lines have been selected deliberately. For example, the online channel will carry more product lines which are suitable for SEMs or SOHO. Another example is that the online shop carries more product lines which are related to accessories and less popular items.

Several conflict resolution approaches will be adopted at the same time. The previous two are the common approaches that are adopted by managers across firms. Some respondents mention that in their firms, the avoidance approach will also be adopted

to resolve channel conflict arising from the development of the internet channel. When firms adopt the avoidance approach, the online price can be set at a higher level. Furthermore, for an extreme example, suppliers may transfer the online order totally to their traditional channel partners.

Accommodation is more than just a method of keeping the peace between channel partners. Suppliers are willing to establish an institutional relationship with their intermediaries. In this research, interviewees mention three accommodative methods to resolve conflict: education and propaganda, joint promotional activities and launching e-kiosks. After the development of the internet channel, respondents note that their firms will attempt to educate their channel partners about the role of the internet channel in the whole distribution system. Managers utilize some statistical data to demonstrate that the intermediary will not be harmed by the development of the internet channel.

Moreover, the intermediary will be invited to join some promotional activities together. People from different levels of the supply chain have opportunities to work together temporarily. Meanwhile, suppliers desire to convey an image to intermediaries that the traditional channel is still highly valued by manufacturers. For example, some advertising allowance will be granted to intermediaries. During the promotional activities, manufacturers transfer orders from customers to their channel partners instead of taking them themselves. In order to resolve conflict, suppliers may attempt to invest more resource in the traditional channel. In this research, launching the e-kiosk is mentioned by interviewees. The problem of limited shelf space and free-riding seems to be resolved partly. Meanwhile, through investing this facility in the physical channel, the dealer's sense of security essentially will be unaffected.

Compromise and collaborative approaches will be adopted to resolve the channel conflict when firms are concerned not only with themselves but also with other channel partners. In this category, not many conflict resolution methods have been mentioned in this research. A compromise method, compensation, is mentioned in

this research. Some interviewees note that they will increase the profit margin for the overlapping product in the multi-channel system. Other interviewees state that they will increase the rebate rate for achieving target sales amount instead of compensation on specific product lines or channel members. Besides, the majority of interviewees agreed that the collaborative method is seldom utilized. A possible explanation is that the collaboration approach requires a high level of information exchange. To compare with other resolution approaches, the cost of adopting the collaborative approach is too high.

The competition approach is also mentioned in this research. When firms are in the decline stage of the product life cycle, managers are more likely to adopt the aggressive strategy to compete with their intermediaries. In this research, a lower online price strategy is mentioned by interviewees. However, as mentioned before, several conflict minimization approaches will be adopted at the same time. When managers utilize this competitive approach, other conflict minimization approaches such as communication will also be adopted in order to ease the dissatisfactions from the intermediaries.

Table 7.10: Conflict resolution approaches emerging from in this research

Conceptualization-Conflict resolution approaches	Brief summary	Respondents
Communication	--In order to resolve the internal conflict, a series of conversations and meetings is arranged. --Through constructive communication with channel partners, the intentions for each other can be clarified.	M2,3,7,9,10,11,12,13,14,16, and 17
Differentiation	--Fluctuating prices can be set for online/offline channels. --Different product lines are arranged for online/offline channels.	M2,9,10,11,12,13,14,and 16
Avoidance	--A higher online price can be set. --Online orders can be transferred to traditional channel partners.	M1,2,3,5,and 6
Accommodation	--Suppliers attempt to educate intermediaries about the role of the internet channel. --Intermediaries are invited to join the promotional activities. --More investment such as launching e-kiosk is suggested by respondents to resolve channel conflict.	M2,3,7,8,10,12,13,and 14
Compromise /Collaboration	--Product margin is adjusted for the overlapping product line and the rebate rate increased after the development of the internet channel. --Collaborative approach has not been mentioned in this research.	M 10 and 13
Competition	--A higher online price strategy can be utilized when firms adopt the competition approach.	M16,17,and 18

Figure 7.5: Conflict resolution styles for firms in the different stages of the product life cycle.

| Introduction | Growth | Maturity | Decline |

Sales

Time

Intermediation (As perceived by the respondents)

Reintermediation (As perceived by the respondents)

Disintermediation (As perceived by the respondents)

--Main product: Wireless equipment

--Conflict resolution approaches: Communication, differentiation, avoidance, and accommodation

--Main product: Motherboard and Dram Module

--Conflict resolution approaches: Communication, differentiation, accommodation, and compromise

--Main product: Low-end scanner

--Conflict resolution approaches: Communication, differentiation, and competition

7.4 Chapter summary

This chapter attempts to answer how firms resolve channel conflict arising from the development of the internet channel. Furthermore, sources and resolution methods of channel conflict are highly related with each other. As Eliashberg and Michie (1994:77) suggest, "Logically, to understand and manage the channel conflict, we must first identify conflict determinants and sources". In this research, four sources of channel conflict have been identified: goal incongruity, domain disagreement, perceptual differences, and inefficient communication (Table 7.4). Ineffective communication has seldom been mentioned in previous research, especially under the multi-channel structure circumstance.

Compared with previous studies, two more conflict resolution approaches are mentioned by interviewees. Communication and differentiation are two common conflict resolution styles mentioned by managers across firms and stages of the product life cycle. Four other conflict resolution approaches are also mentioned by interviewees which are avoidance, accommodation, compromise, and competition (Table 7.10). Several conflict resolution methods might be adopted at the same time. One further finding is that when firms are in different stages of the product life cycle, it seems that different conflict resolution approaches would be adopted (Figure 7.5).

Chapter 8

Conclusion

This chapter puts emphasis on the key findings and contributions of the thesis and discusses the managerial implications and some possible directions for further research. Four main sections are in this chapter. The chapter begins by summarising the thesis in order to give a holistic view of the thesis. Previous literature regarding the multi-channel structure and channel conflict, research gaps and questions, methodological issues, and key research findings are presented briefly. After the summary of the thesis, theoretical contributions are highlighted and three managerial implications inferred from the study are discussed. Finally, limitations in this study are pointed out and the directions for future research are suggested in the final part.

8.1 Summary of the thesis

8.1.1 Summary of literature review

The internet has had a profound effect on communication, entertainment, buying, and selling (Webb 2002) and, in particular, as a distribution channel (Van den Poel and Leunis 1999). With the assistance of internet technology, the manufacturer now has the ability to access the end customer directly (Kiang and Chi 2001; Rosenbloom 2004). Based on previous literature, three channel design patterns were identified when manufacturers adopt the internet as a distribution channel: disintermediation, reintermediation, and multi-channel structure.

- **Disintermediation and reintermediation**

Some early studies (i.e. Malone et al 1987 1989; Benjamin and Wigand 1995; Evans and Wurster 1997) predicted the dissolution of the role of the middleman as inefficiencies are purged from traditional channels through technological development. A concept concerning elimination of the intermediary, disintermediation, was discussed. The main justification for moving to the internet

was noted to be to retain the competitiveness of the company thorough cost reductions. When information can be transmitted and stored in a digital format, information between buyers and sellers can be sent electronically and with almost zero cost. Furthermore, since manufacturers have the ability to contact end customers, some scholars suggest that the intermediary can be bypassed and, therefore, cost of inventory and maintaining physical stores can be reduced. Nevertheless, to eliminate intermediaries is not without disadvantages because several channel functions cannot be replaced by the virtual channel. For example, a main critical point concerning disintermediation is the problem of product flow. Therefore, some scholars (i.e. Bailey and Bakos 1997; Chircu and Kauffman 2000; Jallat and Capek2001; Anderson and Anderson 2002) suggest that a more likely situation is that the impact of the internet will modify but not replace traditional intermediaries totally. Reintermediation, an alternative concept concerning the channel design pattern, was subsequently discussed. From the perspective of the intermediary, if they can adopt new and innovative ways, such as the application of IT infrastructure to improve their incapacity, intermediaries continue to play an important role in the whole channel structure. On the other hand, for the manufacturer, the better scenario is not to eliminate the traditional intermediary but to combine outside virtual and physical channels together.

- **Multi-channel structure**

Multi-channel structure is a relative new channel design pattern suggested by scholars. Manufacturers have their own online channel yet still maintain their relationship with outside physical intermediaries at the same time. Manufacturers can receive orders directly from consumers through the internet and, at the same time, still attempt to maintain the physical distribution channel with the assistance of intermediaries to serve consumers. In order to distinguish between the pure internet and traditional offline channels, electronic commerce researchers have labelled companies which combine physical and web channels "clicks and mortar," "bricks and clicks," "surf and turf," "cyber-enhanced retailing," or "hybrid e-commerce," (Gulati and Garino 2000; Steinfield et al 2002 a b; Agatz et al 2008). The utilization

of multiple channels is increasing steadily (Frazier 1999; Coelho et al 2003; Coelho and Easingwood 2008) and based on previous literature, there are two main advantages for the adoption of the multi-channel distribution strategy : saving cost and to collect more customer information/ provide better customer service.

- **Channel conflict**

However, this multi-channel structure is not without its shortcomings. The intermediary is likely to be bypassed and manufacturers are likely considered as direct competitors. Channel conflict is likely to occur between channel partners. As Rosenbloom (2007:7) claims, "Perhaps the most significant obstacle to building successful multi-channel strategies is the emergence of conflict between the different channels used for reaching customers". Sharma and Mehrotra (2007:23) also mention that "higher levels of inter-channel conflict in the context of multi-channels will lead to a reduction in promoting the product or even a withdrawal". Hence, how to resolve channel conflict arising from the development of the internet channel seems to be a critical issue. As Hunt (1995:420) claims, "Properly managed conflict increases the probability that conflict aftermath will be positive, and therefore, the conflict will be viewed as functional. On the other hand, poorly managed conflict will result in negatively perceived conflict aftermath and, therefore, conflict will more likely be viewed as dysfunctional". Based on previous literature, there are three primary sources of conflict: goal incongruity, domain dissonance, and perceptual difference. Furthermore, a conflict resolution model (Figure 3.3 in chapter 3) suggested by Coughlan et al (2006) was adopted as a model to classify previous channel conflict resolution strategies. This model contains the following conflict resolution styles: avoidance, accommodation, compromise/ collaboration, and competition.

8.1.2 Gaps from the literature, research objectives, and research questions

The literature review revealed the following three main research gaps that needed to be explored further.

1. Given the expectation that conflict may arise, one may question the motivations of manufacturers to develop their own direct internet channel. Indeed, Coelho and Easingwood (2005:199) note that "the importance of factors in the design of multiple channels has seldom been discussed and furthermore, there is a lack of research in respect of the reasons why multiple channels of distribution emerge". Hence, one of the objectives of this research is to explore the factors driving firms to develop a multi-channel system that includes a direct internet channel.

2. It seems that the channel design issues in the multi-channel structure are seldom discussed (Hughes 2006). Steinfield et al (2002 a b) offer a channel design pattern—the synergistic channel structure (Figure 2.4 in chapter 2). Nevertheless, Steinfield et al (2005) agree that this channel pattern is uncommon and Rosenbloom (2007:5) argues that "Integrating online channels with conventional channels to create a "seamless" experience for the customer is, if course, the ideal situation—in theory at least. In practice, however, such seamless integration is still more the exception than the rule because substantial obstacles exist". However, Rosenbloom (2007) merely points out the impracticalities of the synergistic channel structure, yet he does not reveal the possibility of other types of channel structures and design patterns. Recently, several scholars (Gassenheimer et al 2007; Rosenbloom 2007; Sharma and Mehrotra 2007; Coelho and Easingwood 2008) suggest the need to explore the design patterns of the multi-channel system more.

3. How to minimize conflict arising from the development of the internet channel is an emerging research issue suggested by several scholars (i.e. Frazier 1999; Schoenbachler and Gordon 2002; Webb 2002; Lee et al 2003;

Rangaswamy and Van Bruggen 2005; Rosenbloom 2007; Webb and Lambe 2007). Nevertheless, the vast majority of previous channel conflict research has addressed conflict (Vertical and horizontal conflict) between two organizations under a single channel structure (e.g., Lusch 1976 a b; Thomas 1976; Reve and Stern, 1979; Brown and Day 1981; Eliashberg and Michie 1984; Gaski 1984; Anderson and Narus 1990) and very little empirical research puts emphasis on exploring the issue of conflict in a multi-channel system (Webb and Hogan 2002; Webb and Lambe 2007). Hence, this research issue should be explored more: How can channel conflict arising from the development of the internet channel be minimized from the perspective of manufacturers?

The main objective in this study was to explore the impact of the internet as a direct distribution channel within a multi-channel system. Following from the research gaps, the three research questions in this study were to understand the factors driving the development of the multi-channel structure, the multi-channel design patterns, and the channel conflict resolution styles within the multi-channel structure. All these issues have seldom been discussed in previous studies. The three research questions were:

Question 1: What are the factors encouraging manufacturers to develop the internet channel, especially manufacturers with a well established distribution channel?

Question 2: What are the channel design patterns of the multi-channel structure?

Question 3: How can channel conflict arising from the development of the internet channel be minimized?

8.1.3 Methodology

In this research, a qualitative research strategy was considered as the appropriate one to conduct research. As mentioned above, all three research questions have been seldom discussed in previous literature. For example, Coelho and Easingwood (2008:32) mention that "Despite this popularity, the drivers of these channel strategies remain virtually unknown". Besides, Webb and Lambe (2007:29) note,

"Conflict is a critical concern with multi-channel strategies while there has been little academic research that examines conflict in a multi-channel context…..there may be important structural differences between the dynamics of single channel and multi-channel conflict". When the objective of a research project is basic understanding of a new phenomenon or the development of new theory, a qualitative research strategy is more suitable than a quantitative strategy (Bryman 2004) and this suggestion was taken in this research. Individual interviews were chosen as the main method to collect data. Twenty-five respondents were interviewed during June to September 2007. As a secondary data source, a wide range of documents were also carefully examined in order to triangulate data from the interviews. Managers of firms in the Taiwanese IT industry constituted the main interviewees and main product lines in their firms ranged from wireless equipment to DRAM module, motherboard, and scanner (Table 4.3 in chapter 4).

8.1.4   Key research findings

Question (1): In chapter 5, according to the statements from interviewees, six main factors (Table 5.1) were identified as encouraging the manufacturer to develop the internet channel. These are: (1) customer information management, (2) retailer management issue, (3) launching a new product, (4) to be a secondary channel, (5) me-too strategy, and (6) management support. It seems that there is limited research (Table 4.1) which has discussed the factors driving the development of the multi-channel structure. Hence, this study makes a key contribution to this research gap by providing empirical evidence.

Question (2): In chapter 6, one major finding is that when firms are in the different stages of the product life cycle, their multi-channel structures are designed into different patterns. This point has seldom been discussed in previous literature. In this research, roles and relative strategic positions with online and offline channels are classified into three levels. In the growth stage, the traditional channel plays a dominant role (intermediation) and the online channel is merely considered as an assistive marketing channel. In the maturity stage, the intermediary still performs the

majority of channel functions but some channel functions start to shift to the online channel (reintermediation). The internet channel is regarded as a complementary sales channel. In the decline stage, the roles of online and offline channels change fundamentally. The online channel is highly expected and designed as a main sales channel. A disintermediation strategy is conducted. However, disintermediation is contrary to that described in previous literature; respondents in this research mentioned that the channel relationship is terminated by the intermediary instead of the manufacturer.

Question (3): In chapter 7, four sources of internet channel conflict (Table 7.4: goal incongruity, domain disagreement, perceptual differences, and inefficient communication) and six conflict resolution styles (Table 7.10: communication, differentiation, avoidance, accommodation, compromise, and competition) were identified, according to the statements of interviewees. Little research has empirically examined the sources and conflict resolution methods under the multi-channel circumstance. This study offers some empirical evidence. In this research, ineffective communication is considered as a source of channel conflict, according to respondents and this point has seldom been discussed in previous literature. Moreover, compared with previous studies, two more conflict resolution styles are mentioned by interviewees in this research. Communication and differentiation are two common conflict resolution styles mentioned widely by interviewees but seldom discussed in the literature.

8.2 Theoretical contributions

This thesis makes a number of theoretical contributions:

1. As mentioned in chapter 4, few previous studies have discussed the drivers for the development of the multi-channel structure. Table 4.1 illustrates four previous studies which have analyzed this research issue. Nevertheless, all these previous studies focus on the financial services industry in the UK. The motivations to develop the internet channel for tangible and intangible products might be different and it seems that more research should be

conducted, especially for companies with tangible products. This study chose an industry with tangible products, the Taiwanese IT industry. It is anticipated that the finding of the six motivations for internet channel development can make a contribution to development of theory in this area.

2. Although some authors have discussed the factors motivating firms to develop the internet channel, Coelho and Easingwood (2005) merely pay attention to the external factors and Hughes (2006) does not provide a clear classification. Harrison et al (2006) offer internal factors and this research supports their classification. In this research, several interviewees stated that the internal factors influence the channel development process substantially. When more and more reports show that e-commerce is growing steadily, an atmosphere inside the firm regarding to have a virtual channel might be formed. This thinking (me-too) might motivate managers to consider the necessity of catching up this online business opportunity and to do some preparation for the future. Therefore, this internal factor drives the development of the multi-channel structure. Nevertheless, in the beginning, the click rate is often low because customers are not aware of the existence of the web site. During this time, if the support from senior management is limited or an online sales amount is demanded, it might be difficult to continue maintaining this virtual channel. Several interviewees also agreed that the preference of senior managers is an important factor in the development of the internet channel. If senior managers consider the internet channel is necessary in the future, a multi-channel strategy is very likely to be conducted and furthermore, in a smooth way. This classification, internal and external factors, might offer a more holistic way to understand the development of the multi-channel system.

3. As mentioned in chapter 2 (section 2.5.2.1), cost reduction is one of the main advantages to the development of the multi-channel structure. For example, Steinfield et al (2002 b: 95) claim that "When virtual and physical channels are harmonized effectively, savings should become possible in several areas,

especially labour, inventory, and delivery costs". In addition, Hughes (2006), in a multi-case study, confirms that cost saving is one factor for the financial services company to develop the internet channel. Nevertheless, in this research, respondents do not mention cost reduction as a driver for them to develop the multi-channel structure. There might be two explanations for this phenomenon: (A) In this study, how to overcome the fulfilment issue is still a problem for many managers, especially for firms with tangible products. In order to fulfil the online order, manufacturers have to hire outside logistic companies and undertake the post-sales service by themselves. All these activities require more resources than before and can sacrifice a certain degree of profit. (B) To maintain the internet channel in good quality is not as cheap as many people expect, as respondents mentioned. Especially, in the initial stage, the sales amount from the internet is quite low but the expenditure to manage an internet channel with good quality is not cheap and it often erodes the margin of online sales. This study holds a different attitude toward the expectation of cost reduction compared with previous literature and hopes this point can provide more diverse thinking for further research.

4. The synergistic channel structure (Figure 2.4 in chapter 2) mentioned by Steinfield et al (2002 a b) is not found in this study. It seems that after large up-front investments in an effective web presence for internet based sales, a synergistic channel structure might require further investments through channel integration and coordination with physical intermediaries. It might be discussed that an extensive integration of channels might not be the most adequate multi-channel strategy and this type of channel design pattern is uncommon. This research suggests other types of multi-channel design patterns. Based on different stages of the product life cycle, firms might design their channel structure into different patterns, as mentioned in section 8.1.4. Some previous literature has mentioned the relationship between the stage of the product life cycle and the multi-channel structure. For example, Geyskens et al (2002) offer a proposition that the performance potential of an internet channel addition is positively related to product-demand growth.

Webb and Lambe (2007) also predict that the extent of channel conflict within the multi-channel system will increase gradually from the introduction stage to the decline stage of the product life cycle. This research offers a different connection between the stage of the product life cycle and the multi-channel structure. Hopefully this finding can make a contribution to knowledge of marketing channels.

5. This research puts emphasis on conflict and the resolution mechanism under a multi-channel circumstance and offers some empirical evidence. Multi-channel conflict has seldom been discussed in previous literature. As Webb and Lambe (2007:29) claim, "The relative lack of attention to multi-channel conflict is significant because previous research suggests that there may be important structural differences between the dynamics of single channel and multi-channel conflict". Furthermore, as mentioned in chapter 4 (section 4.4.1), it seems that limited research has been conducted in Asia to explore the internet channel motivations, the channel design patterns, and the conflict resolution strategies. Suppiah and Rose (2006) mention that the majority of conflict management studies represent a Western bias. They suggest that the preference to adopt conflict resolution styles might be different in Eastern and Western countries and more empirical research in Asia is required. This suggestion is taken and this research contributes an understanding regarding the conflict resolution from an Eastern view. However, the research has not allowed a comparison with Western companies. Further research is required of a comparative nature to understand more fully whether the findings of this research are indeed specific to Asian companies.

6. Compared with previous studies, in this research two more conflict resolution styles, communication and differentiation, were mentioned by interviewees. Communication and differentiation as conflict resolution mechanisms have seldom been discussed in previous literature but are two common conflict resolutions mentioned by managers within different firms and the stages of the product life cycle. Empirical evidence is offered in this study. These two

identified approaches can be considered as a complement to the existing literature regarding multi-channel conflict. Furthermore, scholars (i.e. Mohr and Sohi 1995) suggest that formal communication can contribute to a dealer's sense that information is complete. Formal communication can encourage the willingness of channel members to initiate and develop routines and procedures for communication. However, in this study, interviewees express a different attitude and it seems that in Chinese society, informal communication is more likely to be accepted widely by managers. This difference might help to identify the different preference of conflict resolution styles between Eastern and Western countries.

7. Several conflict resolution methods might be adopted at the same time. Furthermore, in this research, it seems that firms in the different stages of the product life cycle might not only design the multi-channel structure differently but also adopt different conflict resolution methods (Figure 7.6 in chapter 7). For example, when a manufacturer is in the growth stage of the product life cycle, the intermediary is important for them and the internet channel is considered as an assistive marketing channel. The firm might attempt to keep a harmonious relationship with the intermediary, and therefore, they would adopt some "smooth" conflict resolution approaches: communication, differentiation, avoidance, and accommodation. This point, the stage of the product life cycle and the adoption of the conflict resolution style, has seldom been mentioned in previous literature, hence this thesis makes a contribution to knowledge in the area of conflict resolution in the multi-channel structure.

8.3 Managerial implications

It is no surprise that manufacturers desire to develop their own internet channel. In this study, several respondents claim that they can sense the change of consumer behaviour. More and more customers are willing to search for product information online by themselves. Managers realize that creating an online channel seems to be

necessary. Meanwhile, e-commerce is a very popular issue in recent years, but the growth trend for online sales is hard to predict. In order to make a preparation for the future, managers have to bid on both sides and launch an online channel. By using this virtual channel, online customer behaviours and online customer service can be learned gradually. This research provides three suggestions (tangible/intangible products, undertaken channel functions for each channel, and internet channel conflict resolutions) for channel managers whose companies are considering the development of the internet channel. These three suggestions follow a time sequence: before, during, and after the development of the internet channel.

(1) **Tangible/Intangible products**: Before the development of the internet channel, channel managers should put particular emphasis on their product types—tangible or intangible products. It seems that for tangible products, especially the small packaged items, managers might face the fulfilment problem because the tangible product cannot be transferred electronically. As a manufacturer, the distribution task is often too trivial for them. This is a basic problem for e-commerce while it seems that many people ignore this point. As Geyskens et al (2002:102) mention, "Many firms attracted by the potential access to millions of customers and the relatively low costs of setting up the channel, have rushed to establish an internet channel". For firms with intangible products, the internet channel might be one of the most important channels in the future but for firms with tangible products, it seems that managers should wait for more evidence (i.e. the growth and achievement of e-commerce) to be accumulated. Furthermore, the support from top management should be considered by channel managers, when they attempt to develop the internet channel. Managers should make sure that they obtain enough support from top management. It is because in the initial stage, the sales amount from the internet can be low and the revenue and cost might not break even easily. Perhaps, to cooperate with other online platforms such as Yahoo shopping might be an alternative option.

(2) Undertaken channel functions for each channel: If channel managers make the decision to develop the multi-channel structure, the undertaken channel functions for each channel should be considered. How to design the multi-channel system and allocate channel functions for each channel is a critical issue. The internet channel might not perform all the channel functions. This issue has been discussed in previous literature and this study also supports this point. Nevertheless, this might not be a shortcoming. Instead, a suggestion for channel managers is that under different circumstances, managers can design their multi-channel system into different patterns. In other words, the internet channel can be considered as a flexible tool to make up the deficiency of the intermediary and some channel functions that intermediaries are unwilling or incapable to perform might be transferred to the internet channel. For example, the internet channel can be designed as an information transferring point to collect and provide accurate up-to-date information. The internet channel can be designed as a complementary sales channel to resolve some problems both for suppliers and intermediaries such as limited shelf space in the physical store. In the decline stage of the product life cycle, the internet channel can be utilized as a main sales channel to sell and make contact with end customers directly. This study offers a guideline for managers to think about the roles and undertaken functions for online and offline channels.

(3) Internet channel conflict resolutions: After the development of the internet channel, internet channel conflict is likely to happen. Nevertheless, as Schoenbachler and Gordon (2002:45) note, "Multi-channel marketers should not worry about channel cannibalization and companies should develop an organizational structure that minimizes channel conflict". Although there is not a standard procedure to guide managers regarding how to resolve internet channel conflict, this study offers some conflict resolution methods and might be considered as a guideline for channel managers. Two conflict resolution approaches, communication and differentiation, are identified in this research. These two approaches could be suitable for managers to resolve channel

conflict, especially under the multi-channel circumstance. A suggestion for channel managers is that during and after the development process, more formal and informal meetings and conversations should be arranged. Channel managers should explain this company policy not only to outside channel partners but also to inside staff. Furthermore, the online product line and price can also have some adjustments in order to segment online and offline channels. In addition, channel conflict is often complicated and several conflict resolution mechanisms could be adopted at the same time.

8.4 Limitations and suggestions for further research

8.4.1 Limitations

Every research has its limitations. In this research, with limited time and resources, the author could only interview 25 interviewees in one particular industry within one country. Although several managers in high positions, such as vice presidents, were interviewed, the number of interviewees might not be big enough to present a holistic view regarding the drivers of multi-channel development, the possible channel design patterns, and, the channel conflict resolution. This might be a natural limitation of qualitative research (Blaikie 2006) but the limited number of interviewees might constrain the generalization of findings. For example, as mentioned in chapter 6, firms which are in the introduction stage of the product life cycle were not found. The channel design pattern in this stage is not clear. Furthermore, this study only examines the perspective of manufacturers in the Taiwanese IT industry. However, the relationship between channel partners is a bilateral direction between channel members and the perspective from intermediaries is also important. The reactions from intermediaries regarding the development of the internet channel and channel conflict resolution should be explored in the future. In addition, opinions from managers in different industries and countries might be diverse. The IT industry may have special characteristics unique to the sector and therefore, the observed results may not be easily transferred to other contexts. A comparison of channel issues in different industries and regions should be conducted in the future. Besides, as a pure qualitative research, the statements from

interviewees are subjective and retrospective. This is also a natural limitation for qualitative research. Hence, in the future, more quantitative research is required and is necessary to confirm the findings in this research.

8.4.2 Suggestions for further research

After the research limitations, some possible directions for future research studies are suggested.

1. The development of the multi-channel structure including the internet channel can be divided into several different stages. For example, Chaffey et al (2006:162) divide the internet development into six levels: (1) no website planned, (2) company name only (i.e. name appearing on online yellow pages), (3) web pages offering basic company and product information, (4) simple interactive site where customers are able to search the site and make queries, (5) interactive site supporting online transaction with users, and (6) fully interactive site providing relationship marketing with individual customers. A reasonable prediction is that in different development stages the factors for manufacturers to develop the multi-channel structure might be different. In this research, the author only put emphasises on firms already with an online sales channel and transaction and further research can try to understand the reasons for companies to develop multi-channel structure in different adoption stages. A prediction is that in different internet adoption stages, the factors would be different.

2. An observation is found during the data collection process. It seems that several firms in the IT industry prefer to cooperate with outside online shopping platforms instead of developing their own online shopping channel. It means that the firms' official web sites merely offer some simple information such as company background or product information and hotlinks are offered for customers to connect to the outside online shopping platform. Firms do not take online orders by themselves and customers are

transferred to online intermediaries. Further research could try to realize the drivers for firms to cooperate with outside third parties instead of developing their own online sales channel.

3. It seems that the relationship between the stage of the product life cycle and the development of the multi-channel structure requires further studies. Görsch and Pedersen (2000) note that firms may choose to offer new products electronically and sell more established products through conventional channels. It is because new products usually create little profit or even demand additional investment, and thus traditional intermediaries might not have high carrying willingness. However, in another article, Tsay and Agrawal (2004 b) offer a further research issue and predict that manufacturers may utilize the physical distribution system to build market share for a new product. Getting quicker exposure through more channels may assist the diffusion process. When the product becomes established, the manufacturer might be less interested in sharing the profit margin with the physical intermediary. Hence, they might sell exclusively direct or in a multi-channel arrangement (channel conflict notwithstanding). This research supports the viewpoint of Tsay and Agrawal (2004 b) partly. In this research, firms in each stage of the product life cycle will add the internet channel but they might design their channel structure in different patterns. It seems that more research is still required. As Tsay and Agrawal (2004 a: 107) suggest, in the multi-channel structure, "The evolution of distribution strategy over the life cycle of a product appears to be an open research area".

4. According to Table 6.7 and 6.8 in chapter 6, it seems that the importance of the online channel is increasing, when the stage of product life cycle is shifting from the growth to the decline stage. On the other hand, the importance of the offline channel is decreasing, when the stage is shifting from the growth to the decline stage. Future research may try to examine that the importance of online and offline channels will be different in the different

stages of the product life cycle. The importance of channel can use the sales amount or the undertaken functions to measure.

5. Channel power is a common research issue in several previous marketing channel studies (i.e. Lusch 1976 a b; Brown et al 1983; Gaski 1984; Ganesan 1993) while not discussed in this research. Geyskens et al (2002) states that when companies have little channel power, they are less likely to add the internet channel because opportunistic behaviour may arise on the part of distributors. In a survey within the European newspaper industry, Geyskens et al (2002) confirmed that the performance potential of an internet channel addition is positively related to the firm's channel power. In this research, an observation is that even if the company (i.e. Mi Company) has relatively little channel power it will add the internet channel. Moreover, the company (i.e. Dl Company) that has relatively strong power uses the internet channel in a restrictive way and the internet channel is only designed as an information provider and receiver. It seems that more research should be done to study the issue of channel power in the multi-channel structure.

6. In this research, ineffective communication is considered as a source of channel conflict and further research should be done to explore whether the ineffective communication will fuel the internet channel conflict between channel partners. A research proposition is that the more ineffective communication happens between channel partners, the more internet channel conflict arises. Furthermore, two more conflict resolution styles, communication and differentiation, are identified. The effectiveness of these two approaches should be confirmed by more empirical research. A possible prediction is that the communication and differentiation approaches are negative related to the internet channel conflict within channel partners. More quantitative research should be done to test these two propositions.

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Appendix

The development of the multi-channel structure and the management of channel conflict

Name   *Company and department*   *Date*

(A) *About you*

Can you describe your company profile (such as products or main customers) generally?

--Can you describe your position in your company? How long have you held this position?

(B) *Current channel structure*

Can you describe the marketing channels used by your company and the reasons for their use?

--Does your company have any previous experience of direct sales channels? If so, please explain in detail.

(C) *Driving to develop the internet channel*

What are the factors encouraging your company to develop the internet channel?

-- Are there any internal/external factors particularly help the development of the internet channel?

(D) *Channel function*

Can you describe the main channel function, value, and role for each channel?

--Are there any particular expected channel functions for the physical/virtual channel?

(E) Sources of conflict and conflict management

Are there any disagreements or arguments between channel members after the development of the internet channel?

--In your opinion, what are the sources of their disagreements or arguments?

How does your company do to minimize conflict arising from the development of the internet channel?

--Has your company ever tried the approach (avoidance, accommodation, compromise/ collaboration, or competition) to resolve the internet channel conflict?

(F) Supplement

Are there any further issues which you feel are important for the understanding of the development of the multi-channel structure and the management of channel conflict?

Appendix 2: Semi-structured interview guide (in Chinese)

The development of the multi-channel structure and the management of channel conflict

Name   Company and department   Date

A) 關於您

可以請您介紹一下您的公司嗎（例如 主要的產品及顧客對象）？

-- 可否 請您描述一下 您的職稱及主要負責事項？ 請問您負責此項工作有多長的時間？

B) 目前的通路架構

能否請您談一下貴公司目前所擁有的各種行銷通路？

--貴公司之前是否有管理直接通路的經驗（例如直營店, 電視銷售, 郵購）？ 如果有可否談談其管理經驗

C) 採用網路行銷的動機

請問貴公司採用網路行銷的動機因素為何？

--請問是否有任何特別的內部或外部的因素有助於電子通路的建立？

D) 通路功能

能否請您談一下貴公司所擁有的各種通路的定位及功能？

--對於電子及實體通路是否有不同的功能期待？

E) 通路間競爭之起因 及解決方案

請問當網路通路建立之後,通路伙伴是否曾經抱怨或是表示過不同的意見？

--對於您來說,您覺得可能的爭執原因為何？

當建立網路行銷通路之後,如果 中間商抱怨或不同意見請問 貴公司會如何處理這些反彈？

--您的公司是否曾經使用過 (避免, 配合, 妥協/合作, 或競爭) 的方式來解決通路之間的衝突？

F) 補充

請問您是否對於本次的訪談特別是關於電子通路的建構及通路衝突的解決有任何要補充說明的地方？