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Five Free-Willing Hypotheses in Understanding Channel Relationships

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Abstract: *The channel relationship has become a serious study for majority of the corporates. In this fast changing market, where products and technology have got low life span, there is a need for a long term and sustainable relationships with its channel partners to properly strategize and position their brands in this market place. In this study five free-willing hypotheses are developed with the individual level understanding of relationships, and they are tested with the secondary data available on channel relationships. This study will help in identifying different determinants of channel relationships and their managerial implications.*
Keywords:*channel relationships, channel partners, sustainable relationships, determinants*

I. Introduction

Earlier paradox was that, the producers or manufacturers who own the product will have complete power in deciding the market dynamics. Over years they enjoyed their freedom and established their markets and it was fair easy to choose a channel member, from many who used to compete. Slowly this paradox shifted towards channel partners and now they are able to exercise power. Companies used to have vertical or linear structure of relationship with the channel partner. Now with the changing scenario, multiple links to protect relationship with the channel partners has become the need of the hour.Sustainable relationships will foster greater possibilities for companies to deliver value to their customers. The channel partners got huge opportunity in different companies offering multiple brands. The me-too's are offering similar and better products and wooing them with lucrative discounts and incentives. In this perspective the term relationship became more prevalent and needs a serious attention in establishing channels.

Objective of the Study:
The main objective of this research is to understand various determinants which influence channel relationships.

Methodology

De-mystifying relationship with a common sense approach or a basic philosophy of understanding from roots, may give corporates with determinants of relationship. Proper understanding of relationships in business parlance, may give companies an opportunity to adjust or leverage their strategies in developing channel relationship. In this study five free-willing hypotheses developed on the basis of individual relationships and are tested to understand channel relationships.

1. Channel relationships are over-rated in business parlance.
2. Channel relationships are not equally important for all companies.
3. Companies already have significant knowledge in managing channel relationships. However, they never have enough of it.
4. Dealing with uncertainty is bigger challenge, rather than dealing with channel relationships.
5. Channels relationships are not permanent in nature.

The above hypotheses are tested with the secondary data drawn from various studies conducted earlier on channel relationships.

II. HYPOTHESIS I: Channel relationships are overrated in business parlance.

2.1.1 In the study of interorganisational coordination mechanisms affect the parties'market orientation, the leader's use ofauthoritative mechanisms of coordination to managethe relationship has been found to be an antecedent of the target's improvement in those behaviors associated with being oriented to the market. Theresults demonstrate that the use of authoritative coordination mechanisms help the targetto achieve higher levels of market orientation in channel partnerships(M. Herna´ndez-Espallardo, 2003).
2.1.2 Specifically, procedural fairness is found in Kumar, Scheer, and Steenkamp (1995) as positively related to a vulnerable party's perception of better relationship quality. As a consequence, the target's perception of the

quality of the relationship improves, and also its propensity to collaborate in value-creating activities as a consequence of the target's acceptanceof the source's goals (Renn, 1998).

2.1.3 Companies are highly recommended to seek more knowledgeable partners, who are willing to interchange proprietary information and develop the target's capabilities through training ((M. Herna´ndez-Espallardo, 2003).

2.1.4 Relationships between buyers and sellers have existed since humans began trading goods and services. These relationships developed in a natural way over time as the buyers and sellers developed trust and friendships supported by quality products and services. Today these relationships have become "strategic" and the process of relationship development is accelerated as firms strive to create relationships to achieve their goals (David T. Wilson, 1995).

III. HYPOTHESIS II: Channel relationships are not equally important for all companies.

3.1.1 Today, organizations are highly autonomous in their choices of information technologies and pair-wise trading partner agreements. Widespread adoption of EMPs(Electronic Market Places) as intermediaries in interorganizational relationships could lead to much greater levels of standardization and/or IT outsourcing(Christiaanse, Ellen and Markus, M. Lynne, 2002).

3.1.2 Many sales transactions take place in the context of preexisting relationships between buyers and sellers. The nature of this relationship affects the choice of a transaction governance mechanism. Particularly in markets characterized by consolidation on the supply side, the demand side, or both, buyers and sellers may engage in long-term contractual relationships with each other. Fears of alienating suppliers may lead buyers to engage in partnership arrangements with suppliers (Buzzell and Ortmeyer 1995), even when market-like arrangements might be more advantageous (Kapoor and Gupta 1997).

3.1.3 The dyadic B2B sales transactions exist in the context of extended supply chains with at least three parties, for example, buyer, supplier, and customer, or a company with two or more supplier tiers. Organizations can run into serious problems by focusing exclusively on pair-wise relationships (Christiaanse, Ellen and Markus, M. Lynne, 2002).

3.1.4 An especially interesting aspect of power in supply chain relationships is its asymmetry. Companies usually have more power over their suppliers than over their customers, according to resource dependence theory (Conner and Prahalad 1996). However, situations exist in which a supplier of scarce and critical inputs has greater power over its customers (Kraljic 1983).

3.1.5 According to the theory of political economy, a social system comprises interacting sets of internal and external economic and socio-political forces that affect collective behavior and performance (Stern and Reve 1980).

The main concepts of the theory are, according to Stern and Reve:

- Internal economy: economic forces within the channel, such as transaction form, or vertical economic arrangements and decision mechanisms used to decide the terms of the transaction
- Internal polity: socio-political forces within the channel, such as power/dependence balance, cooperation, and conflict
- External economy: the prevailing and prospective economic environment in which the channel exists
- External polity: the external socio-political system in which the channel operates.

3.1.6 In negotiations between a retailer and a manufacturer, the manufacturer is in a better bargaining position when consumers are informed relative to being uninformed. In the event that negotiations break down, this retailer will not carry this product and an informed consumer who prefers this product will first visit another retailer instead, to buy the manufacturer's product(Anthony Dukes, Esther Gal-Or, KannanSrinivasan, 2006).

3.1.7 The bargaining relationship between manufacturer and retailer, are not equal. Specifically, the low-cost retailer is in a better bargaining position vis-à-vis the manufacturer and is thus able to get a better price than the weak retailer(Anthony Dukes, Esther Gal-Or, KannanSrinivasan, 2006).

3.1.8 Manufacturers need not always fear the retailer with the relatively strong channel presence. Rather, the efficiency gains of the dominant retailer and the corresponding channel power it gains can serve to aid market forces toward shifting the distribution of a manufacturer's goods toward more efficient outlets(Anthony Dukes, Esther Gal-Or, KannanSrinivasan, 2006).

IV. HYPOTHESIS III: Companies already have significant knowledge in managing channel relationships. However, they never have enough of it.

4.1.1 During the past three decades, tremendous strides have been made in our understanding of how firms should organize and manage their channels of distribution. Still, we have barely touched the surface of all the managerial issues that need to be addressed. A variety of research needs still exist regarding constructs and issues examined in prior channels research. Furthermore, many issues of managerial importance relating to the organization and management of channels of distribution have received no attention in empirical research(Gary L. Frazier 1999).

4.1.2 Excellent progress has been made in our understanding of behavioral relationships in channels of distribution since the first major empirical studies were published in the area in the early 1970s (cf. El-Ansary and Stern 1972; Hunt and Nevin 1974; Lusch 1976; Rosenberg and Stern 1971).

4.1.3 The knowledge that has accumulated on how interfirm power originates and is then applied, how control of the channel relationship is facilitated, and what intrachannel conflict and channel member satisfaction are based on is impressive. Recent efforts to better understand how strong,long-term channel relationships develop—including the impact of trust, commitment, and relational norms on channel interaction—are noteworthy (cf. Anderson and Narus 1990; Anderson and Weitz 1992).

4.1.4 While the existing knowledge base provides a reasonable foundation, a variety of issues still exist regarding constructs and issues examined in prior research. The role of power in channel relationships is often confused. Interfirm monitoring efforts have barely been touched upon(Gary L. Frazier 1999).

4.1.5 Intrachannel conflict and its impact on long-term channel relationships have been largely ignored of late. The relationship marketing paradigm as applied to distribution channels has been pushed beyond its natural boundaries. Important factors likely to shape channel integration, distributionintensity, and bureaucratic structuring remain unexplored. The use and management of multiple channels have been barely touched on. Physical distribution processes and technologies have not received their due attention in research on channel organization and management(Gary L. Frazier 1999).

4.1.6 Power remains a misunderstood construct in channels of distribution research. Confusion still exists among the power, communication, and control constructs in both a conceptual and operational sense. Largely because of this confusion, many researchers embracing the relationship marketing paradigm have criticized power as having negative effects on channel relationships (Gary L. Frazier 1999).

V. HYPOTHESIS IV: Dealing with uncertainty is bigger challenge, rather than dealing with channel relationships.

5.1.1 The route to market has therefore become a key competitive battleground in many industries,with different players trying out different channels or channel combinations in an attempt to reduce costs, improve customer satisfaction or both. A number of researchers have suggested that in such dynamic environments competitive advantage is transient, rather than sustainable (D'Aveni 1994). Managers must therefore concentrate on renewing rather than protecting their sources of competitive advantage (Rindova and Kotha 2001).

5.1.2 Customer relationships sustained across multiple channels will generally need to be underpinned by a CRM system. This may need to be made available to indirect channel partners as well as direct channel staff. An organizational structure that is strongly built around channel silos may have weaknesses if the customer relationship is sustained across multiple channels. A matrix structure or a structure around customer groups may be worth considering.

5.1.3 Similarly, metrics and rewards can be in tension with a multi-channel strategy if they encourage staff or channel partners to keep the customer within a single channel (Wilson, H and Daniel, Elizabeth 2007).

5.1.4 Firms battle for survival by seeking opportunities in new markets due to stagnating demand in current markets, influx of foreign suppliers to domestic markets, and increased pressure from stockholders and top management to maintain growth rates and profits. In this increasingly competitive environment, where the bar on customer service continues to be raised, and cost containment pressures are unrelenting, manufacturers are learning that initiating, building, and maintaining successful relationships with current and new industrial distributors are essential in order to succeed in industrial markets (Palmer, 1997; Rao and Perry, 2002; Walter andGemu¨nden, 2000).

5.1.5 Initiating a channel relationship with a distributor in a new market represents significant risks and commitments as well as substantial long-term rewards. We hope that our findings willstimulate further investigations to illuminate the challenges and tasks that channel members face in undertaking and managing such relationships(Amit K. Ghosh, W. Benoy Joseph, John T. Gardner and Sharon V. Thach, 2004).

VI. HYPOTHESIS V: Channels relationships are not permanent in nature.

6.1.1 Relationships probably develop incrementally. For example, a small investment in the relationship by one party might increase the trust of the other party. With greater trust, the other party makes a larger investment that increases the trust of the first party. Thus the empirical research on channel relationships characterizes the relationships at one point in time but doesnot provide much insight into the factors leading to the development of the relationship or the effectiveness of the relationships (Barton A. Weitz, Sandy O. Jap 1995).

6.1.2 Two studies, Heide and John (1988) and Buchannan (1992), have investigated the performance of conventional channel relationships, and both of these studies focused on the impact of dependency balancing as opposed to the impact of relational norms and attitudes onrelationship performance.

6.1.3 Risk reduction is a potential benefit of channel relationships (Achrol and Stern 1988). However, the use of a normative control mechanism to establish long-term channel relationships might increase uncertainty in returns because it reduces flexibility. The norms governing therelationship commit the parties and thus one of the parties might face an opportunity loss by not being able to alter its relationships in response to a change in its environment(Barton A. Weitz, Sandy O. Jap 1995).

6.1.4 Channel members face two sources of uncertainty or risk in making these relationship investment decisions (Helper and Levine 1992). First, the parties in the relationship might not realize a fair return on their investment. The relationship might not increase profits by reducing the cost or increasing the benefits to end users or reduce uncertainty in supply or distribution. Second, even if the investments increase channel effectiveness, a specificchannel member might not receive its fair share of the increased risk-adjusted returns. The first source of uncertainty is associated with the "size of pie" produced by the relationship, whereas the second source of uncertainty is associated with how "the pie will be divided" between theparties in the relationship(Barton A. Weitz, Sandy O. Jap 1995).

VII. Conclusion

There are a limited number of empirical studies of buyer-seller relationships, but they share many variables in common. Indeed, models of channel relationships also use many of the same variables to predict channel relationships. Extended List of Relationship Variables(David T. Wilson, 1995) are Commitment, Trust, Cooperation, Mutual Goals, Interdependence/Power Imbalance, Performance Satisfaction, Comparison Level of the Alternative, Adaptation, Non-Retrievable Investments, Shared Technology, Summative Constructs, Structural Bonds and Social Bonds. Implementation of relationships requires changes in corporate culture and reward systems toreinforce the behaviors that generate trust, mutual goals and adaptation and the other critical variable in the creation of a strong hybrid relationship. Looking to the future, individual buyer-seller relationships are becoming part of competitive systems or networks as firms strive to create competitive advantage through developing a set of relationships that creates value and is difficult to duplicate.

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