A COMPARATIVE ANALYSIS OF SELECT CHANNEL MANAGEMENT PRACTICES IN FIRMS FROM FIVE INDUSTRY GROUPS

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Abstract

Data compiled from 100 manufacturing firms representing five industries indicates that several channel management practices differ significantly between those firms which have experienced an increase in wholesale sales through their own sales branches and offices and those firms which have not. Several implications are drawn in terms of the direction and extent of recent changes in management practices involved with the channels of distribution.

Introduction

An examination of the most recent report of the U.S. Census of Business, Wholesale Trade Statistics (see Table 1), reveals several interesting trends. For instance, among the types of wholesale institutions depicted in Table 1, the percent of total wholesale sales attributed to assemblers and agent-brokers have, with only one exception, declined over eight census reports. Similarly, merchant wholesalers and petroleum bulk stations have both evidenced cyclical fluctuations in the percent of sales handled. Only one wholesale institution --- sales branches and offices (SB&O) --- has evidenced a consistent pattern of growth for every time period without exception. In fact, since 1929, SB&O's account for the largest, single growth pattern --- from 24.2% of total sales to 35.2% in 1972.

TABLE 1
PERCENT OF TOTAL SALES BY FIVE TYPES
OF WHOLESALE INSTITUTIONS BETWEEN 1929-1972*

TYPE	PERCENT OF TOTAL SALES 1929	1939	1948	1954	1958	1963	1967	1972
Merchant Wholesaler	43.7	42.8	41.9	43.0	42.7	43.9	44.9	48.6
Sales Branch and Office	24.2	24.5	27.7	29.6	30.7	32.6	34.2	35.2
Petroleum Bulk Station	3.6	6.8	6.4	6.8	7.1	6.1	5.4	4.6
Agent Broker	21.8	20.3	18.2	16.7	16.3	14.7	13.3	10.4
Assembler	6.7	5.6	5.8	3.9	3.2	2.7	2.2	1.2

* U.S. Census of Business, Wholesale Trade Statistics, 1972.

Perhaps even more interesting than the trend itself, however, are the implications in terms of the associated changes in manufacturers' channel practices. In other words, in light of previous research which has identified the need for longitudinal examinations of management practices in the channels of distribution, [1, 3, 5], the most recently identified patterns provide an especially useful backdrop for further analysis. Several questions can be posed - the most important one for this research, however, is directly associated with the increase in sales accounted for by SB&O's. Specifically, the research question appears as:

> Do firms reflecting increased wholesale sales through sales branches and offices exhibit any characteristic patterns which significantly distinguish them from those firms which do not?

If characteristic patterns can be distinguished between groups of firms representing different degrees of dependence on SB&O's, this study will have accomplished several objectives.

Initially, on the basis of a comparative analysis of selected channel management practices, long term shifts and emerging patterns in manufacturer's channel management practices should be readily identifiable. Moreover, it may be possible to further examine causes for such shifts or patterns. For instance, if firms which have relied increasingly on SB&O's exhibit a characteristic pattern of more frequently evaluating overall channel performance, then it might be argued that the decision to utilize SB&O's was actually intended by the manufacturer to affect greater control in the channel - one of the traditionally ascribed roles of SB&O's in the first place. Similarly, other characteristic patterns can be examined and compared on the basis of the previously suggested dichotomy of changes in SB&O's sales, to further explore plausible causal linkages in the managerial practices of manufacturers. Thus, this study is essentially designed to provide an examination of the channel management practices of select manufacturing firms.

Method

A Framework - To facilitate the identification of timely and relevant marketing channel decision variables, the initial phase of this research required the formulation of a basic, conceptual framework. Toward this end, Kotler's [2] framework for channel decisions seemed to be a viable starting point. As a result, the managerial functions of designing, planning, organization, and control as they relate to marketing channels, were included as the principal categories in the framework.

Sub-topics in each of these categories (i.e. dimensions or measurable attributes), were chosen on the basis of a two-phase process. First, several potential dimensions representing all four managerial functions were compiled. For instance, in terms of evaluating a planing dimension, the following type of question was applied: "Which channel objectives best coincide with your channel program? (1) To provide an economic and satisfactory movement of goods between production and consumption, (2) To minimize the costs of distribution, etc."

Second, interviews were arranged and conducted with either the marketing manager, sales manager, or president of fifteen firms representing five industries.[1] During these interviews, executives were requested to examine all of the dimensions compiled for each category and to select all of those (or add any of their own) which would best reflect the extent to which each characterized the managerial functions being performed in their own marketing channel activity. Thus, the dimensions researched and discussed in this article and presented as sub topics of the framework, represent only those considered relevant and valid by a majority of the executive group.

Participating Industries - In order to approach a degree of comprehensiveness in an examination of the research questions and since data for this study came from a broader investigation of channel management practices, it was considered imperative that the ultimate selection of firms reflect a cross-section of industrial classifications. Such a cross-section would minimize the selection of firms which either consistently utilized the same intermediary-types in their daily operations or represented similar historical developments in terms of channel compositions and dynamics.

Thus, subsequent to a review of the Standard Industrial Classification Codes, five industries were selected (See Table 2). In light of selection objectives, each can be seen to represent different mixes of intermediaries with respect to the dollar volume of sales accounted for by agent wholesalers, merchant wholesalers, and manufacturers' sales branches and offices.

For instance, even though the Motor Vehicle and Drug industries typically rely on manufacturers' sales branches and offices to conduct approximately 70% of the dollar sales volume, the proportion of sales volume accounted for by agent and merchant wholesalers is not only highly discrepant between these industries, but continuing to move in opposing directions. The Piece Goods, Notions, and Apparel and the Confectionary industries were selected on the basis that approximately half of their dollar sales volume was accounted for by

TABLE 2
FIVE INDUSTRY GROUPS
SELECTED FOR THIS RESEARCH

Industry
Motor Vehicles
Confectionery Merchandise
Drugs, Drug Proprietaries, and Druggist Sundries
Piece Goods, Notions, and Apparel
Farm and Garden Machinery and Equipment

Source: U.S. Bureau of the Census, U.S. Census of Business-Wholesale Trade, (Washington: U.S. Government Printing Office, 1929, 1939, 1948, 1958, 1963, 1967, 1972).

merchant wholesalers, thus contrasting directly with Motor Vehicle and Drug industries. Additionally, within the Piece Goods and Confectionary industries, the proportions of sales accounted for by agent wholesalers, and manufacturers sales branches and offices again were adequately divergent to justify selection for this study. Finally, the relative stability of the intermediary mix in the Farm and Garden Machinery and Equipment industry over the past fifty years presented the opportunity to include manufacturers' with well-entrenched channel practices. Thus, any cross-sectional comparison of firms representing different rates of sales through SB&O's, will reflect the pooled effects of several different industries.

Data. A mail questionnaire served as the primary data collection instrument. A total of 75 firms from the five industries were identified as evidencing a recently increased percentage of wholesale sales through SB&O's while a total of 25 firms were identified as maintaining SB&O sales status-quo.

Research Findings

As descriptive research, the findings have been compiled in tabular form. Each of the four managerial functions will be examined independently in terms of the dimensions chosen to represent them.

Channel Planning. Two dimensions of marketing channel planning were examined: the recognition of overall channel objectives, and the formalized statements of channel objectives. In terms of the first dimension, each responding firm was asked whether or not his/her firm stated (in writing) specific channel objectives. As indicated in Table 3, (See Variable 1, Stated Objectives), approximately 62% of the firms which evidenced an increase in wholesale sales through SB&O's indicated that channel objectives were stated in writing. In contrast, only 12% of the firms whose wholesale sales did not increase through SB&O's indicated that such written objectives existed. Thus, apparently some form of association exists between these firm's success with SB&O's (or at least increased sales), and the recognition of channel objectives. (Significant at the $\alpha = .001$ level). While the precise direction of a causal link obviously cannot be pinpointed on the basis of this data analysis, the nature of the planning process would suggest that the increased usage of SB&O's was dependent and subsequent to the specification of channel objectives.

[1]The five industries represented were selected independently of the five industries utilized in the subsequent data collection.

TABLE 3

VARIABLE RELATIONSHIPS BETWEEN FIRMS EXPERIENCING INCREASED SB&O SALES AND FIRMS EXPERIENCING NO CHANGE IN SB&O SALES

Variable Categories	Firms: SB&O's Increasing Sales	Firms: SB&O's Not Increasing Sales	Computed χ^2	d.f.
(1) Recognition of Stated Channel Objectives:				
(a) Yes	34	3		
(b) No	21	22	17.31*	1
(2) Frequency of Channel Evaluation:				
(a) At least 4 times per year	46	8		
(b) At least 2 times per year	6	7	10.46**	3
(c) At least annually	14	5		
(d) Never	7	5		
(3) Position Charged With Channel Responsibility:				
(a) Corporate Level Sales Manager	26	10		
(b) Marketing Manager	23	6		
(c) Corporate Planning Staff	13	6	- Not Computed -	
(d) Marketing Channel Manager	3	0		
(e) No Position Charged	10	3		
(4) Size of Firm:				
(a) Small	28	14		
(b) Medium	19	6	3.74	2
(c) Larger	26	4		

*Significant at the α = .001 level
**Significant at the α = .02 level

To further explore this association, the second dimension of planning, the specification of precise objectives, was provided to permit a cross-comparison item-by-item. However, in light of the extremely small number of firms (12%) which were categorized as evidencing both no increase in sales through SB&O's and no recognition of stated objectives, additional statistical analyses were not possible.

Channel Evaluation. One dimension of marketing channel evaluation was examined: the frequency of formalized channel evaluations. In lieu of a highly subjective measure such as manufacturer's perceptions of their evaluation procedures, a surrogate measure of evaluation (i.e. frequency) was utilized. While such a measure necessarily involves several weaknesses (e.g. the extensiveness of such reviews is not considered), the measure would nevertheless, distinguish between firms which actually performed some form of evaluation and those that did not.

In terms of the frequencies of evaluations, responses were categorized as either: at least 4 times per year, at least 2 times per year, at least annually, and never. As a result, the χ^2 statistic for the cross-tabulation was significant at the α = .02 level. Consistent with the previous findings, firms which experienced an increase in sales through SB&O's also were involved in some form of channel review process more frequently. Specifically, over 63% of the firms experiencing an increase in sales were involved in a channel evaluation at least twice per year in contrast to only 32% of the firms not experiencing sales increase. The corresponding differential at the other extreme (i.e. never conduct a channel evaluation), was not as pronounced, although a proportionately greater number of firms not experiencing sales increases through SB&O's also did not conduct or become involved with any formal channel evaluation.

Channel Organization. The third managerial function was operationalized in terms of the extent to which specific organization titles were recognized regarding channel management. This dimension was included as a follow-up on the recognition of formally stated objectives. The purpose was to uncover the extent to which firms actually accomodated channel management through their organizational structures (i.e. how committed to channel management were they?).

Four titles were provided by the responding firms: Corporate Level Sales Manager, Marketing Manager, Corporate Planning Staff, and Marketing Channel Manager. For the purpose of analysis, a fifth category, No Position Charged was also included. Unfortunately, due to the small sample size of firms not experiencing sales increases (n=25), further statistical analysis via χ^2 would be inappropriate. Moreover, an examination of the response-pattern frequencies (See Table 3) did not illustrate any major discrepancies in terms of either type of firm utilizing a special position more or less often than other firms. The only noteworthy difference might be that none of the firms experiencing sales status-quo through SB&O's utilized a position officially titled Marketing Channel Manager. However, such a conclusion is indeed tenuous from a statistical standpoint.

Size of Firm. The final dimension included in this research involved the size of the firm in terms of gross sales. Firms with sales in excess of $4 million were classified as larger, less than $4 million but greater than $1 million were classified as medium, and firms less than $1 million were classified as small [4]. The concern at this point was whether or not the firms experiencing increasing SB&O sales were simply larger firms, and therefore capable of supporting larger and more diverse intermediary-mixes. If such were the case, then the previous analyses might very well be viewed as generating spurious results. For instance, the larger the organization, the more probable it would seem that some form of written objectives exist and formed evaluations of channels are conducted. Thus, this final portion of the analyses was viewed in large part as providing justification for the earlier comparisons.

Interestingly, the computed chi-square was not significant indicating that the firms experiencing increased sales through SB&O's were not characteristically different in size from those firms which did not experience such a change in sales. This finding suggests that the distinguishing phenomenon under investigation is not size-of-firm specific. In fact, this finding and the data collection method employed (i.e. combining firms in five diverse industrial classifications), would indeed suggest that the earlier findings must be viewed in association with the level of sales attributed to SB&O's.

Discussion

An interesting and new pattern of managerially-oriented practices associated with the channels of distribution has been uncovered in this research. Firms experiencing increased sales through SB&O's were empirically shown to exhibit characteristic differences in terms of this recognition of formally stated channel objectives and the frequency with which channel evaluations were performed. Although the existence of a causal link can only be suggested, there would definitely appear to be some association between successful and growing distribution patterns (i.e. those not exhibiting similar characteristics). Whether increasing sales provides a greater opportunity to formally consider channel management practices or whether greater attention to channel management practices provides the opportunity for greater sales are both questions which were not addressed by this research. They certainly represent the most important consideration for future research, however.

As exploratory research, a phenomena has been identified relative to managerial participation by manufacturers in the channels of distribution. Unfortunately, the inability to identify the direction of causality greatly limits the extent to which practically-oriented implications can be drawn. Suffice it to suggest that greater manufacturer (or designer) involvement in the channels of distribution would seemingly and logically be a necessary condition for improved channel operations. If the managerial planning process is a valid prescription for achieving operating objectives, then it must follow that increases in sales through SB&O's is the result of planned and practiced managerial activities --- in this case by manufacturers across several industries.

The fact that firms from several different industries were represented, however, is not to imply that future research along parallel lines should not isolate and examine similar industry-specific phenomena. It is entirely possible that channel management practices and activities vary significantly between as well as across industries. Owing to the exploratory nature of this research, no attempt was made (nor was it possible given the data here), to differentiate intra-industry responses. However, before any comprehensive set of prescriptive channel management practices can be identified, the operating characteristics of existing channels of distribution will have to be more fully explored --- both in intra- and in inter-industry levels. This research has attempted to take yet another step.

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