TILBURG UNIVERSITY

Manufacturers involved into a channel conflict with retail partners

Bachelor Thesis

Marketing

Management

Manufacturers; do not change your direction to another channel without creating a win-win strategy with retailers to keep your head above water!

<u>BACHELOR THESIS MARKETING</u>

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General topic	: Manufacturer versus retailer power
Coach	: A.M. ter Braak MSc
Date	: June 11th 2010

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General information

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Abstract

Generally, this thesis looks at the influence of the marketing mix tools (Price, Product, Place and Promotion) and their strategies to the level of channel conflict reduction, when a manufacturer adding a new (online) channel to their supply chain. Furthermore, this thesis is concerning the impact of consumer's price sensitivity on the effectiveness of pricing strategies to reduce (online) channel conflict. A literature review indicates that nowadays channel conflict is often discussed from a retailer's perspective rather than from manufacturer's perspective.

A major finding of this thesis shows that there are similarities between marketing strategies, which manufacturers use to reduce or avoid channel conflict in general (in the physical environment) also can be used to reduce channel conflict which is caused by addition of an online channel by the manufacturer. By using an equal pricing strategy, different brand names, diverting orders or referring consumers to retailers and make more use of the Internet and consumer databases for promotion activities, manufacturers can reduce channel conflict in both situations (online and offline). In addition, an interesting paradox rises in determining prices versus the traffic of demand of (non-) price sensitive consumers. Finally, manufacturers have to involve, communicate and collaborate with their retailers to create a win-win channel strategy to ensure that both parties can benefit from higher profits.

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1. Introduction of subtopic

Chapter one of this bachelor thesis will describe the problem background, the problem statement and the research questions, which explain the problem statement in detail. In addition, the academic and managerial relevance of this thesis will be discussed. The independent variables (marketing mix P's) and dependent variable (level of (online) channel conflict) with their moderator (level of price sensitivity of consumers) lined out in the conceptual framework.

§ 1.1 Problem background

Research of the Dutch Central Statistical Office (CBS, 2009) about the Dutch online shopping population shows us that the world of online shopping is changing. Nowadays, nearly 75% of the 11.8 million Internet users in the Netherlands said they had purchased a product or a service online. Just over 66% of them are frequent online shoppers. They had bought a product or service online in the three months before the survey about the Dutch online shopping population took place. The survey also examined that convenience, time saving and shopping when it suited the consumer are the main reasons for the growth in online shopping. In addition, the Dutch Central Statistical Office stated also that lower prices and a wider range of products and services to choose from are still important reasons for online shoppers. Nearby, 'The Multichannel Monitor 2009' (2009) shows us that (online) consumers nowadays are strongly prone to switch from an offline channel to an online channel or vice versa.

From a manufacturer perspective it is examined that this huge growth of online shoppers as stated before brings more marketing opportunities for manufacturers (Cattani, Gilland, Heese & Swaminathan, 2006; Tsay & Agrawal, 2004). As a result, many manufacturers ask themselves whether they should rely on their retailers, whether they should sell directly to end-consumers or in some situations even pursue to choose both approaches in parallel. In the latter case, a manufacturer may be both a supplier to and a competitor of an existing retailer, which can result in a channel conflict. For example, when the manufacturer adds a new (Internet based) distribution channel (e.g. a web shop), it provides an opportunity to increase manufacturer's profits and decrease its costs. In addition, they concluded that information about consumer's buying behavior becomes more accessible for manufacturers and the marginal costs of reaching these consumers may be more negligible. Possibly, in this case channel conflict occurs when a manufacturer selling its own products directly to end-consumers across the Internet.

To avoid or reduce this channel conflict, manufacturers can make use of non-coercion power (Lusch, 1976; Goodman & Dion, 2001). The more manufacturers make use of non-coercion power approach to its retailers in advance, the more the level of conflict will decline, which contributes to a positive effect on commitment in the manufacturer-retailer's relationship.

In a progressive and more detailed manner, manufacturers can also make use of many marketing strategies to avoid channel conflict or to reduce the level of channel conflict. For example, Webb (2002) stated that marketing actions as not pricing manufacturer's products online below retail prices, diverting fulfillment orders to retailers and providing only product information on the manufacturer's website without taking orders could reduce channel conflict. Therefore, this thesis will discuss the importance of marketing strategies in general (4P's: Price, Promotion, Place and Product) to reduce channel conflict. In addition, this thesis focusing on channel conflicts between manufacturer and its retailers into the business to consumer market caused by addition of a direct (Internet) distribution channel by the manufacturer.

Dutordoir (2005) named another point of interest for manufacturers adding a direct Internet distribution channel. Namely, consumers are more price sensitive for small price changes in more efficient markets. Interestingly, it has been examined that this occurs most of the time when many substitute products are available and when many retailers offer these substitutes. Furthermore, he argues that lower searching costs and switching costs of consumers can result into more fluctuations in the final consumer price. In short, consumers are very price-conscious when shopping on the Internet. Therefore, this thesis will also try to provide new insights concerning price sensitivity of consumers as moderator, because this may influence (online) pricing strategies the most in reducing channel conflict.

§ 1.2 Problem statement

Discussing the background of the problem, results in the following problem statement. This bachelor thesis will examine the problem statement as formulated below.

"To what extent can the determinants of the marketing mix (price, place, product & promotion) be used to reduce the level of online channel conflict between the manufacturer and the retailer and how is this relationship moderated by price sensitivity of consumers?"

§ 1.3 Research Questions

In order to answer the formulated problem statement, the following research questions are formulated. Answering the research questions will answer the problem statement as described at paragraph 1.2.

1.3.1 *What causes a channel conflict in general and which marketing strategies can manufacturers use to reduce or avoid this kind of channel conflict?*

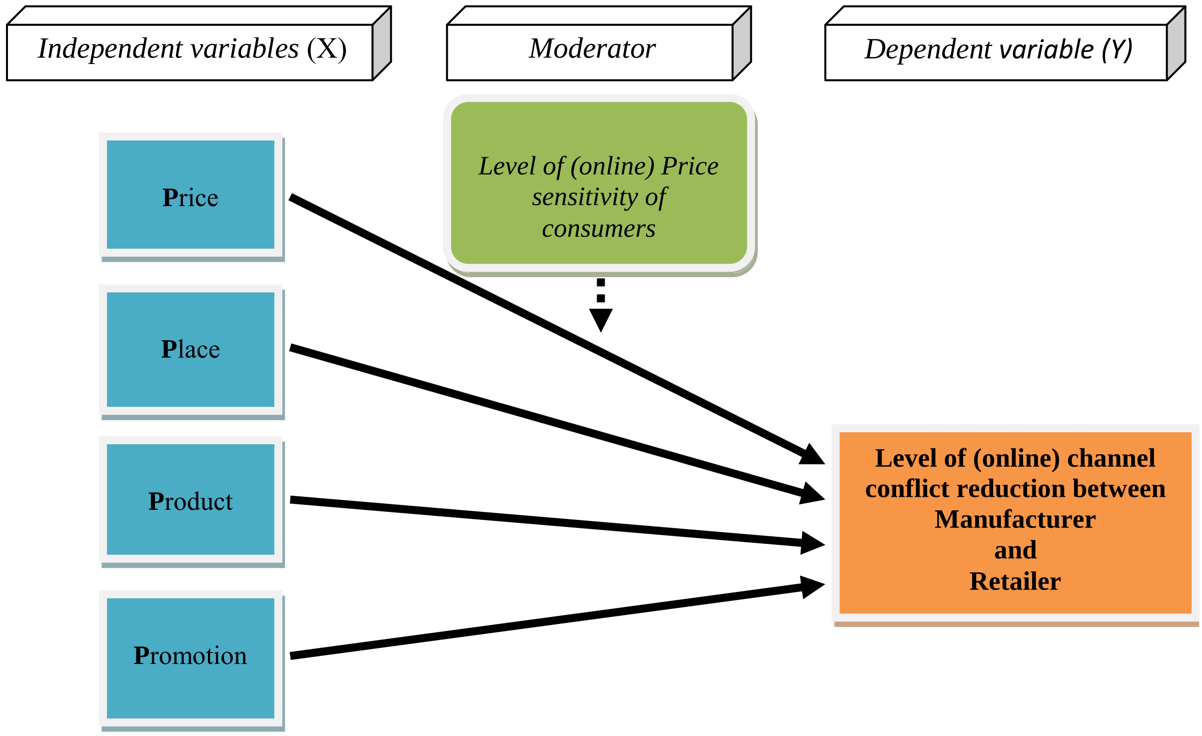
1.3.2 *How applicable are the marketing strategies (as named at 1.2.1.) to reduce channel conflict from an online channel addition point of view and are there other important complementary marketing strategies for reducing (online) channel conflict?*

1.3.3. *Which characteristics determine price sensitivity in the atmosphere of online shopping and how does price sensitivity of consumers moderate the usefulness of e-commerce pricing strategies to reduce channel conflict?*

§ 1.4 Conceptual Framework

The problem statement and the research questions as described in paragraph 1.2 and 1.3 are lined-out into a conceptual framework. The conceptual framework (figure 1) contains all variables and a moderator, which are important to give an answer to the problem statement.

Figure 1: Conceptual framework



§ 1.5 Operationalization of Variables

This paragraph explains the definitions of the variables in the conceptual framework in more detail.

Channel Conflict

In this thesis the following definition of channel conflict is defined as "a situation in which a manufacturer perceives his retailer(s) to be engaged in behavior that prevents or impedes it from achieving its goals". (Webb, 2002 p. 97).

Later in this thesis, channel conflict is assumed to occur when manufacturers consider selling directly to end consumers across the Internet without the retailer.

Price sensitivity

Verhage (2004 p. 274) describes price sensitivity as "How do consumers react on changes in the product's or service's prices?" This thesis will focus on how price sensitivity of consumers influences the effectiveness of pricing strategies to reduce channel conflict.

Marketing mix

Bronis Verhage (2004) argues that the four marketing instruments (Product, Price, Place and Promotion) directly affect each other. Thus, when a marketing manager changes one of the four marketing instruments it may have consequences for the other elements of the marketing strategy. The following four marketing mix instruments are definite from a manufacturer point of view:

Product: The definition of product is described as goods, services or ideas that can fulfill the consumer's needs. Some determinants of the product are guarantee, packaging, brand image, assortment and service.

Price: Which value can be asked to consumer in the case of money? Some determinative elements of price are production and transaction costs, prices of competing companies and price discounts.

Place: Place is described in the theory as: how should a manufacturer act to get the product to his end-consumers. The manufacturer can distribute its products by wholesalers or retailers and owned outlet stores. Some determinants of a distribution plan are the number of outlet stores, stock managing, and transport (physical distribution)

Promotion: Promotion contains all activities of the manufacturer to communicate with potential buyers and to promote sales. Some elements of promotion are advertisements, sponsorship, product demonstrations sampling direct marketing, public relations and gifts.

§ 1.6 Managerial and academic relevance

In this paragraph, the academically and managerial relevance of this thesis will be described in detail.

Academic relevance

After academics read this thesis, they possibly may be able to develop specific marketing mix models, new strategies or examine new insights for manufacturers reducing channel conflict situations in general or caused by addition of an online distribution channel. Nowadays, there is much information available about channel conflict (marketing) strategies for multi channeling retailers rather than for multi channeling manufacturers. Therefore, this study could also lead to some interesting academic paradoxes, similarities or new insights about the manufacturer approach of channel conflict and about price sensitivity of consumers in order to manufacturer's (online) pricing strategies to reduce channel conflict. Hopefully, this thesis will help academics to point out future research about distribution channels in the right directions.

Managerial relevance

Manufacturers can use the results of this literature study for describing and managing their (win-win) strategies to avoid or reduce channel conflict with more attention and knowledge. The information of this thesis can help marketing managers to spend their time more effectively to the long-term relationship with their retailers and to engineer a more efficient channel strategy in which both parties can benefit from each other. A manufacturer's marketing manager should realize that taking the right (marketing) decisions to avoid or reduce channel conflict in some cases could be decisive for a company's continuity. Moreover, when manufacturers have more information about the buying behavior of online consumers, manufacturers could make permanent use of this information for their preparations and their approach towards selling directly to consumers across the Internet.

§ 1.7 An overview of chapters

First, channel conflict will be explained in general. The (marketing) strategies that a manufacturer may use to reduce channel conflict will be discussed in chapter 2. Thereafter, this thesis will discuss (marketing) strategies that manufacturers can use when online channel conflict occurs (chapter 3). Chapter 3 will further discuss in which manner the general marketing strategies named in chapter 2 can be used into the online environment. Finally (in chapter 4), the moderating influence of price sensitivity will be investigated. The conclusions, recommendations and constraints of this thesis will be summarized in the final chapter.

2. Strategies for manufacturers to reduce or avoid channel conflict towards retailers.

This chapter will focus on causes of channel conflict between a manufacturer and its retailer(s) in general and marketing strategies that could used to reduce this kind of channel conflict. Chapter 2 will answer the first research question: *What causes a channel conflict in general and which marketing strategies can manufacturers use to reduce or avoid this kind of channel conflict?*

§ 2.1 Channel conflict and its causes

As stated in chapter 1, channel conflict can occur when the manufacturer and its retailer are focusing on the same consumers. This may happen when the opportunity of reaching consumers in implicit or explicit way (e.g. by a manufacturer's outlet store) competes with- or passes the current existing physical channels (Stern, El-Ansary & Coughlan, 1996; Balasubramanian, 1998).

In addition to the definitions as described above, Webb and Lambe (2007) examined the first factor, which can create a channel conflict. Namely, they argue that changing prices across channels for similar or identical products is an important element as a source of channel conflict between a manufacturer and its retailers. In this case, conflict occurs because the manufacturer uses not the same pricing approach across its retailers, which can lead to some retailers, which may feel themselves injured. In addition, unequal promotion activities from the manufacturer across retailers, which are most of the times related to prices, are named by Webb and Lambe as an important issue in the foundation of a beginning channel conflict.

A second cause of a beginning channel conflict is goal incompatibility (also called goal divergence), which may occur when the manufacturer's intention with its new direct distribution channel is not clearly defined and explained to its retailers (Rosenberg & Stern, 1971 and Gattorna, 1978). Complementary to the definition in chapter 1, Webb (2002) argues that conflicting objectives between manufacturers and retailers can also lead to internal conflicts about consumers, resulting in the worst scenario in consumer confusion and dissatisfaction and so more channel conflict between parties.

In addition, a third important element that can create a channel conflict is domain definition (Frazier, 1999; Stern, El-Ansary and Coughlan, 1996). Generally, to gain insight to domain definition, the manufacturer should ask itself first a few questions. One of these questions is which population the manufacturer will serve (e.g. which large or small consumers). Furthermore, the manufacturer should investigate which territory it will cover (so, what is the segment of each retailer when taken responsibility into account?). Another important aspect in domain definition is which functions or tasks the manufacturer should perform (so, examine what is the marketing role of each retailer in the supply chain is). The last point of interest of the manufacturer for domain definition is which technologies will the manufacturer employ (thus, which selling techniques will it use towards consumers?)

The last important channel conflict cause according to Stern, El-Ansary and Coughlan, is that manufacturers and retailers have different perceptions of reality. This can occur when retailers undertake different marketing activities for the same situations, because they all have another perception about what the output of their marketing activities should be. In short, Rosenberg & Stern (1971) and Gattorna (1978) have shown that when goals between manufacturers and retailers become more incompatible, their domains more similar, and their perceptions of reality more different, the greater the level of channel conflict.

Finally, Lee, Lee, and Larsen (2003) showed the importance of a reduction in the level of channel conflict. He argues that channel conflict may lead to a breakdown of the balance of the power structure between the manufacturer and its retailers, increasing the risk of financial losses, lawsuits, protective legislation, trust destruction, and market shrinkage. Sharma and Mehrotra (2007) completing the statement of Lee, Lee and Larsen by saying that manufacturers have to consider the trade-offs of the benefits when adding a new direct channel with potentially negative consequences of these manufacturer's activities. Therefore, not only reduction of the level of channel conflict is important but also channel relationship management is strictly necessary.

§ 2.2 Marketing strategies to reduce channel conflict

As described in paragraph 2.1, channel conflict between manufacturers and retailers can occur by many ways. Now the foundation is created about how manufacturers can reduce channel conflict in the first beginning of their activities, we can go more in detail by discussing some marketing strategies to reduce channel conflict in general. Dant and Schul (1992) argue that there are some basic characteristics, which can help the manufacturer in the beginning to determine the right marketing strategy to reduce or avoid channel conflict. They say that manufacturers have to look at the possible issues over which there could be a conflict, the relationship with its retailers, the personality of powerful retailers, the environment, and the structure of the relationship between the manufacturer and the retailer.

2.2.1 Pricing strategies to reduce channel conflict

Pricing strategies constitute an important element in the reduction of channel conflict. Because of cohesion between price and the other marketing P's (product, place and promotion), it is assumed that changing prices will lead to changes in the completely marketing approach.

Yan (2008) named a few pricing strategies (in general) for multi channeling. The first strategy is the Bertrand strategy, which contains the approach that several retailers choose their own prices through the supply chain without knowing prices of each other. The price setting influence of manufacturers is low in this strategy. The second strategy is concerning the Stackelberg strategy in which one of the retailers set its price first and after that, other retailers react by increasing their price and their own profit. The last strategy named the channel integration strategy (e.g. reductions for retailers (push) or price promotions for consumers (pull)) wherein the manufacturer set the optimal price in a manner the retailers and the traditional retailers can increase their profits. Yan also argues that the last pricing strategy is most applicable for manufacturers to reduce or avoid channel conflict because this strategy manages the channel coordination in a more effective way.

In an more detailed way Webb & Lambe (2007) argue that when manufacturers say to their retailers that they do not price their products across the additional direct distribution channel below the retail prices (equal pricing) they will experience a lower level of channel conflict. In this case, where the retailer is able to guarantee consumers the lowest prices, they possibly may less prone to switch from the retailer's channel to the manufacturer's direct channel.

Another strategy which a manufacturer can use is to reduce channel conflict is compensating their salespeople for refer customers to a retailer who can better meet their needs. The manufacturer's salespeople will receive a commission for all leads that result in a retailer's sales (Cohen, 2000). This pricing strategy may lead to a reduction of channel conflict because the final purchase of the end-consumer, in this case, will take place at the retailer instead of the manufacturer. Actually, the manufacturer 'feeds' its retailer with orders. Finally, Sharma and Mehrotra (2007) argue that the commission strategy can only be effective when manufacturers develop pricing rules about sharing commissions for their retailers.

2.2.2 Product strategies to reduce channel conflict

According to Berry (1997), a manufacturer can reduce general channel conflict on product level by introducing strong brand identity for its products. When products have a strong brand identity, the manufacturer can choose to fit its assortment to the several distribution channels and thus retailers. For example, the manufacturer may allow the retailer to sell only the 'hot' items of the manufacturer's assortment while the manufacturer sells its less trendy products, which are already located in the last phase of the demand product life cycle. Consumers who are sensitive for new trends may therefore first visit the retailer instead of the manufacturer. Thus, the level of channel conflict will be reduced by this strategy because the retailer keeps his same clients as before the manufacturer begun with adding its direct distribution channel. Moreover, Weinberg, Parise and Guinan (2007) stated that channel conflict can reduced when manufacturers and retailer do a better job to spread the consumer's brand experience and a consistent massage related to the manufacturer's products across all distribution channels. According to Rangaswamy and Van Bruggen (2005) manufacturers and retailers can only strive to this cooperation by creating appropriate policies for coordinating the several retailers to ensure that they act as agreed.

Stone, Hobbs and Khaleeli (2002) argue that manufacturers have to figure out what the exact function (e.g. a (outlet)store, only a product information point or only a service point) of their new direct channel should be in combination with the current physical retail channels, because many customers nowadays use multiple channels throughout the buying cycle. For example, when consumers buy a car or electronic stuff they no longer visit only physical retailers, because some channels will be used to collect product information and others are used to purchase a product or only make use of the related services. When manufacturers and retailers adjust their channel functions to each other, the level of channel conflict can be reduced.

2.2.3 Promotion strategies to reduce channel conflict

At the first place, Gerstner and Hess (1995) advised that manufacturers should make use of pull price promotion in direction of their retailers to reduce channel conflict. They examined that pull promotions can gather product trials by consumers, which lead to more brand experience and awareness, motivate repeat purchases of consumers, motivate the sales department, increase consumption of a specific assortment, and care for a more effective advertising policy. Therefore, indirectly the product strategies will be strengthened by the promotion strategies. Clear statements and a promotion agreement with retailers will in the long-term help to reduce channel conflict in the whole supply chain.

Second, Frazier (1999) stated that there are manufacturers, which make use of mail catalogs without taking orders. Channel conflict can reduce, because, these mailing catalogs deliberately increase traffic of consumers to the retail stores by creating more awareness and identification of the manufacturer's brands among customers.

Finally, to increase customer loyalty (e.g. by direct mailings), manufacturers can benefit from making databases, which registers all possible consumer information related to their buying behavior. In addition, retailers can benefit of creating traffic to their stores by making use of the manufacturer's consumer databases. Nearby, the manufacturer can reduce its selling and coordination costs of its sales department because information can found more easily and thus more efficient. It is also examined that manufacturers can reduce channel conflict by creating as much as possible uniform promotion content across retailers and have to share their consumer databases with retailers to reach each consumer more effectively. (Rangaswamy & Van Bruggen, 2005, Stern, El-Ansary, & Coughlan, 1996)

2.2.4 Place strategies to reduce channel conflict

Rosenbloom (2007) argued that manufacturers should develop distribution relationship management (DRM) through patented software or developed by their own employees. This kind of management will help the manufacturer's marketing manager to reduce channel conflict, because he gets an overview about the fairness of sharing margins across retailers the several distribution channels.

In addition, Frazier (1999) stated that there are companies who distinguish the large, medium and small customers in their channel distribution approach. This approach will help to reduce channel conflict because retailers know that the manufacturer will not target his consumers. Another approach for manufacturers could be selling lower volume products at higher prices to large consumers by itself and using their retailers for the products with a higher volume but at lower prices. In this case retailers can benefit from the higher volume products, but the manufacturer should still keep an eye to the proportion of share in volume between both approaches to deal successful with channel conflict.

The last important thing manufacturers have to explore is the content of distribution contracts (e.g. describing the balance between manufacturer and retailer, constraints and in more details the commissions and fees, schedules of payment, quality control rules, advertising support from the manufacturer to retailers etc.). In addition, developing a tool to keep an eye on the retailer's sales performances is an important element (Dutta, Bergen, & John, 1994; Weinberg, Parise & Guinan, 2007). When manufacturers make clear distribution and sales policies with their retailers, it is reasonable that this will lead to a reduction of channel conflict.

§ 2.3 Résumé

In general, chapter 2 explained a few important insights to channel conflict. The causes of channel conflict are changing prices in several distribution channels for the same products, goal incompatibility, domain definition, and different perceptions of reality. The most important pricing strategies to reduce channel conflict are the channel integration pricing strategy, equal pricing and referring consumers to retailers for commission, because it allows manufacturers to control prices settings throughout the supply chain. At product level the introduction of a strong brand identity, creating consumer's brand experience across all distribution channels and figuring out what the function of their new direct channel should be is also important to have clear to reduce channel conflict in general. From the promotional point of view manufacturers can reduce channel conflict in general by making use of pull price promotions, direct mailings, catalogs, databases with consumer' buying behavior information and sharing it with retailers. By using distribution relationship management, distinguishing large- medium- and small consumers, coupling high and low volume products to specific distribution channel and using clear contracts to retailers, manufacturers should be able to reduce channel conflict in general.

3. The usefulness of the conventional marketing mix into the channel of E-commerce

In contrast to chapter 2, this chapter will discuss channel conflict problems from a point of view of an online channel. In this situation, it is assumed that according to a manufacturer, which sells directly to end-consumers across the Internet this may lead to a channel conflict with its retailers. Chapter 3 will discuss the causes of online channel conflict, the opportunities and marketing strategies to reduce channel conflict caused by addition of an Internet distribution channel by the manufacturer. The following research question will be answered by chapter 3: "*How applicable are the marketing strategies (as named in chapter 2) to reduce channel conflict from an online channel addition point of view and are there other important complementary marketing strategies for reducing (online) channel conflict?*"

§ 3.1 The background of online channel conflict

As a basic element, Frazier (1999) stated that channel conflict recently became more important through the size and speed with which e-commerce channels and the electronic marketing has grown. As shown in the chapter 1, manufacturers also utilize their online opportunities more and more. Web (2002) came up with a survey in which at least 66% of the 50 manufacturers selling directly to consumers across the Internet have indicated that channel conflict was the biggest issue in managing their e-commerce strategy.

Manufacturers, who want to add a direct Internet channel to its supply chain have to keep in mind that there are three most called switching reasons of consumers to switch from the offline to an online channel and vice versa (called "Free riding" by Rangaswamy and Van Bruggen, 2005). These reasons are cheaper prices online in comparison with the physical shop (48%), the convenience of home-shopping (35%) and the possibility to deliver the products on the consumer's desirable delivery address (19%) (Blauw Research, 2009). These basic elements manufacturers can use to create a new (online) marketing strategy or to do some more specific and further research. Furthermore, marketing managers have to determine the functionality, usability, interactivity, and content of their website carefully to reduce channel conflict. By communicating trust and credibility to consumers across the manufacturer's website, the level of uncertainty of consumers can be lowered (Constantinides, 2004).

Stone, Hobbs and Khaleeli (2002) give the importance of reducing channel conflict from the online point of view, because they wrote that 50% of all retailers and manufacturers investigated by Forrester, have declared that their online sales increased by 25 % by collaboration with each other.

§ 3.2 Marketing strategies to reduce online channel conflict

Next, we will discuss the online solutions of the online marketing strategies. In this case we will discuss the e-marketing phenomenon. Cadogan (2009, p. 296) defines e-marketing as "using the internet and other interactive technologies to create and mediate dialogue between the firm and identified customers".

3.2.1 Pricing strategies to reduce online channel conflict

In comparison with chapter 2, manufacturers can use their channel integration pricing strategy (because of setting its own online prices), equal pricing strategy, and commission strategy (because of referring consumers from the online shop to the retailer's store) for the online approach of channel conflict reduction. Where many consumers believe that a low price is an attractive and competing element when shopping online, other companies use pricing strategies whereby the manufacturer does not undercut the (online) retail prices (Tsay & Agrawal, 2004; Webb, 2002). Because manufacturer's prices are set higher than prices of products that are sold in retail stores, channel conflict can be reduced when the manufacturer's product volumes stay lower than the retailer's volumes.

Additionally, Cattani, Gilland, Swaminathan, & Heese (2006) concluded that on the long-term, manufacturers have to ensure their retailers that their online channel will be less cost efficient and less convenient than the traditional channel of their retailers to reduce channel conflict. Because when both elements should increase, the manufacturer can benefit indirectly of higher margins and retailers may create false statements and thus an increase in channel conflict. In short, the manufacturer should find balance between its own direct online channel and the traditional channel (owned by retailers). Because all parties in the supply chain can benefit from this strategy, it is assumed that online channel conflict between retailer and manufacturer can be reduced.

3.2.2 Product strategies to reduce online channel conflict

As expected, the product strategies to reduce channel conflict in general are suitable as well for the reduction of online channel conflict. Manufacturers have to create attention from the consumer by its own website to create brand identity and consumer's brand experience. It is assumed that the manufacturer should also investigate and explain to its retailers what the function of its website should be (e.g. information source, service point or online shop). Supplementary to the strategies named in chapter 2, Webb (2002) describes that segmenting the market and providing multiple (brand) channels and serving the needs and expectations of consumers effectively are the key elements to reducing channel conflict online.

Webb also described that manufacturers experience lower level of channel conflict with its retailers by changing their offline product strategy. Channel conflict can be reduced, when manufacturers limit their offering on their website to a subset of their products and when they only provide product information on their website without taking orders from consumers. Using unique brand names for manufacturer's products offered on their website and when products on the manufacturer's website are in an early stage of the demand product lifecycle, this can also lead to a reduction of channel conflict. Because some companies also promise their retailers to do not offer 'hot' products at all on the web shop. For instance, when consumers are very sensitive for trends of new products they may search for more information on the manufacturer website, which directly increases specific traffic to the manufacturer. Therefore, retailers get the privilege over these 'hot' products to sell them. Subsequently, the manufacturer limits its assortment to the more basic products instead of the more trendy products. It is also reliable that manufacturers can create new relating websites for creating traffic or supporting new products or brands. In that case, the manufacturer can for example make use of consumer's product rating, communities (social networks about several manufacturer's products) and weblogs (consumer's product experiences) on their website.

3.2.3 Promotion strategies to reduce online channel conflict

As noticed in chapter 2, Hoffman, Novak and Chatterjee (1995) also noticed that manufacturers could benefit from consumer information from their website to create a more effective customization of advertising, consumer promotion and service. It is plausible that promotions across the Internet can be useful for manufacturers and retailers, which will get more consideration towards consumers concerning their products and brands. It is important for manufacturers to know that the more elastic consumer's demand is the more profitable price reductions are for the retailer (Gerstner & Hess, 1995). Transaction and searching costs (also time spending) are important in determining the elasticillity of demand faced by the retailer. It is also examined by Gerstner and Hess that when retailers combine the pull pricing strategies with push pricing strategies, the effect of the promotions to price sensitive consumers will increase (more information about price sensitivity, see chapter 4)

Some companies give consumers the choice to place orders directly to retailers, which have a link to the manufacturer's website. In addition, in this case, the manufacturer refers consumers (like stated in chapter 2) to their retailer via a link on their website. Moreover, companies can also try to generate more traffic to retailers by recommending complementary products and saying that their consumers are not able to receive several gifts (Machlis, 1998 b). In this situation, the retailer and the manufacturer will help each other by jointly connecting their websites. When manufacturers are promoting their channel partners on their manufacturer's website (by banners, links etc), the manufacturers experience a lower level of channel conflict. In addition, encouraging and helping retailers to advertise on their own website will also reduce the level of channel conflict, because the manufacturer helps the retailer to sell its products by pushing it through the channel (Webb, 2002).

3.2.4 Place strategies to reduce online channel conflict

Manufacturers can reduce the level of channel conflict when they divert fulfillment of consumer's online orders to retailers (Webb, 2002). For instance, there are companies were consumers can place orders on the manufacturer website or can book flights at travel agencies. After the order or booking, the purchase will automatically be sent to the nearest (physical) retail store or travel agent in a short radius from the home address of the end-consumer. In addition, Frazier (1999) advised manufacturers to investigate what the function of the website should be, only communicating with consumers or also selling products to them. When manufacturers use exclusive or highly selective distribution, they should invest in their retailers to absent their self from using their website as a purchase-distribution channel instead of only a communication medium for consumers (Weinberg, Parise and Guinan, 2007).

§ 3.3 <u>Résumé</u>

As expected, manufacturers can use a subset of the marketing strategies as listed in chapter 2 for reducing the level of channel conflict caused by the addition of a online channel. Setting higher or equal manufacturer prices online in comparison with retail prices and the channel integration pricing strategy are important points of interest in reducing channel conflict. Differently to the marketing strategies as named in chapter 2, the degree of convenience of the online channel versus the physical distribution channel is a point of interest of the manufacturer. With a product strategy which allows retailers to sell the most new and exclusive products of the manufacturer and when manufacturers use their website as an information- and service source without taking orders, the level of channel conflict can reduce. Supplementary to the named strategies in chapter 2, manufacturers should use product ratings, social networks and weblogs on the manufacturer's website as useful tools to create brand awareness and loyalty to the manufacturer's product of which also retailers can benefit. Especially, online promotion activities, which can reduce channel conflict, are promoting retailers across the Internet with (financial) support of the manufacturer or via a website link and creating a consumer database for sharing buying information. Spreading consumer's orders over the manufacturer's retailers (which came in via the manufacturer's website) is the most used distribution strategies online. Furthermore, online channel conflict may reduce by manufacturers, which help their consumers to locate the nearest retailer, which can meet the consumer's needs.

4. The influence of consumer's price sensitivity on pricing strategies across the Internet

Chapter 3 decribes the equal pricing and the channel integration pricing (where manufacturers can most effective control the retailer's prices) as important online strategies to reduce channel conflict. This chapter will explain the effectiveness of industry price sensitivity (moderator) in several segments/industries on the effectiveness of these pricing strategies. Like Verhage (2004 p. 274) wrote explains price sensitivity, how consumers do react on price changes in products or services?

§ 4.1 Background information about price sensitivity

Ganesh, Reynolds, Luckett and Pomirleanu (2010) argued that online price sensitive consumers are most of the times searching in a various way for products with special deals or the lowest price on the Internet. In general, Shankar, Rangaswamy and Pusateri (1999) named two important aspects of price sensitivity: the consumer's weight of product prices in comparison with the other product features (price importance) and consumer's tendency to undertake a search for better prices (price search). Furthermore, the degree of customer price sensitivity and price decision is related to the consumer's attitude to wards purchasing a product (Shankar et. al, 1999). Growing price sensitivity can in some situations lead to an intense price competition between manufacturers and/or retailers. Because when online markets reduce customer search costs for products (also for distinctive products) it influences price changes, which on the long term can lead to channel conflict between manufacturer and retailer through a less effective pricing strategy.

§ 4.2 The level of price sensitivity of consumers

Chu, Chintagunta and Cebollada (2008) conluded that consumers in general are less price sensitive when shopping online for convenience goods instead of shopping offline. The degree of time spending, convenience of online shopping (like the avalability of non-price information, and creating an online shopping list, etc), service and brand loyalty are named as important factors which determine the level of sensitivity of consumers (Shankar, Rangaswamy and Pusateri, 1999; Reibstein, 2002). In contrast to Chu et. al (2008), Burke, Harlam, Kahn and Lodish (1992) argued that price sensitivity can sometimes be higher in the online channel instead of the offline channel depending on the product graphics that are showed to the consumer by its computer and the nature of the product. From the delivery point of view, Smith and Brynjolfsson (2001) showed that non-price sensitive consumers are less sensitive about product price and shipping price and more sensitive for the exact delivery time, when they appreciate accuracy in delivery time. Interestingly, this group of consumers is mostly more sensitive to the attendance of a manufacturer's brand in an offer than price sensitive consumers. It is therefore plausible to assume that manufacturer's brands can play a decisive role in the effectiveness of pricing strategies of the manufacturer's products to reduce channel conflict.

§ 4.3 <u>Price sensitivity for several products and industries</u>

Andrews and Currim (2004) and Degeratu, Rangaswamy and Wu (2000) did a similar study in the grocery channel and concluded also that price sensitivity online is higher than offline. In addition, they said that this effect is caused by online promotions, because these are online more effective in comparison with the offline channel when using price discounts. Therefore a marketer of a manufacturer's products has to keep an eye on this information by setting prices and promotions through the manufacturer's supply chain, because online consumers react in another way on price promotions than consumers shopping offline. Erdem, Swait and Louviere (2002) did research to price sensitivity for concentrate juice, jeans, shampoo and personal computers. They concluded that more credible brands can lead to a shift in importance of product attributes away from product price only. Thus, in this case price sensitivity declines what positively effects pricing strategies to reduce channel conflict. Moreover, manufacturers should do a better job to use consistency in their pricing strategies and other marketing mix strategies across the whole supply chain as an objective in their marketing strategies. This will lead to a higher level of the brand credibility and keep price sensitivity of consumers low, so that pricing strategies to avoid channel conflict will be more effective.

Uncertainty and credibility about brand attributes are named as important factors of price sensitivity (Erdem et. al, 2002). When consumers are sensitive for uncertainty in product attributes, then price becomes less important (low price sensitivity) and vice versa, as consumers are not sensitive for uncertainty in product attributes, consumers become more price sensitive to that specific product. From another point of view, the impact of credibility on price sensitivity is higher for jeans and personal computers than for juice (e.g. convenience goods with low purchase risk and low consumer's involvement). Because consumers associate experience goods (e.g. books, CDs, DVDs, consumer electronics, computer hardware and software) with a higher level of purchase risk and consumers' product involvement (Erdem, et al, 2002; Pan, Ratchford & Shankar, 2004). Credibility's impact on price sensitivity to shampoos is the smallest of the all examined product categories. In short, manufacturers have to think clearly about the level of credibility, involvement, purchasing risk and uncertainty in setting their marketing mix strategies including their pricing strategy to reduce channel conflict. It is advised that manufacturer with low-priced products (and lower quality products) should try to improve the elements, which results in a consumer's perception against increasing price importance and price search. Otherwise, manufacturers with high quality and higher priced products should stimulate a decline in price search, so consumers become less likely to compare prices (Shankar, Rangaswamy and Pusaterim, 1999). Finally, on one hand, when manufacturers use a similar price through its supply chain (e.g. in the automobile industry) to reduce channel conflict, competitors will have more opportunities to compete on price, whereby the manufacturer looses the demand of the more price sensitive consumers (Iyer, 1998). On the other hand, the use of different prices across the supply chain generates traffic through several channels, which can lead to free-riding (switching from online to offline and vice versa) and thus a more similar spreading of margins across retailers and a higher-level demand of price sensitive consumers. Nevertheless, as stated in chapter 2 and 3, different prices across the supply chain may lead to a higher level of conflict and thus. In short, manufacturers should find balance between the possibility of a channel conflict and their pricing strategy (Carlton & Chevalier, 2001).

§ 4.4 Résumé

It is clear that price sensitivity consists of the determinants price importance and price search. Also, brand loyalty, time spending, service and convenience of online shopping are important factors in determining the effect of price sensitivity on pricing strategies to reduce channel conflict. Literature is divided about price sensitivity of consumers shopping for convenience goods online versus the physical supermarket. Moreover, the impact of credibility on price sensitivity is higher for jeans books, CDs, DVDs, consumer electronics, computer hardware and software (called experience goods) than for juice (called convenience goods). In this case, the level of purchase risk and consumers' product involvement is decisive. Depending on the nature of manufacturer's product, marketers should constant consider whether they set equal prices or different prices across retailers. In short, we have seen in the chapters before that equal prices can reduce channel conflict in the supply chain, but can also reduce demand (and purchases) of price sensitive consumers. Different prices can possibly increase channel conflict, but also create switching behavior (free-riding) of consumers for manufacturer's products across the supply chain, and thus more purchases and profit. Thus, it is also plausible that the channel integration strategy can only be successful when manufacturers carefully listen and react to signals of their retailers and consumers.

5. Conclusions, managerial implications, limitations and further research

This chapter will explain the conclusions, limitations, the managerial implications and recommendations for further research of the literature study. This chapter gives an answer to the problem statement as described in chapter 1:

"To what extent can the determinants of the marketing mix (price, place, product & promotion) be used to reduce the level of online channel conflict between the manufacturer and the retailer and how is this relationship moderated by price sensitivity of consumers?"

§ 5.1 <u>Conclusions</u>

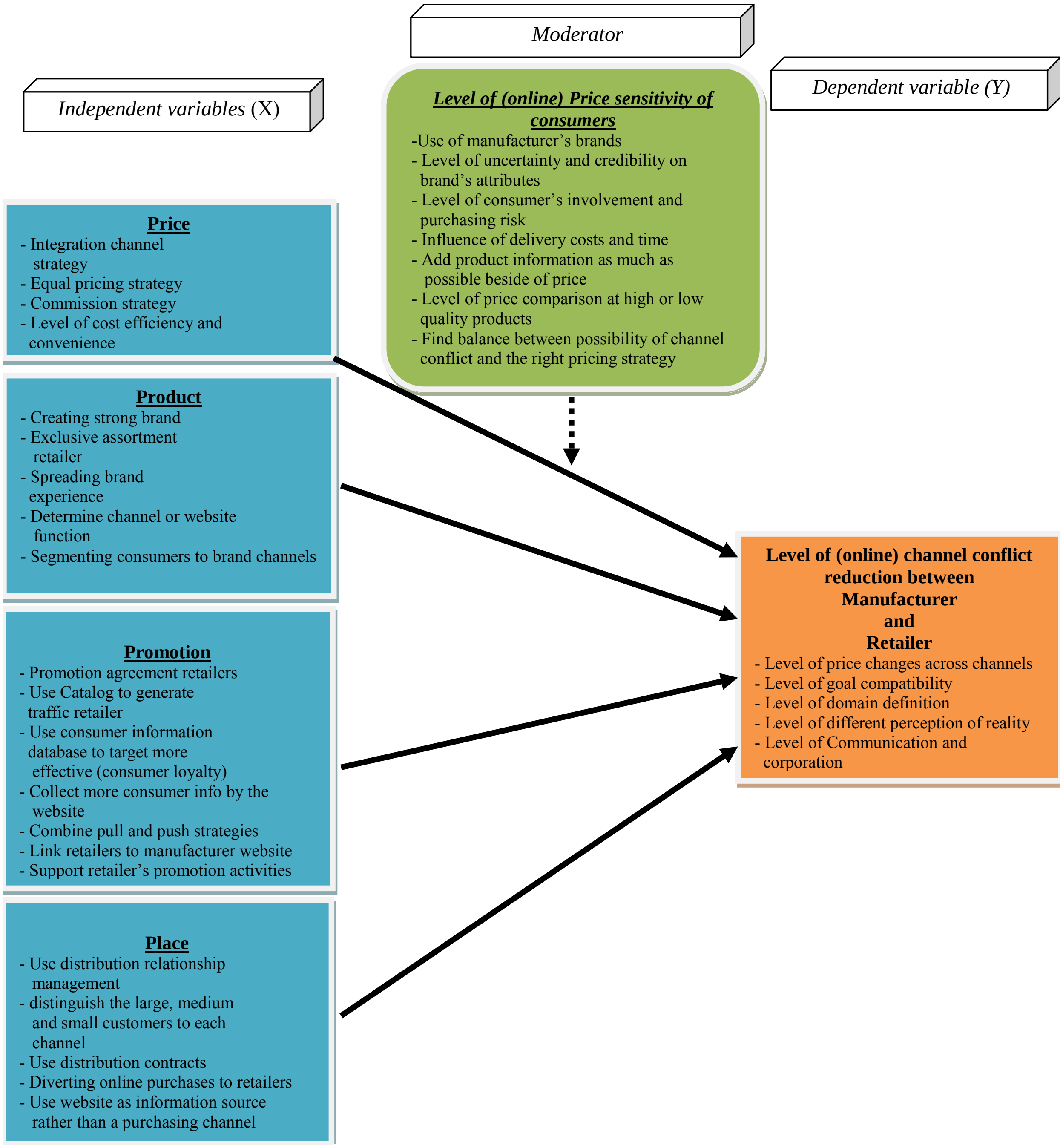
First, after this literature review, it is striking to reveal that nowadays channel conflict strategies are still described more as a strategic tool for manufacturers rather than operational (marketing) tool . Theory shows that a reason for this fact may be that there are still manufacturers, which facing the difficulty of making the right decisions in advance about how to deal with channel conflict and that they still do not know how the retailers will react on their multi channel plans. Figure 2 on the next page describes the factors and points of interest, for each variable in the conceptual framework (see chapter 1), which manufacturers should investigate before or during adding a direct (online) channel to their supply chain. Interestingly, the marketing mix strategies to reduce a general channel conflict are suitable for both distribution channels (the physical channel and the online channel).

Furthermore, a second important finding is that literature study showed that approaching and reaching consumers by marketing strategies is very different when comparing the physical channel and Internet channel with each other. Moreover, manufacturers can benefit from the online and offline channels, by collecting consumer information, using this for a more customized, and effective promotion strategy across the Internet via retailers.

A third important result of this study is that manufacturers have to make use of different brands, underline other product attributes rather than price and try to control price sensitivity of consumers. This may lead to more effective pricing strategies through the manufacturer's distribution channels with the intent to reduce channel conflict.

Finally, as a basic element in the first phase, manufacturers and retailers should jointly consider and communicate clearly about solutions to the causes of channel conflict to come to an agreement about which consumers the manufacturer should target and with which brands the manufacturer should approach these consumers. Literature shows that involving retailers to the manufacturer's multi channel strategies and communicating external and internal about these strategies will lead to a reduction of channel conflict (Celly & Frazier, 1996; Möller & Rajala, 1999). In addition to the physical distribution channel, Keenan (1999) argues that manufacturers should take time to explain their e-commerce strategy in advance, and in a clearly way, instead of introducing the new Internet channel without informing their retailers. Thus, manufacturers should not change their direction to another channel without creating a win-win strategy with retailers to keep their head above water!

Figure 2: Conceptual framework including conclusions



§ 5.2 Managerial implications

Marketing managers of several known or unknown manufacturers can benefit in several ways of the information of this thesis. As a first step to avoid channel conflict in advance when adding a direct channel, it is recommended to manufacturer's marketers and marketing managers to think clearly about which objectives they will achieve, which consumers/segments they are going to target and which (consistent) message they want to spread towards their current distribution partners and (new) consumers. For succeeding these recommendations, marketers and marketing manager should talk with the board of directors in a strategic way to create an important basis for succeeding their subsequent marketing strategies.

Secondly, when marketing managers or marketers developing their marketing strategies to reduce channel conflict, they can possibly use figure 2 from paragraph 5.1 as checklist, marketing model or just as a guideline in brainstorm sessions. After they pointed out these factors for each marketing mix instrument, they can possibly make better decisions, which may have a larger chance to succeed instead of trusting only their own intuition.

Finally, some marketing managers are still thinking that channel conflict usually is viewed as being dysfunctional and only have a negative effect on the relationship between manufacturer and retailer. Nevertheless, Anderson & Narus (1990) have found evidence that without any channel conflict it could be that manufacturers or retailers will tend to become passive and decreasing their creativity to make use, adapt or let grow interesting opportunities in multi channel strategies.

§ 5.3 Limitations of the Bachelor Thesis and recommendations for further research

During this literature study, there were some limitations. Possibly, these limitations may lead to insight and suggestions for further research.

First, this study is not empirically tested. The conclusions of this thesis are based on previously published literature and theories. Furthermore, the found literature is most of the time intended for retailers who use multi channel strategies. Possibly, academics can do more statistical and empirical research in the future specifically for manufacturers, which will reduce channel conflict in general or caused by addition of an online channel.

Another limitation is the fact that the conceptual framework is limited from the mediating and moderating point of view, which can influence the effectiveness of marketing strategies on the level of channel conflict. This thesis underlines only the effect of consumer's price sensitivity (as a moderator) to the effectiveness of pricing strategies to reduce channel conflict. However, it is reasonable that there are more factors and variables, which can have an important influence on marketing mix strategies to reduce channel conflict. Using other moderators and/or mediators in further academic research may possibly lead to interesting findings, insights or completely new marketing models about channel conflict reduction.

The third limitation in this thesis and the reviewed academic literature consists of the general assumption that the manufacturer is always the one, which is more powerful towards their retailers in developing and implementing marketing strategies to reduce channel conflict. Maybe studies that are more empirical could investigate what the exact effect of power in relationship between retailers and manufacturers can be in reducing channel conflict.

Finally, this thesis shows some information about the influence of the product life cycle on channel conflict marketing strategies (Anderson & Zeithaml, 1987 and Webb, 2002). Nevertheless, most of the reviewed information creates the general appearance that it does not matter in which phase of the product life cycle and in which industries these products are located in relation to the influence on the effectiveness of marketing strategies on the level of channel conflict.

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