

MANAGING MULTIPLE CHANNELS OF DISTRIBUTION

Report on 2003 Survey Results

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EXECUTIVE SUMMARY

The study of *Managing Multiple Channels of Distribution* you participated in during the summer is now complete. With over 140 respondents participating in the study, we have a broad array of firms and industries represented. We are fortunate to have participation from firms whose operations experienced varying degrees of multi-channel management. This is important as we can learn from all levels of distribution.

The report will first review the research objectives of the study and then discuss the results from our survey. We present results regarding the current status of multi-channel management from our respondents. We also provide a demographic profile of the respondents and the firms they represent, as well as their interaction with their customers across the various channels. Finally, we make some concluding remarks, noting some of the more important findings of the study.

Outcomes from the survey suggest:

1. On average, managers reported that multiple channel management is important to their companies.
2. Companies in our sample participate in at least three multiple channels with the top three being “internet/e-commerce;” “distributor sales force;” and “direct sales force.”
3. Efficiency was relatively more of a driver for establishing new channels as opposed to competitive pressures.
4. A majority of companies reported that they maintain a system or software that is able to track the same customer across multiple channels.
5. Respondents claimed that the main benefit from multiple channels was an increase in customer traffic. The main challenge seemed to be maintaining consistent pricing across all channels.
6. While contact with primary customers and marketing communication were more relationship focused, respondents reported that their marketing plans and resources tended to be more transaction oriented.

RESEARCH OBJECTIVES¹

The *Managing Multiple Channels of Distribution* study was undertaken as part of a research stream to investigate how companies make decisions about the channels of distribution they use and how these decisions affect company performance. Multiple distribution channels are a focal area of interest due to the varying levels of customer contact that are typically held. Distributors and manufacturers connect with so many different segments in their markets that we wanted to learn the level of connection that these multi-channel firms maintained in their relationships with their customers. Such customer relationships may be more difficult to manage successfully than through a single channel of distribution. As such, our research focuses on trying to answer the following questions:

- ◆ What are the transactional or financial reasons for maintaining multiple points of contact with customers?
- ◆ Are the motivations for multiple channels based on a strategic desire to establish deeper relationships with customers?
- ◆ Could the reason for maintaining multiple channels be purely competitive in nature? That is, “our competition has multiple channels so we do too.”
- ◆ Are companies that have stronger relationships with customers in their markets more successful companies?

In order to answer these questions, approximately 1,000 manufacturers and distributors were asked to provide input via a questionnaire. In the following pages, some of the answers given in the survey will be disclosed. However, we have aggregated the data, to the extent possible, in order to not expose the identity of our respondents. Therefore, the statistics in this report are primarily descriptive in nature including: *frequencies*, *percentages*, and *averages*. A more thorough discussion on the study methods and survey background follows in the next section.

¹ Thanks to all the participants in the study for their honest and much-needed responses. We also wish to thank our research assistants, Ms. Linda Jones and Mr. Pilsik Choi for their help in developing, mailing, and analyzing the surveys.

METHODOLOGY

The sample of marketing and distribution managers was identified through a three-step process. First, mailing lists were obtained from several trade associations whose membership consists of marketing and sales, logistics and supply chain managers. Second, we filtered the mailing lists and identified manufacturers and distributors that would be most likely to have various modes of distribution. Finally, we attempted to identify key individuals involved with managing these channels either as marketing/sales managers or as logistics or supply chain managers.

Questionnaire development began with in-depth interviews with managers who knew about and were involved in forming and managing distribution channels in various industries. The final questionnaires had two parts: one section focused on the multiple channels and how they were managed and the second section attempted to measure the degree of relationship maintained with customers.

Sections of the questionnaires were then pre-tested by managers in late 2002. Two rounds of surveys were sent out in 2003, the first in May and the second in July. The last of the completed surveys was received in October 2003. The results from these surveys are listed in the following pages of this report.

DEMOGRAPHIC INFORMATION

Our target respondents are marketing/sales and supply chain managers from U.S. firms. One hundred and forty-three (143) responses were received (a 14% response rate²). Respondents who completed the surveys were primarily executive- or mid-level managers involved in marketing, distribution, logistics or supply chain management in the firms.

The response rate varies across questions, reflecting non-response by some respondents for certain questions. This does not compromise either the report or its findings since missing responses were generally from at most three participants. As expected, firms are usually reluctant to share performance level data such as total sales. Therefore, we did see a higher degree of missing values for the question regarding sales volume in the most current fiscal year. Tables 1 through 3 below, give more detail on the respondents and the firms in the study.

² This is an average response rate for this type of research.

⁴ Respondents who classified themselves as “retailer” were combined with the “distributor” category.

Companies	Percentage
Manufacturers	49%
Distributors	42%
Other	9%
Total	100%

Table 1: Type of company.

Manufacturers made up the majority of respondents with distributors⁴ a close second (Table 1). The “Other” category consisted of service providers and/or consultants. The current sales levels, as compared to the previous five years, were generally split evenly, with “Below Average” having the most frequent response (37%). Respondents who said that their sales levels were “Average” consisted of 32% of the sample. Only 30% of respondents replied that their performance was “Above Average” (Table 2).

Sales Level	Percentage
Below Average	37%
Average	32%
Above Average	30%
Unknown	1%
Total	100%

Table 2: This year’s sales level compared to previous five year average.

Employees	Percentage
Less than 50	15%
51 to 200	15%
201 to 350	8%
351 to 500	6%
More than 500	56%
Total	100%

Table 3: Number of company employees.

Company Size was captured in two ways. First, we asked respondents to tell us the number of employees in their companies. Second, we asked them to report on the actual sales for the most current fiscal year. The number of company employees is listed in Table 3, above. The majority of companies (56%) reported having more than 500 employees, while 44% of the companies had fewer than 500. As mentioned above, sales data is not always easy to obtain from respondents. We were glad to note that eighty-five (85%) percent of respondents reported their level of

sales in \$US dollars for the most recent fiscal year. Of these respondents, the average sales were \$2,986MM; median sales were \$250MM.

MULTIPLE CHANNELS IN THE MARKETPLACE

Given our sampling process, we expected to find that most companies participated in at least two different types of channels. What we found was that, on average, respondents reported participating in at least three multiple channels with the top three being “Internet/e-commerce (73%),” “Distributor sales force (69%),” and “Direct sales force (65%).” It was not surprising to us that the Internet/e-commerce was the most common form of distribution channel. The relative ease and low-cost with using this channel suggests that companies are taking advantage of simple access to customers. The “Future” column in Table 4 reports the percentage of respondents who said their companies planned to implement these new channel formats in the future.

Channel Format	Current %	Future%
Internet; e-commerce	73	30
Distributor sales force	69	11
Direct sales force	65	12
Brick-and-mortar stores	47	8
Direct response (phone, mail)	42	14
Catalog marketing	39	13
Other	6	7

Table 4: Multiple channel formats.

We further surmised that multiple channel management issues were of concern to our respondents. Overall, respondents told us that multiple channel management was an important issue to their companies (see Table 5). On average, respondents said that multiple channel management was rated at 5.01 of importance on a scale from 1 – 7, with 1 = “Not at all Important” and 7 = “Extremely Important”. In regard to establishing new distribution channels, respondents reported a relatively low level of investment and suggested that efficiency was slightly more of a reason for the investment as opposed to competitive pressures.

Multiple Channels Issues	Average
Importance of multiple channels	5.01
Importance of encouraging use	3.95
Level of monetary investment	3.37
Investment for efficiency?	4.85
Investment for competitive reasons?	4.36

Table 5: Management issues on use of multiple channels.

Anecdotal evidence gathered from the popular press suggests that companies are in the process of implementing systems to monitor their multiple channels more than ever before. To confirm this, respondents were asked to report on their companies' experience with issues surrounding managing multiple channels (Table 6). Sixty-five percent (65%) said that their companies had software or other transaction tracking systems in place to track the same customer across multiple channels. Another 53% said that their companies had a dedicated department, position, or team that analyzed customer activity across the channels. Finally, 60% of respondents reported that it is possible for a sales or service representative to have access to a complete customer profile at the time of the customer-firm interaction. So, while a majority of companies have their monitoring systems in place, there are still many left to complete this task.

As far as multiple channel strategy development and implementation, on average, firms report developing and implementing a strategy to "some extent." The mid-range response for these companies suggests that channel strategies may still be in the midst of development and/or implementation. Further evidence for this is shown through the mid-range answers of how similar marketing activities are across multiple channels (see Table 7). Of the four, Pricing and Product seem to be the most similar across channels, whereas Promotion and Advertising are less so.

Multiple Channel Management	Percentage/ Average
System or software in place to track same customer across multiple channels?	65%
Dedicated position, team or department to track customer activity across multiple channels?	53%
Active customer profile for sales or service representative to access?	60%
Extent to which strategy is developed for managing a customer over lifetime*	4.31
Extent that the strategy has been implemented in the company*	4.10

Table 6: Customer relationship management in multiple channels.

* 1 = "Not at all" to 7 = "To a great extent".

Marketing Practice*	Average
Pricing	5.00
Promotion	4.60
Product	5.78
Advertising	4.57

Table 7: Marketing practices in multiple channels.

*The higher the average, the more similar the marketing practice.

Table 8 helps us better understand the benefits that multiple channels might hold for companies. Almost three-quarters (74%) of respondents felt that an increase in customer traffic was a potential benefit of offering multiple channels to the company's customers. This was followed by the benefit of leveraging the brand name of the company across the multiple channels (68%).

Benefits	Percentage
Increase in customer traffic	74%
Leveraging brand name of company	68%
Potential of decreasing fulfillment costs	54%
Lower cost of moving existing customers to new channels	49%
Ability to broaden product line	49%
Increased access to customer behavior data	35%
Other	4%

Table 8: Potential benefits of Multiple Channels.

We also provide the challenges faced by firms with multiple channels (Table 9). The challenges of multiple channels primarily centered on pricing across the channels (52%) as well as increasing total operating costs (46%). As has been noted in the literature in channel management, consistent pricing can be a challenge especially if a company has both direct channels as well as intermediaries. This scenario could raise conflict in the channel with customers as well as with sales representatives and/or wholesalers.

Challenges	Percentage
Pricing across channels	52%
Increasing total operating costs	46%
Aggregating information across channels	44%
Tracking customer-firm interactions	41%
Providing customer service	38%
Determining product line/services across channels	36%
Maintaining consistent brand promotion across channels	35%
Other	2%

Table 9: Major challenges to a company in managing Multiple Channels.

MARKET RELATIONSHIPS

Increasingly, the relationships firms have with their customers require a better understanding of customer needs. In developing the questionnaire, we used previously applied measures for market relational practices. We asked respondents to share with us how they interact with their customers. The continuum of questions ranged from purely transaction orientation ("I sell, you buy") to a relationship orientation ("we work with you to increase both of our sales").

Table 10 presents the responses from our participants. We have purposely kept this information as simple as possible by showing only averages. Greater detail in the analysis is required to be able to make more concrete statements on the outcomes. Nevertheless, there are some clear answers on companies' orientations towards their customers.

Under our first measure, "dealing with the market," the orientation seems to largely rest with either Transactional Marketing or with Interaction Marketing. The difference between these two is that Transactional Marketing is more concerned with just making sales today whereas Interaction Marketing is more focused on developing relationships with customers to continue to make sales into the future. As for "marketing communications," it seems that respondents are more involved in Database Marketing, where marketing practices tend to focus on customers that are clearly segmented and then are targeted for their business. Database Marketing, Interaction Marketing, and Network Marketing are all considered to be relationship-focused.

Measure	Orientation*			
	Trans	DB	Inter	Net
The focus when dealing in the market	6.00	4.64	5.82	4.65
Marketing communication	4.00	5.52	5.40	4.57
Contact with primary customers	2.06	3.35	6.01	N/A
Meeting with primary customers	5.22	3.38	4.90	N/A
Customer expectations when buying our product	1.91	4.59	5.40	5.40
Intent of marketing activities	5.62	5.97	5.75	5.18
Focus of marketing planning	6.02	5.66	5.16	4.55
Where marketing resources are focused	5.78	4.68	5.21	4.64
Management level where marketing activities occur	5.76	4.08	3.47	3.85

Table 10: Market orientation of companies with multiple channels.

*Scale: 1= "Strongly Disagree" to 7 = "Strongly Agree"; 4 = "Neither Agree or Disagree"

Trans=Transactional marketing; DB=Database marketing; Inter=Interaction marketing;

Net=Network marketing

Interaction Marketing was overwhelmingly the case when companies "make contact with their primary customers". This is not surprising given the importance of these customers. Interestingly, "meeting with primary customers" had a more Transaction nature. Even if the relationship was more interactive, it seems that meetings still were at a more formal, business-like level. The measure, "customer expectations" seems to be at an Interaction and Network level. These are at the higher end of the relationship spectrum, suggesting that customers are very relationship focused. Indeed, the managers in our sample maintain that their "intent of marketing activities" is also relationship-focused (Database had the highest average). On the other hand, the last three measures, which capture

additional aspects of marketing practices, suggest that companies in general are more Transaction oriented.

These results may be of concern to managers because it suggests that while companies may see relationship building as important to their corporate strategy, the reality is that marketing resources and planning remain transaction oriented. Of course, this research is at a preliminary level and will need additional work to confirm and expand on what is really occurring. Nevertheless, it does send a warning shot to managers to examine whether relationship management is really being implemented in their companies or is it being overlooked in pursuit of short-term gains.

CONCLUSIONS

We have acquired a great deal of learning with regard to multiple channel management from this survey. We have learned more about the kinds of channels used in the marketplace as well as how companies manage these channels. We have also learned about the customer orientation that these multiple channel companies maintain in their markets. We acknowledge that the needs of the market, as well as the needs of the customers, will dictate how companies relate with their customers. Nevertheless, it seems to be that while the intent of the companies is to have a greater relationship focus with their customers, they instead have their marketing planning and resources remaining at a transaction level. How these companies can change their orientation is another research question to be investigated. Importantly, companies must realize the discrepancy in their intent and their actual performance in order to rectify the situation.

In addition to these learnings, we have started to answer some of the research questions we stated at the beginning of this document:

- ◆ What are the transactional or financial reasons for maintaining multiple points of contact with customers?

Respondents told us that generating customer traffic is the main benefit of maintaining multiple channels. Another benefit suggests that multiple channels potentially decrease fulfillment costs. Managers should note that we did not examine the optimal level of multiple channels; that is, where the highest customer traffic results in the lowest fulfillment costs. This would be an important metric to understand before investing in additional channel capacity.

- ◆ Are the motivations for multiple channels based on a strategic desire to establish deeper relationships with customers?

There indeed seems to be a strategic motive for developing multiple channels. We saw this in the responses regarding relationship orientation. While the relationship motivation may be present, the implementation is still at a transaction level. Managers should recognize this discrepancy in their companies by understanding and then addressing the obstacles to implementing greater relationships with their customers.

- ◆ Could the reason for maintaining multiple channels be purely competitive in nature? That is, “our competition has multiple channels so we do too.”

While competition was a reason for maintaining multiple channels, it was relatively less of a motivating force than was investing in channels to gain efficiencies. This is a promising finding for managers who are clearly not seeking to have their companies be a “me too,” but rather a driving force in lowering costs in the channel and being able to meet the needs of customers.

- ◆ Are companies that have stronger relationships with customers in their markets more successful companies?

There is some scant evidence that companies with above average sales performance over the last year were the same companies who had a moderate degree of relationship orientation. More analysis is required to better understand what is occurring in the data. One preliminary guess is that there might be some optimal level of relationship establishment. That is, some degree of relationship orientation is good to have, but too much could affect the bottom line. Perhaps this is due to the resources and investments that have to be put in place to be able to nurture these relationships. Again, this is a very preliminary finding; we do not present the numerical results here due to the need for greater analysis. Another cautionary note is that we merely asked for company performance over the past year. Ordinarily, relationships have long-term pay-offs and some companies may not have yet seen the benefits of their investments. For those who are interested in the final analysis we will be preparing for academic journals, please let us know about your interest and we will be happy to forward to you this information once it is available.