Reducing Channel Conflict

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Conflict is common throughout the distribution channel of marketing. It exists among manufacturers, distributors and retailers. Much of the conflict is created among the members but it is also exacerbated by conflict that exists among those selling to the channel. Specifically, this includes key functional groups such as sales, marketing and supply chain. The lack of communication, trust and confidence within these key groups make it even more difficult to work with the external channel of distribution and creates even more conflict. This paper will address this conflict and develop a series of solutions to improve the buyer/seller relationship.

INTRODUCTION

Supply chain management is a strategy that continues to be in focus due to its importance throughout the distribution channel. A McKinsey quarterly study (2011) believed that enhanced supply chain integration could contribute an additional 1.2% growth in GDP. Much of the supply chain focus has been driven by customers like Walmart as companies put dedicated resources toward the world's largest retailer. Proctor and Gamble was one of the first manufacturers to create a Customer Business Team whose sole responsibility was Walmart. This was discussed in detail by Grean and Shaw (1988) in a paper that highlighted the importance of channel partnership and the sharing of information technology to create efficient supply chain systems. Before this partnership was formed, revenue between the two was $375 million. In fiscal 2010, Proctor and Gamble had sales of $12.6 billion to Walmart - almost 16% of the company's overall sales (Wohl, 2011). To enhance the partnership the two even went as far as developing a joint mission statement stating: "The business team mission is to achieve the long term business objectives of both parties by building a total system partnership that leads our prospective companies and industries to better serve our mutual customer, the consumer." (Grean & Shaw, 1988). With this renewed focus among distribution channel members, and with a desire to reduce costs and increase efficiency, "channel conflict" has become a challenge for members and a potential stumbling block toward maximizing revenues and building partnerships. This paper will explore the distribution channel and identify the key causes of channel conflict and discuss solutions to reduce this conflict thus allowing for better business results.

The Distribution Channel

Throughout this paper I will utilize a standard distribution channel. This will include some type of intermediary (will be classified as a distributor throughout the paper) to act as a middle person between the manufacturer and retailer. This channel can be called channel 3 distribution and is a mechanism to deliver goods to the consumer. (Armstrong & Kotler, 2005). These two also discuss the key functions involved with an intermediary which include handling, promotion, negotiation, placing orders, arranging financing, taking risks and facilitating physical possession, payment and title. Figure 1 depicts this channel which would normally include high purchase frequency and small purchase value.

FIGURE 1
CHANNEL 3 DISTRIBUTION

Manufacturer → Distributor → Retailer → Consumer

Figure 1 can be classified as the most basic and most popular channel to get product from the manufacturer to the consumer. However, the model does omit the internet which in its early stages of growth caused tremendous amounts of channel conflict. Lisa Bannon of the Wall Street Journal (2000) discussed how Mattel made a decision to sell Barbies ® online. Retailers responded by questioning how they could be partners when they are now competing for sales. Mattel attempted to reduce conflict by pricing the items higher and limiting online sales. Lee, Lee and Larsen (2003) discussed this internet conflict and saw the benefit to manufacturers to communicate to consumers directly and the benefit of gathering valuable information. However, they also noted the “emotional antagonism” that was creating friction between manufacturers and retailers. Some retailers threatened to remove products off the shelf as a form of retaliation. To deal with this internet conflict, a strategy was developed whereby manufacturers assess their overall concern for themselves and their intermediary. Examples were given of manufacturers directing consumers to pick up products at retail brick and mortar locations or creating difficult products to sell through different channels. The overall objective was to reduce possible channel conflict. In 2012, the internet has become a widely accepted and necessary means to sell direct to the consumer. Conflicts may still arise but is often accepted because of its importance to the end user. Forrester Research Inc. predicts online retail sales to represent 8% of all retail sales in the U.S. by 2014 and represent a total near $250 billion (Shonfeld, 2010). Today, it is best to examine channel conflict from two perspectives. The first is external channel conflict, which will deal with the traditional channel model (Figure i). The second will be internal conflict, which will look specifically at the manufacturer and key functional groups that exist at a company and their role in creating channel conflict.

External Conflict

Maybe it sounds simple; manufacture a product, sell it to a distributor, pass it along to a retailer and allow a consumer to purchase it. However, the opportunities to create conflict throughout the process are immense. Hostility is created by all parties, thus the need for conflict resolution becomes a necessity. Susan Foreman (Spring, 2006) discussed channel conflict as a source of creativity and innovation as well as something that could be destructive and harmful to channel relationships. She identified various causes of conflict whether they are channels competing for the same territory or customers buying in cooperative groups. To expand on this, Figure 2 breaks down potential conflict that is created by various strategies, tactics and decisions made by each party. The items included would have high tendency to elevate conflict and create a poor working relationship.

To expand on Figure 2 could give further clarity to the amount of conflict that could be present. Manufacturers are often accused of creating too many new products which may fail over a short period of time. In Rob Adams book “*If you Build it will they Come*?” he indicated more than 65% of new products launched by established companies fail. Distributors get upset with this because they create warehouse space to store the product and retailers get upset if a product gets put on the shelf and does not sell. Retailers are often accused of promoting their private label at the expense of a national brand or poorly placing a manufacturer’s product in a less than ideal shelf position thus creating conflict. Distributors often are caught in the middle dealing with invoice issues, damaged goods or, at times, late deliveries, adding to confrontational situations. Further study of these potential conflicts was done by Nadeau

(2001). He identified three major causes of channel conflict to be incompatible goals, poorly defined roles and responsibilities, and having no conflict resolution in place. Part of his research revealed that only 17% of distributors indicated that they had common goals with the manufacturers that they represented in the market place.

FIGURE 2
EXTERNAL CHANNEL CONFLICT SCENARIOS

Manufacturer	***Wholesaler (Distributer)***	***Retailer***
-Too many new products	-Late Deliveries	-Private label
-Too many price changes	-Large Mark-ups	-Price disparities
-Selling Direct store delivered	-Damaged goods	-Poor shelf placement
-New products that fail	-Improper invoicing	-Discontinuing items
-Shortage of products	-Product diverting	-Non-promotion
-Poor packaging	-Invoice deductions	-No in store support
-Pushing or loading product		-Poor category management
-Special packs		
-Poor channel support		

Before identifying solutions to channel conflict it would be beneficial to look up the channel to the manufacturer and see what can be done on their part to improve the overall relationship. This will be referred to as internal channel conflict and will look specifically at three key corporate functional groups of the manufacturer, including marketing, sales and supply chain. Within a company, these three key groups play prominent roles in channel success. Marketing creates products, sales sell them to the channel and supply chain properly ships them to their destination. Looking at the three functional groups, one finds that there are unique perceptions throughout that can often add to a poor working relationship. (Thomas, Mitchell, & DelRossa, 2007-08) conducted a global sales perceptions report. Here they surveyed over 2,700 buyers across six countries to see how the buyer-seller relationship was viewed. The conclusion was that buyers have a poor perception of sale people, have high expectations that are not being met and do not see the formulation of a true business partnership. Some of the comments included unwillingness to listen, not taking no for an answer, lack of product knowledge, being pushy and deceptive. These perceptions are real and can actually permeate throughout an organization as well.

From a marketing side, strong perceptions also exist. The working relationship between sales and marketing was researched by Kotler, Rackham and Krishnaswamy (2006). They identified two main sources of friction between the two as being economic and cultural. The economic friction centers on the competitive battle to get a fair share of the overall company budget. The one function that receives a higher portion could exert more power over the other. Another point made is how the dollars are spent. Sales might view the marketing dollars to generate more brand awareness as wasteful where marketing might view the sales trade dollars used to incent retailers as useless and not a factor to build brand equity. The second conflict between the two was labeled as cultural. Marketing is often viewed as happening behind the desk, whereas sales is viewed as practiced in the field building relationships. Both are important but to the two functions, theirs is seen as most vital to a company's success.

One last area to look at is an often overlooked function: supply chain. This is a group that needs to work closely with sales and marketing; it is a group that comes in contact with these functions as well as the entire distribution channel. McCarter, Fawcett and Magnan (2005) discussed the challenge of the supply chain function. They discussed the importance of supply chain education and training as a key to providing employees with vision and understanding as to why supply chain management is needed. To improve the relationship within a company, they used the term "collaborative company intervention" as a way to integrate supply chain throughout a company and give others a better understanding of how it works and the importance to a company.

In addition to perceptions that are present throughout an organization, other factors exist that could lead to internal conflict. Figure 3 list these factors.

FIGURE 3
INTERNAL CHANNEL CONFLICT SCENARIOS

Sales	Marketing	Supply Chain
-Misrepresent products	-Operate in silos	-Inflexible
-Discount too much	-Too many new items	-Poor understanding of sales and marketing
-Incentive driven	-poor understanding of sales	

Conflict Resolution

As part of the research, I interviewed various individuals that worked in the distribution channel. In developing resolution ideas it is best to view the issues both externally and internally.

External Channel Resolution

John Donohue is the Director of Trade Development for the Regal Division of Wirtz Beverage of Illinois. Wirtz Beverage is a major distributor and an intermediary to major manufacturers and major retailers. He supports Nadeau's thoughts by saying that communication with suppliers in formulating business planning meetings, aligning pricing strategy and creating monthly, quarterly and annual business plans as a key. Alongside these tasks, having clear goals and expectations and, most importantly, a clear understanding of the metrics being used are key to avoiding and resolving conflict. This last point is critical. Members in the channel all have different metrics used as part of their incentive plan. Incentives could be based on profit, tonnage, fill rates, out of stocks, forecast accuracy and store traffic, just to name a few. Members understanding this could be a critical step in conflict resolution. Delivering product to retailers with accuracy and in a timely manner is essential. He indicated that knowing your retailer and having sales representatives develop strong business relationships with each store will go a long way in smoothing out potential issues.

Internal Channel Resolution

Much less research has been done within a manufacturer's functional groups and their tendency to create conflict. Here is where much of the channel conflict begins-and where some of it could be resolved. Kellogg's is a Fortune 500 company with $12.4 billion in revenues (Yahoo). With many new product entries into the market each year, having a working distribution channel is a necessity. Wilson Ray is Director of Sales Operations for Kellogg's specialty channels. He has experience across sales, operations and supply chain. His first thought is for manufacturers to establish cross- functional teams. These teams would consist of sales, marketing and supply chain, among others, to provide early input into the product development cycle. Each functional group has a sound understanding of the distribution channel, so up front communication could prevent further channel conflicts. Another thought, which was also suggested with external conflict, centers around performance metrics. Many times different functional groups are evaluated and incented across different criteria, thus creating major internal conflicts. If one functional group is going toward one goal (volume) and another is going toward a different one (profit) and still another has their own incentive (fill rate), major conflict can be dispersed throughout the corporation thus inhibiting solid business results. A common incentive plan tied to specific customers with aligned metrics could create better harmony internally and externally.

Kraft Foods adopted a Customer Business Team strategy in 1995, when Kraft and General Foods came together. Here a dedicated team is assigned to its largest customers with the objective of giving full focus to customer needs. Fina Klco is Senior Manager Customer Supply Chain and Logistics for Kraft. Her expertise is on the supply chain side of the business and sees a need for cross-functional training as a means to reduce internal conflict. If people in sales, marketing and supply chain do short cross- functional assignments they would develop a better understanding of the functional group and be able to be more versed in the overall delivery to a distributor and retailer. She also reiterated the need for common metrics across all functions to align goals and objectives. The need for common and understandable performance metrics appears to be a must throughout the channel. One other point made was the value of conducting "ride alongs". This is when someone in the supply chain organization will spend a day with a salesperson, giving them a sense of what the sales job is all about. This could help in the overall communication and understanding between the two functional groups.

CONCLUSION

Implications for Distribution Channels and Education

This paper made a distinction by observing the channel both externally and internally. All of the parties can play a role in reducing channel conflict and improving business results. There were common elements present throughout the distribution channel that could play a large role in creating conflict. Figure 4 is a summary of various strategies to implement both internally and externally.

FIGURE 4
CONFLICT RESOLUTION STRATEGIES

<u>Strategies for Success</u>

Internal	External
-Better Communication	-Better Communication
-Cross Functional teams	-Business planning process
-Overall respect for each function	-Clear goals and expectations
-Common incentive plan	-Understanding of performance metrics
-Cross functional training and development	-Defined roles and responsibilities

One good exercise to conduct in a marketing class was suggested by Wanda Fujimoto at Central Washington University. She titled it "Who's to Blame? A Channel Conflict Exercise." Here she breaks the class into three groups to understand the possible causes and consequences of channel conflict. The three groups include manufacturers, distributors and retailers. Students are asked to list complaints directed toward other channel members. This is an effective exercise that I have used in my classroom; however I have expanded this to include sales, marketing and supply chain. This creates good discussion and great dialogue. Ask for the same complaints and one could see from the class a chalkboard full of potential conflict issues with the internal channel. The last part is for the whole group to discuss how to resolve it. Much of what was presented in this paper will be easily addressed in the classroom.

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