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Manufacturers' reliance on channel intermediaries: Value drivers in the presence of a direct web channel

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ABSTRACT

Channel intermediaries constitute a key marketing asset, enabling manufacturers to reach out to and serve end-users or customers. The manufacturer-intermediary relationship has to create value for and deliver it to the end-user. In this process manufacturers and intermediaries add value to each other. Drawing upon the Governance Value Analysis (GVA) framework, this paper focuses on the manufacturer's perspective of value contributed by themselves and their intermediaries. The research setting is a multi-channel context where the manufacturer employs a direct web site for marketing in addition to the intermediary channel. We find that relational investments in intangible assets such as training and operating procedures by manufacturers in intermediaries, and intermediary investments in their end-customer relationships, increase manufacturers' reliance on intermediaries even when the manufacturer has its own direct web site. Further, regardless of having their own website, manufacturers' reliance on intermediaries increases with the web competence of their intermediaries. In addition, we find that, to the extent that the manufacturer's direct web site can perform the same functions as the intermediaries, manufacturer reliance on its intermediaries decreases. Surprisingly, manufacturers whose web sites have e-commerce transaction facility, rely on intermediaries more than those manufacturers whose web sites do not have this facility. Finally, the study finds that manufacturers' reliance on intermediaries has increased over time despite their direct web channels, probably due to market growth opportunities. Overall, our study findings showcase the complementary role played by manufacturers' web sites and intermediaries in serving their end customers in growth markets.

1. Introduction

The investigation of value in business-to-business relationships has a long and established tradition in the marketing literature (e.g., Anderson & Narus, 1998; Jackson, 1985; Lindgreen & Wynstra, 2005; Webster & Wind, 1972). In their seminal literature review, Lindgreen and Wynstra (2005), see value in business relationships as emanating from two sources—a) goods and services, and b) the relationship between buyers and sellers. Examining sources of relational value in business markets is therefore important. Our study, with its focus on relational governance (Ghosh & John, 1999) in the multi-channel context contributes to this goal.

Today's distribution channel systems are increasingly complex with producers serving end-user markets through multiple channels (Sa Vinhas et al., 2010). There is, thus, a triangle of channel players (producer, intermediary, end-user) who co-create value within this system (Vargo & Lusch, 2008). Sa Vinhas et al. (2010) call for more investigations on the design and management of these systems at three different levels of analysis: (1) individual actor level, (2) relationship level, and (3) channel system level (Fig. 1). They see enormous potential for future research to integrate the channel design literature with the Customer Relationship Management (CRM) literature emphasizing relationship value across all the actors in the system. Consistent with Sa Vinhas et al. (2010), in this study we focus on value drivers for the manufacturer — intermediary relationship as they co-create value for the end-user.

Channel intermediaries constitute a key marketing asset, enabling manufacturers to reach out to and serve end-customers. The manufacturer-intermediary relationship has to create value and deliver it to the end-user. The system, as a whole, can only create and deliver this value if each entity contributes value to the other in this business relationship. In fact, according to Webster (2000), in a three way producer-intermediary-consumer relationship, the quality of relationship for any given actor is a function of the quality and

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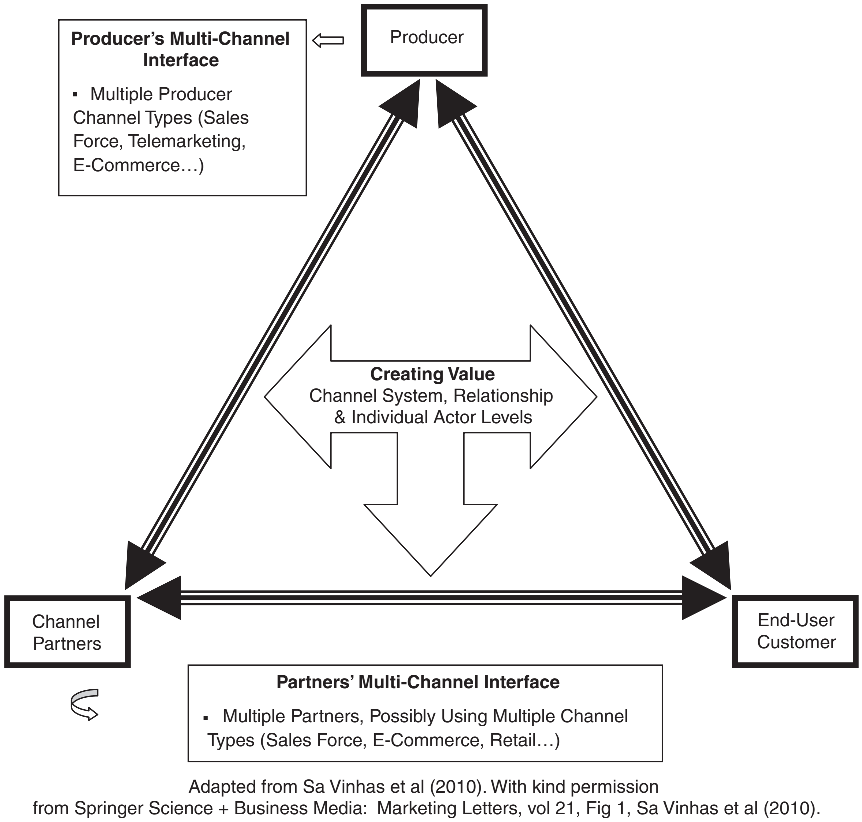

Fig. 1. The channel value network.

strength of the relationship between the other two actors. This reinforces the significance of relational value in the distribution channel, our area of emphasis in this study.

Over the past 15 years, in addition to the traditional intermediary channel, manufacturers have been experimenting with their own web sites as an alternative direct channel to reach and serve end-customers. This could have a negative relational impact on the manufacturer-intermediary dyad given the prospect for channel conflict. This is because in theory, manufacturer websites can lead manufacturers to bypass intermediaries (disintermediate) and directly sell products to household and business customers (Chircu & Kauffman, 2000; Hagel & Armstrong, 1997). However, widespread talks of disintermediation from the early years of the web, with manufacturers expected to reduce reliance on intermediaries, have not come true. Contrary to predictions, indirect intermediaries have not only survived, but thrived in many industries (Narayandas, Caravella, & Deighton, 2002; Rosenbloom, 2007). It is important to understand the factors that contribute to the continued presence of intermediaries in the value chain concurrent with the digitization of selling activity by manufacturers. Our focus on relational sources of value in the manufacturer-intermediary dyad should help manufacturers make better channel design decisions as well as guide intermediaries with regard to maintaining their viability in the presence of emerging business realities.

Addressing this gap in the current literature in relation to online multi-channel conditions, our study investigates the following:

1. What are the relational value drivers, i.e., sources of value contribution, in the manufacturer-intermediary relationship?
2. How do these value drivers impact manufacturers' reliance or dependence on intermediaries?
3. Does this reliance increase or decrease as manufacturers make greater use of direct web sites?

The main contributions of this paper are: (1) we integrate the literature on value in B2B relationships with the literature on multi-channel theory and Governance Value Analysis (GVA) to derive a conceptual framework with testable hypotheses, (2) we conceptualize and measure relationship sources of value to the manufacturer and intermediary from the manufacturer's perspective, in the specific context of the manufacturer adding a direct web channel; (3) we provide insight on whether the manufacturer's web site adds to, or detracts from, value in this business relationship; (4) we provide insight to help manufacturers make better channel selection decisions as well as guide intermediaries to maintain long-term viability in the presence of potential channel conflict with the manufacturer's direct web site.

The rest of this paper is organized as follows. We begin with the positioning of our research question in the context of the existing literature. Then we present our conceptual framework and hypotheses. Next is the methodology section, followed by the results and main findings of the study. The discussion section explicates study implications. We conclude with limitations of the present study and directions for future research.

2. Development of the research question

Given the focus of our research on understanding value-contributors to the manufacturer-intermediary relationship in the multi-channel context of manufacturer websites, we present literature pertaining to three component domains as follows:

- Value in business markets
- Multi-channel distribution
- Internet as a channel