



The changing role of middlemen – Strategic responses to distribution dynamics

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ABSTRACT

Middlemen in distribution are challenged by considerable changes in their business contexts. The aim of this paper is to explore the consequences of these challenges and identify adequate roles for middlemen in the business reality of today. The paper is based on a case study of a distributor in the mobile phone industry. From being a 'traditional' middleman, this firm evolved into a multi-functional actor involved in various distribution arrangements with its business partners. The functions of the distributor in the case study enabled formulation of generic middleman roles, based on concepts from the industrial network model. These roles originate in the activity and resource layers of the network, while role traditionally is defined in relation to actors.

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1. Introduction

"An advanced marketing economy is characterized by intermediary sellers who intervene between the original source of supply and the ultimate consumer. These middlemen include retailers and wholesalers and many specialized types of merchants, brokers and sales agents" (Alderson, 1965:211).

The middlemen mentioned above have been highly significant in the evolution of business. Historians claim that the entrance of the professional traders at the end of the Middle Ages was an important driving force for the whole society, since they functioned as engines in the development of our world (Heilbroner, 1962; Hicks, 1969). Also marketing channel researchers emphasize the importance of middlemen in the past, in the conclusion that "wholesalers as institutional type have for thousands of years been involved in what we refer to as global marketing" (Rosenbloom & Larsen-Andras, 2008:235).

Over time, various types of middlemen continued to be important business actors (see e.g. Alderson, 1949; Chandler, 1977; Lusch, Zizzo, & Kenderdine, 1993). At the end of the 1900s, however, their central position was severely challenged. Technical development in manufacturing, logistics and information systems, enabled new types of distribution arrangements. In particular, developments in information technology improved conditions for direct producer–consumer contact and reduced the need for inventories, owing to faster and more accurate communication. Since warehousing was one of the main functions of middlemen these changes threatened their position in a time characterized as "the

revolution that is taking place in distribution" (Stern & Weitz, 1997:824). The consequences were expected to be most dramatic for middlemen, and Pitt, Berthon, and Berthon (1999:19) concluded that "many intermediaries will die out". Some years later a comprehensive literature review indicated that "there is no room in this revolution for middlemen" (Mudambi & Aggarwal, 2003:317).

Another claim by Pitt et al. (1999:19) was that "new channels and new intermediaries will take their places". There is no doubt that 'traditional' middlemen in some contexts, and some situations, have been outperformed by such entrants. However, many 'traditional' middlemen have overcome the challenges by adjusting their operations to the changing conditions. They have done so by adapting their roles in ways that make it possible to claim that they appear as 'new intermediaries'. In a historical perspective such transformations are not uncommon. On the contrary, they seem to be prerequisites for the existence of middlemen. For example, Alderson (1949:45) concluded that "the survival and continued vigor of the wholesaler is remarkable, considering the persistent attempt to supplant him".

These conditions motivate a study dealing with middlemen and the adjustments of their roles and operations in the dynamic contexts in which they reside.

2. Aim of the study and the outline of the paper

The overall objective of the study is to explore the consequences for middlemen, owing to the current challenges. This objective involves two aims. The first is to identify adequate roles for middlemen in the current business context. The second aim is to analyze the implications for implementation of these roles. As claimed by Alderson (1949) the positions and roles of middlemen have been challenged

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more or less continually over time. Learning from these historical challenges, and how they were handled, should improve the understanding of the current and future opportunities for middlemen. Therefore, the paper begins with an historical overview of distribution dynamics of relevance for the current situation of middlemen. This is followed by the framing of the study and an account for the methodological approach. After this, a case study is presented, dealing with a middleman in the mobile phone industry and some of its business partners. The empirical findings are then analyzed and discussed in relation to observations from other studies, which enables the formulation of generic middleman roles. The paper ends with concluding remarks.

'Middleman' and 'role' are central concepts in this study, both of which are somewhat diffuse. The introductory quote identified middlemen in the form of retailers, wholesalers, and many specialized types of merchants, brokers and sales agents. Other literature would describe even other forms of this phenomenon, which makes a precise definition problematic. But Alderson also characterize middlemen as those who intervene between the original source of supply and the ultimate consumer. This is in line with the dictionary definition: "any trader through whose hands goods pass between the producer and the consumer" (Hornby, 1974). These definitions fit well with the features of the middlemen appearing in the historical part of the study. However, as shown in the paper, this definition is less valid today, because of the changing roles of middlemen.

Concerning the role concept we provide no definition at the outset. The aim of the study is to formulate appropriate roles for the current context, which makes the study inductive in this respect. Traditional definitions of role take various forms, but are mainly concerned with the middleman's connection to firms identified as producers and consumers (Jensen, 2010). Contemporary changes in the business context make it relevant to search for complementary definitions in other dimensions. For example, Wilkinson (2001) claims that the governance among firms cannot be considered in isolation from the system of operations. This is the basic approach taken in this study.

3. The dynamics of distribution and middlemen

The history of distribution is quite well documented through books and papers by, for example, Chandler (1977), Fullerton (1986), Corey, Cespedes, and Rangan (1989), Dixon (1991), Wilkinson (2001), Gadde and Ford (2008). The main learning from history is that distribution structures and processes have changed substantially over time. Survival in these dynamic contexts calls for adaptations to modified conditions. In this evolution the position of middlemen shows considerable variation. Sometimes they have been severely threatened, while in other periods they appeared as powerful actors (Gadde, 2012). From this evolution we bring up three types of dynamics of significance for the exploration of current and future situations of middlemen. The first deals with the increasing specialization in distribution. The second concerns the individual firm's extended dependence on the resources of business partners, making resource sharing a major issue. The third is a consequence of the two other and regards the modified relationships among the organizations involved in the distribution arrangements. All these conditions have changed significantly over time and are crucial for the functioning of distribution today and tomorrow – for middlemen and for other firms. The analysis of these dynamics of distribution provides the bases for the framing of the study.

3.1. Increasing specialization in distribution

Before the industrial revolution the distribution arena was dominated by The Grand Distributor (Chandler, 1977). This form of middlemen featured an all-purpose business, sold all types of goods and performed all the basic commercial functions by acting as "exporter, wholesaler, importer, retailer, ship-owner, banker and insurer" (Chandler, 1977:15).

The industrial revolution changed these conditions in several ways. In banking and insurance specialized organizations appeared, which reduced the functional scope of the grand distributor. Manufacturers established their own sales organizations to secure direct contact with the users of their products (Bucklin, 1972). The industrial revolution also enabled middlemen to specialize. Some firms focused on furnishing user industries like textiles, shipyards and mining with supplies, while others specialized in distributing products from manufacturers of steel, chemicals and other industries (Corey et al., 1989).

These distributors continued to have a broad coverage of functions. For example, the typical industrial distributor of the 1900s was described in the following way: "[He] contacts customers and makes the product available by providing necessary supporting service such as delivery, credit, technical advice, repair service, assembly and promotion" (Herbig & O'Hara, 1994:199). At the end of the 1900s these conditions changed radically, when new types of actors emerged. Some of these specialized in physical distribution, identified as third-party logistics service providers (Carbone & Stone, 2005; Marasco, 2008). Others exploited conditions provided by information technology and focused on supporting efficient information exchange between companies. Such firms were recognized as information brokers (Clarke & Flaherty, 2003) and electronic intermediaries (Tamilia, Senecal, & Corrivecu, 2002).

The origin of the evolution of this specialization can be traced back some fifty years, when the broad area of distribution was split-up in its 'two halves' – marketing and logistics (Converse, 1958), which in turn caused the separation of information exchange and material flows. The outcome of these changes is that distribution arrangements have become increasingly interdependent when it comes to the connections between activities. The global orientation of business impact on these conditions, since this approach leads to "increasing interdependencies between the activities in that market on activities and outcomes in several other, spatially dispersed national markets" (Mattsson, 2003:418). Moreover, complexity is increased by the fact that interdependencies cross corporate boundaries.

Thus, in the current distribution context the extent of activity specialization and the content of this specialization represent significant strategic issues for any middleman.

3.2. Extended resource-sharing among firms

The enhanced need for resource sharing is a consequence of increasing specialization. When firms narrow their own operations, they become increasingly dependent on the operations and resources of others. Focusing on a limited range of activities, not only improves the capacity utilization of these resources. It also means that specialized companies do not have to invest in the broad range of assets that characterized the grand distributor and the all-purpose industrial distributors. Specialization in activities thus leads to resource specialization. For example, specialists are able to invest in the most advanced equipment within their areas of operation, and undertake each activity at its optimum scale, which is difficult for middlemen involved in several types of operations. These conditions are particularly important when technological development creates new opportunities.

The grand distributor controlled all important resources through ownership. The current orientation to focus on a limited resource set-up has made middlemen, and other firms, increasingly dependent on access to the resources of others. In this way, firms have become involved in organizational structures where they share "their resources and capabilities in novel ways [through which] they can take advantage of profit-making opportunities that they could not exploit on their own" (Narus & Anderson, 1996:112). These resource constellations are based on pooling of complementary skills and competencies. Therefore, previous recommendations for resource control through ownership are now supplemented with advices concerning the benefits of resource sharing. For example, Weber (2001) argues

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