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Working more or working less? Contingent allocation of reseller effort in distribution channels☆

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ABSTRACT

Because resellers in business markets typically represent multiple suppliers, a key variable in the study of channels of distribution is reseller allocation of effort, which involves understanding how much time and resources a reseller devotes to a supplier to help the supplier support its products. While allocation of effort is of vital importance to channel practitioners, it has been under studied in the academic literature. We propose a conceptual model based on the competing values framework, which suggests that firms balance different, changing, and incompatible challenges, making high performance outcomes difficult to attain. We suggest that these stressors, or channel concerns can be identified as an economic concern, a stability concern, a harmony concern, and an adaptation concern. Such concerns affect the allocation of reseller effort through two moderating conditions of the environment: territory volatility and territory stagnancy. An exploratory study featuring 26 semi-structured depth interviews and 162 responses from a survey of distributors in the brewing industry provide data for hypothesis testing. In general, good support is found for our model. Reseller allocation of effort is affected by the interaction of four channel concerns and two types of territory difficulties. Actionable managerial recommendations are provided.

A key issue in the practice of channels of distribution is the extent that an independent reseller applies an adequate amount of effort for any particular supplier. Such effort includes the investment of time and resources into actively representing a supplier's product (Anderson, Lodish, & Weitz, 1987). Because resellers typically represent multiple suppliers, they are neither capable of, nor motivated to, actively represent them all. Thus, they tend to choose, depending on certain conditions, those suppliers that provide them with the most optimal set of rewards, leaving other suppliers with less support (Gilliland & Kim, 2014). In fact, this lack of reseller support is so common that channels researchers have suggested that the reseller's "default position" is to reject the supplier's requirements of support (Murry & Heide, 1998; p. 58).

Securing active representation by resellers has become critical for a supplier's success for two reasons. First, the ever increasing number of new products being introduced to the market forces resellers to carry more suppliers and brands (Kauferle & Reinartz, 2015), which inevitably dilutes the reseller's attention. Second, resellers are more cautious about committing themselves to a particular supplier given the supplier's increasing use of multiple sales channels, including the direct channel (Friedman, 2002). These reasons raise an underappreciated dilemma for a supplier selling through resellers: it has a higher need to secure reseller support, while at the same time it has less ability to secure such support.

We define a reseller's allocation of effort as the amount of support provided – in terms of time allocated toward, prioritization of concerns of, attempts at support of, and extent of work applied to, a focal supplier (Anderson et al., 1987). Despite the critical importance of this topic, academic study of the amount of reseller effort allocated has been virtually overlooked in the marketing channels literature, with the notable exception of Anderson et al. (1987). They found that a reseller's effort allocation, in general, is a function of many factors, including financial performance, lack of uncertainty, synergy, commission rates, supplier power, mutual trust, communication, and the support provided by the supplier. While those factors provide managers with insights on what drives effort allocation, the study suffers a lack of coherent theoretical underpinnings on the link between those factors and effort allocation. In contrast to Anderson et al. (1987), we take a multi-theoretic perspective and investigate a reseller's effort allocated toward a focal supplier based on a differential match between an internal factor (the reseller's

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concern for performance) and an external factor (environmental challenges in the reseller's territory; Buenger, Daft, Conlon, & Austin, 1996).

We further contend that the relationship between reseller concern for performance and allocation of effort is contingent on the discriminating match with the reseller's external environment that constitute changing and uncontrollable threats to reseller performance. We consider two key, contrasting attributes of a reseller's external environment: *territory volatility* and *territory stagnancy* (Buenger et al., 1996). Volatility of a reseller's territory refers to unanticipated changes in, among other things, technology, competition, regulation, and demand (Bourgeois & Eisenhardt, 1988; Klein, Frazier, & Roth, 1990). Stagnancy (Achrol, Reve, & Stern, 1983; Kim, 2001) refers to the lack of expected purchasing power, growth, and opportunities in the reseller's trade territory.[i] We theorize that territory volatility and territory stagnancy pull a reseller in opposite directions when it comes to allocating reseller efforts.

This paper proceeds with a description of the theoretic drivers of the study, followed by testable research hypotheses. We test the hypotheses on data gathered from a sample of 162 U.S. beer resellers who comment on the extent of effort allocated toward their brewing suppliers (e.g., Molson Coors, Budweiser).[ii] In examining these relationships we, 1) study reseller allocation of effort, based on a differential match between reseller concerns and territory conditions, 2) apply a multi-theoretic model of reseller allocation of effort, the competing values framework (Quinn & Rohrbaugh, 1983), and, 3) consider how a channel reseller's environment interacts with performance goals, investigating the discriminating effects of challenging local market considerations on resellers' allocation of effort.

1. Background

1.1. Allocation of reseller effort

A reseller's performance goals include the pursuit of, 1) pre-established financial goals (what we refer to as the economic concern), 2) the ability to adapt to changing external conditions (adaptability concern), 3) the ability to maintain stable channel relations with constituents (stability concern), and, 4) harmony among the reseller's channel relationships (harmony concern). Following Kumar, Stern, and Achrol (1992), we contend that such performance imperatives are concerns of the reseller, and that they influence the reseller's allocation of effort to address such concerns. Specifically, we build on the competing values framework (Deshpande, Farley, & Webster, 1993; Quinn & Rohrbaugh, 1983) for theorizing the effect of a reseller's performance goals on allocation of effort. A key premise of this framework is that firms attempt to satisfy multiple performance objectives that often compete with one another, making across-the-board high performance all but unattainable (Tracey, Heide, & Bell, 2014). Given the dyadic nature of most channels studies, prior studies assumed that a reseller allocates enough effort to their brands whereas, in reality, most all suppliers have to compete aggressively with one another to earn more attention by the reseller. The nature of the competition is *intra*-product competition, where the reseller often represents multiple direct competitors (in the brewing industry some beer distributors represent import and craft brands in addition to major domestic brands), and *inter*-product competition where the reseller represents multiple types of related products (beer distributors often carry other products besides beer such as alcohol-based ciders and teas, spirits, and non-alcoholic beverages). Known in the brewing industry as "share of mind," allocation of effort represents the reseller's overall attention paid to the brand, and it determines the extent that the supplier's distribution and marketing efforts are implemented by the reseller. To their dismay, suppliers find that even the best territory-specific reseller incentive programs are often neglected when the reseller makes a conscious effort to support another supplier (Gilliland & Kim, 2014).

1.2. Competing performance concerns of a reseller

A performance concern represents a reseller's worry or misgivings about its ability to meet or exceed formal or informal objectives for success (Buenger et al., 1996). For instance, a reseller may be particularly concerned about cash flow, conflict with a channel supplier, its ability to navigate changes in the economy or structural changes in its industry. We suggest that a reseller's unique concerns for performance outcomes motivate the allocation of its effort toward particular suppliers that allow the reseller to best resolve its concerns. That is, concerns drive the reseller to reallocate its efforts in a way that mitigates the concerns (Anderson & Weitz, 1992; Anderson et al., 1987).

There are two important points to consider regarding the performance concerns of a reseller: First, concerns vary across resellers based on the reseller's unique business situation. Competitive intensity, market size, product development, the establishment of upstream and downstream relationships, and length of supplier relationships, among other things, all vary from reseller to reseller. Second, performance concerns are not static but change as business conditions change; what may be important in one period may be less or more so in the following period. For instance, as the economy worsens resellers may have greater concerns than usual regarding revenues, cash flows, and the ability to meet other financial goals. As the reseller's financial position improves with the economy, another concern may take priority. Drawing on Quinn and Rohrbaugh (1983) and Kumar et al. (1992), we examine four specific reseller concerns. Each concern is based on a separate theoretic model of organizational performance. These concerns have been collectively examined and labeled as a "Competing Values Approach" (Quinn & Rohrbaugh, 1983, p. 369) because solving any particular concern may make another concern harder to resolve. While the notion of competing concerns applies to most all business situations, we examine this idea in terms of channels of distribution. For instance, if a reseller takes action to reduce its concerns for channel stability by instituting additional controls (Buenger et al., 1996) it may make its ability to adapt to changing conditions more problematic. This suggests that all four concerns – economic, adaptability, stability, and harmony – are seldom simultaneously solvable (Deshpande et al., 1993).

A reseller's *economic concern* is based on the rational goal model of performance (Scott, 1987) and reflects the reseller's desire to lead its market (Cameron & Quinn, 2006) and to meet or exceed all of its financial objectives such as revenues, profits, contributions, and cash flow. The rational goal model of performance suggests that organizations are run by cognizant, rational decision makers who seek high efficiency and productivity (Buenger et al., 1996) and, in fact, tend to achieve economic success (Deshpande et al., 1993). Resellers with a high economic concern tend to have a short-term orientation to meet periodic performance reports. As financial and other objective goals become harder to meet it is likely the reseller's economic concern would increase and appropriate resources would be allocated to resolve this concern.

A reseller's *adaptation concern* is based on the open systems model of performance (Mehta, Larsen, Rosenbloom, & Ganitsky,

[i] Although marketing channels scholars studied the effect of environmental uncertainty extensively, we try to be specific in examining the business environment of a reseller in two ways. First, we focus on a reseller's territory conditions instead of its general business environment. Second, we chose volatility and stagnancy that are representative of a reseller's business environment. We turn to Buenger et al. (1996) for justification of volatility and stagnancy. For territory volatility, Buenger et al. (1996) examine *environmental uncertainty*, which they define as "predictability and change expected in the environment." Our definition of territory volatility (speed of market change) resonates with that definition. For territory stagnancy, Buenger et al. (1996) examine *resource scarcity* and *information scarcity*. We study *territory stagnancy*, which we see as parallel to resource scarcity.

[ii] In the brewing industry, these resellers are known as beer distributors. Beer distributors are, in effect, value-adding wholesalers that stand between the brewer and the independent retailer (e.g., liquor store, supermarket, convenience store, restaurant)

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