Design and Selection of Industrial Marketing Channels
A case study at Alfa-Laval

Alexander Larsson

Luleå University of Technology
MSc Programmes in Engineering
Department of Business Administration and Social Sciences
Division of Industrial marketing and e-commerce
ABSTRACT

Today most companies do not sell their goods directly to the final user. Instead many of the tasks which include distribution activities such as transportation and storage, but also marketing activities such as selling and pricing are undertaken by a variety of external intermediaries. The choice and control of these intermediaries we call marketing channel management. Marketing channels, also called a trade channel or a distribution channel, are these interdependent organizations involved in the process of marketing a product or services available to end users.

The research purpose of this master thesis is “How can a large Swedish company within an industrial market, develop and design reliable marketing channels for a new product under development in the area of sales and marketing.”

To answer this research purpose several relevant theories and models were used. However, these theories are difficult to use in their full extent. Hence, in order to obtain a proper focus in this research thesis, a frame of reference was developed to define and demarcate the problem area. The channel design model used to select and develop a new marketing channel, in the frame of reference, is based on the model presented by Rosenbloom (1995).

The conclusive evaluation of the model for design of market channel structure, presented in the frame of reference by Rosenbloom (1995), is that it’s a straightforward and very comprehensive theory for design of marketing channel structures. However, the method is quite complex and therefore could be refurbished to be more “user-friendly” and simplified for daily managerial use.

Regarding this thesis work, it is interesting to notice that a “new” finding emerged, not previously mentioned in theory. Present theories, within the area of marketing channel; states that a need for channel design decision is based on the fact that an existing new product or product-line might need a new marketing channel. This because, a new existing product might not fit existing marketing channels, within the company of concern. In this case however, the respondent had a suspicion that a future potential marketing channel could contribute to and provide assistance in the development phase of a new product. In other words it could be possible to gain market knowledge, which later on could to be transformed to future product specification, through new marketing channels that are already well established within the market segment.
TABLE OF CONTENTS

4 RESEARCH METHODOLOGY ............................................................................................................ 46
  4.1 INTRODUCTION ..................................................................................................................... 46
  4.2 RESEARCH PURPOSE ........................................................................................................... 46
  4.3 RESEARCH CHARACTER ....................................................................................................... 46
  4.4 DEDUCTIVE VERSUS INDUCTIVE ..................................................................................... 47
  4.5 QUALITATIVE VERSUS QUANTITATIVE ............................................................................ 47
  4.6 DATA COLLECTION METHODS ............................................................................................ 48
    4.6.1 Secondary data .............................................................................................................. 48
    4.6.2 Primary data ................................................................................................................ 48
    4.6.3 Data collection method for this thesis .......................................................................... 49
  4.7 TYPE OF RESEARCH TECHNIQUE ..................................................................................... 49
  4.8 SAMPLING .......................................................................................................................... 50
  4.9 SELECTED RESEARCH METHOD FOR THE STUDY .......................................................... 51
  4.10 METHOD PROBLEMS ......................................................................................................... 51
    4.10.1 Reliability ................................................................................................................... 51
    4.10.2 Validity ....................................................................................................................... 52
    4.10.3 Factors that may affect validity and reliability negatively .............................................. 53

5 RESULTS – DATA PRESENTATION OF CASE ............................................................................. 55
  5.1 INTERVIEW WITH THE CHANNEL MANAGER AT ALFA LAVAL, EFU, PHASE 1-6 ............. 55
    5.1.1 Phase 1: Recognize the need for a channel design decision ....................................... 55
    5.1.2 Phase 2: Set Channel objectives (Doyle, Haas) ............................................................ 56
    5.1.3 Phase 3: Specifying the distribution tasks (Rosenbloom) ............................................. 57
    5.1.4 Phase 4: Developing possible alternative channel structures (Doyle, Rosenbloom, Kotler) 57
    5.1.5 Phase 5: Evaluating variables affecting channel structure (Rosenbloom) .................. 58
    5.1.6 Phase 6: Choosing the “best” channel structure ......................................................... 62
    5.1.7 Identification of potential marketing channel members, phase 7 ................................ 63

6 ANALYSIS .................................................................................................................................... 64
  6.1 INTERVIEW WITH THE CHANNEL MANAGER AT ALFA LAVAL, EFU, PHASE 1-6 ............. 64
    6.1.1 Phase 1: Recognize the need for a channel design decision ....................................... 64
    6.1.2 Phase 2: Set Channel objectives (Doyle, Haas) ............................................................ 64
    6.1.3 Phase 3: Specifying the distribution tasks (Rosenbloom) ............................................. 65
    6.1.4 Phase 4: Developing possible alternative channel structures (Doyle, Rosenbloom, Kotler) 65
    6.1.5 Phase 5: Evaluating variables affecting channel structure (Rosenbloom) .................. 66
    6.1.6 Phase 6: Choosing the “best” channel structure ......................................................... 68
  6.2 IDENTIFICATION OF POTENTIAL MARKETING CHANNEL MEMBERS, PHASE 7 .......... 69

7 CONCLUSIONS AND DISCUSSION .............................................................................................. 71
  7.1 RESEARCH PURPOSE .......................................................................................................... 71
  7.2 DESIGN OF THE FUTURE MARKET CHANNEL STRUCTURE FOR THE PRODUCT ALFIE 200 WASH, AT ALFA LAVAL TUMBA AB, DEP. EFU .............................................................................. 71
  7.3 OVERALL CONCLUSION AND FINAL DISCUSSION .......................................................... 72
  7.4 RECOMMENDATIONS FOR FURTHER RESEARCH ............................................................ 73

8 REFERENCES ............................................................................................................................... 74
  8.1 PUBLISHED REFERENCES .................................................................................................. 74
  8.2 ELECTRONIC REFERENCES FROM INTERNET, DATABASES ........................................... 76
  8.3 COURSES ........................................................................................................................... 76
  8.4 PERSONAL INTERVIEW ....................................................................................................... 76
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.1</td>
<td>INTERVIEW GUIDELINE A1</td>
<td>1</td>
</tr>
<tr>
<td>9.2</td>
<td>INTERVIEW GUIDELINE A2</td>
<td>2</td>
</tr>
<tr>
<td>9.3</td>
<td>INTERVIEW GUIDELINE A3</td>
<td>3</td>
</tr>
<tr>
<td>9.4</td>
<td>INTERVIEW GUIDELINE A4</td>
<td>6</td>
</tr>
</tbody>
</table>
1 GENERAL PROBLEM AREA

This chapter will introduce the reader to the subject at hand and why the chosen research area is of interest and relevance for further development. Finally, the chapter includes a problem discussion, which in turn ends up in the research purpose of this thesis.

1.1 Introduction

The following section aims to describe the two main areas with in the general problem area.

1.1.1 Marketing channels

The purpose of business is to satisfy the needs of its customers. A business that fails to do this in a competitive economy will not survive, because customers will go elsewhere. Businesses that are good at satisfying customer needs have the best opportunities to grow and prosper. (Doyle, 1998)

One way to achieve customer satisfaction is the classical marketing mix model of Borden’s “4Ps”, namely, product, promotion, price, and the fourth ‘P’ of the marketing mix called place (Gummesson, 1995, p.299)(Doyle, 1998, s 325). Producing new product that customers want, pricing them correctly and developing well-designed promotional plans are necessary, but not sufficient conditions for customer satisfaction. The final part of the jigsaw is distribution, the Place element of the marketing mix. (Jobber, s520) Distribution is the means by which products are moved from producer to the ultimate customer. (Jobber, s520)

Today most companies do not sell and distribute their goods directly to the final user. Instead many of the tasks, which include distribution activities such as transportation and storage, but also marketing activities such as selling, pricing and promotion, are undertaken by a variety of external intermediaries. The choice and control of these intermediaries we call marketing channel management. Marketing channels (also called a trade channel or distribution channel) are those interdependent organizations involved in the process of making a product or services available to end users. (Doyle, 1998, s 325)

1.1.2 New product development

Innovation has long been argued to be the engine of growth (Trott, 1998). The development of new products has been carried out since the beginning of time. Curiosity and creativity have guided the human being to seek new solutions to old problems as well as improving present ones. These driving forces can create tremendous opportunities for a firm that knows how to explore and manage them (Bodin, 2000).

The development of new products is a challenge faced by virtually all producers and manufactures serving both consumer and industrial markets. New technologies, changing customer preferences and competitive forces all contribute to the need to introduce new products. (Rosenblom, 1995) For example, some times a business can transfer its
GENERAL PROBLEM AREA

experience in one industry to another and with slight production modification; products can be modified to fit other market segments. (Dwyer and Tanner, 1999)

New products are increasingly cited as the key to corporate success in the market. (González, 2002) Yet, the success rate for new products is dismally low (Rosenblom, 1995). New products continue failing at an alarming rate and manufactures need to do a much better job of new product planning and development if they hope to materially reduce these high rates of product failure. (Rosenblom, 1995)

Understanding the factors that determine new product success or failure has become a focal point for both researchers and practitioners. A myriad of factors both external (e.g. competitive superiority, market uncertainty, market fit) and internal (e.g. the product development process, technical competence, managerial skill) to the firm have been found to impact new product development. (Brent, 2000)

However, new product development and the cost associated with launching a product are so great that a single product launch can mean the difference between profit and loss for many companies (Dwyer and Tanner, 1999). As a result, many organizations are entering business alliances to overcome the inherent risks associated with new product development and to manage the innovation process and outcome better (Sheth & Pavatiyar, 1992, p. 72). Furthermore, organizations enter alliances to quicken the pace of innovation, overcome budgetary constraints, spread out risks, and gain access to resources, such as materials, skills, innovation, finance or and last but not least, access to markets, not otherwise available to them. (Sivadas & Dwyer, 2000, p. 1-2)(Johnson and Scholes, 2002).

1.2 The changing environment of industrial marketing channels

Management guru Peter Drucker predicted that in the twenty-first century business, the biggest change would not be in new methods of production or consumption, but in distribution channels. (Doyle, 1998, s325)

Creative, well-executed marketing channel strategies provide some of the more potent means by which companies can enhance their ability to compete domestically and internationally. Most companies concentrate their efforts and energies on other business functions, such as finance, production, and research and development or on elements of marketing other than distribution in their attempts to secure competitive advantage. Somehow, management seems convinced that these more tangible, more controllable, or more measurable activities are more directly related to generating high share holder value, especially in the near term. For a number of companies, a critical assessment and revision of their marketing channels are long overdue. It even appears that many companies do not know what is required to build a superior distribution system or do not have the will to try new approaches. (Stern & El-Ansary, 1992, s203)

The channel strategy area of business is undergoing turbulent change. For years, it was considered a relatively unchanging and unimaginative part of marketing, and business-marketing managers rarely tampered with traditional channels. Although termed “the long neglected side of marketing” this attitude appears to be changing. (Haas, 1995, s409)
The long-term relationships that characterize many channels of distribution may suggest that the structure of channels and functions of intermediaries are stable and unchanging. In fact, forces in the external environment are exerting a profound influence on patterns of distribution throughout the world. (Hayes, Jernster and Aaby, 1996, s426)

There is concern, however, that many manufacturers and distributors are resisting adoption to this changing environment. Reasons for resistance include:

- Strong commitment to original and traditional distribution channels.
- Lack of understanding about new roles and requirements of customer relationships.
- Inability and/or unwillingness to evaluate new operating alternatives
- Desire to avoid conflict that might threaten testing of market position.
- A strong concern is that if distribution channels changes are made competitors might take over the existing channels.

While the study found resistance to change, it is also clear that many firms have recognized the forces of change and successfully adapting their distribution strategies to them. (Hayes, Jernster and Aaby, 1996, s426)

1.3 Forces affecting marketing channels

Technology is also changing the nature of distribution. The rampant pace of communication technology is facilitating more direct communication with customers through electronic data interchange (EDI) and electronic mail. Satellite communications, video telecommunications, and digital cellular technology are increasing the ability of distributors to communicate with distant customer at the same time that changes in logistics, warehouse automation, and better inventory control procedures are increasing the ability of distributors to offer greater value to larger geographical areas. (Hayes, Jernster and Aaby, 1996, s426)

Another reason why channel strategy is undergoing change is that business markets are undergoing rapid change themselves. As business customers move into new technologies such as CAB, CAM MRP and JIT, they demand and expect closer relationships with their suppliers. (Haas, 1995, s410)

A major trend is the growth in the size of distributors through mergers and acquisitions. For smaller distributors this has posed a competitive threat, met in many instances by the formation of consortiums. In many instances large distributors or consortiums have elected to represent several competing manufacturers, acting more as purchasing agents for their customers than as representatives for a manufacturer. For manufacturers, these changes, combined with changes in distributor-customer relationships resulting from technology, are having profound effects on their relationships with distributors. (Hayes, Jernster and Aaby, 1996, s426)
The increase in world trade and the emergence of regional trading blocs are also having a major influence on distribution channels. Also, many business marketers are being asked to follow their customers as they pursue global strategies. (Hayes, Jernster, and Aaby, 1996, s426)

The rising cost of personal selling, coupled with the economic forces that are pushing inventory-carrying cost and transportation costs higher, points to the need for careful assessment of alignment of industrial marketing channels. Such alignment is precisely what is happening. Traditional channels are being questioned and replaced. Feeling the strain of high interest rates and inflation, top management has been demanding greater efficiency from operations. Distribution has been one area in which there is room for improvement, and increased attention has been paid to it. In addition, business-marketing firms are seeing that channels can create differential advantages, especially in instances in which competitors’ products, price, and promotional efforts are almost homogeneous. (Haas, 1995, s409)

Furthermore, Cespedes argues that the major forces fueling the interest in distribution as an element of marketing strategy are:

- Increased direct selling costs in many industries
- The impact of just-in-time inventory practices on the role of intermediaries
- Concentration within many traditionally fragmented industrial distributor channels
- The growing power of retail trade national brand manufacturers
- More computerized links among manufacturers, distributors, and user-customers.
- The appearance of new types of channel entities that perform a variety of value-added services in addition to distributors’ traditional functions of breaking bulk and providing fast, local deliveries.

(Stern & El-Ansary, 1992)

### 1.4 Marketing channels strategy

From the viewpoint of the manufacturer, a key aspect of marketing strategy is to determine how best to go to market (Bowersox & Cooper, 1992, s10). Marketing channel decisions are among the most critical decisions facing management. The channels chosen intimately affect all the marketing decisions. (Kotler, 2003)

The channel strategy area of business is undergoing turbulent change. For years, it was considered a relatively unchanging and unimaginative part of marketing, and business-marketing managers rarely tampered with traditional channels. Although termed “the long neglected side of marketing” this attitude appears to be changing. (Haas, 1995, s409)

### 1.5 Channel design, channels selection & selection of channel members

The choice of the most effective channel of distribution is an important aspect of marketing strategy. Finding and selecting the right channel intermediaries is crucial to the success of the marketing strategy. Unfortunately, too many stories of problems indicate the lack of sufficient attention to channel selection. (Hayes, Jernster, and Aaby, 1996,
s.420) The choice and resulting performance of a specific partner or partners are, of course, the ultimate determinants of the success or failure of a marketing channel (Stern & El-Ansary, 1992, s235). Clearly, Companies need to select their channels members carefully. To customers, the channel members are the company. (Kotler, 2000)

1.6 Background to the research

Below a presentation of the company selected, the principal product and the principal problem for this case study will be described. Even though there is of limited interest from an academic point of view to describe the company and product of concern for this case study, it might be of interest to get at least a basic overview of all factors concerning the research purpose.

1.6.1 The principal company -Company presentation

Alfa Laval AB was founded by Oscar Lamm and Gustav de Laval, in Sweden, as early as 1883. There patented invention was to separate milk from cream in a hand-driven machine that used the force of gravitation. Over the years, other innovations have evolved around the core technology, to separate fluids and particles of different density. Today, Alfa Laval AB is the world market-leading manufacturer of separators, plate heat exchangers and several other applications. The company is now active, in more than 100 countries, in different business segments; energy, biochemistry, food, beverage, oil, gas and many more.

1.6.2 The principal product

Alfie 200 is specially designed to remove contaminants from coolants in smaller systems, using the time-tested technique of centrifugal separation. Alfie 200 is a small, compact unit, mounted on a frame and equipped with a plate that is screwed to the coolant tank. Under the separator is a bellows that automatically adapts the inlet to the level of fluid in the tank. (see fig.1.1)

![Fig.1.1 The principal product, Alfie 200](image)
Alfie 200 is extremely easy to use, compared to similar products on the market. Anyone can learn all that is needed to operate and maintain Alfie in a few minutes. (See fig1.2) Thanks to new materials and new design solutions, Alfie 200 is truly compact. Total weight, including the stand, is only 14 kg. A newly developed tough and durable plastic has replaced components, traditionally manufactured in stainless steel.

It is fast and easy to clean the separator. The casing is lifted off by hand in a few easy movements and the sediment that has been collected on the periphery of the bowl is brushed off.

1. Solid particles accumulate inside the rotating bowl. When the bowl needs to be cleaned, it can be opened with a few simple operations.
2. The tramp oil leaves through the centre of the bowl down into a separate collecting tank.
3. The adjustable frame is mounted on top of the coolant tank.
4. The bellows automatically adapts the inlet to the level of fluid in the tank.
5. The purified coolant is returned to the tank through three hoses, which are positioned to create circulation of the fluid.

1.6.3 The principal problem

Alfa Laval is an example of a company that is recognising the risks and uncertainties with New Product Development, launch on new markets and the selection of new marketing channels. Like other companies dealing with new product development and market launch of new products, Alfa Laval has experiences that shows the need for thorough market research, to get a solid understanding of the market conditions.

In later years Alfa Laval has started to explore new technologies, that makes it possible to produce products that are smaller, less complex and less capital intense. As a part of that, Alfa Laval, a few years back, developed a small and low priced separator (Alfie 200 Coolant), for cleaning of coolant in metal working industry. (See the principal product above.)
At the moment, Alfa Laval is now considering to modify and adapt this product to fit another market segment, namely the market for cleaning of industrial wash liquid.

The reason for this is that there have been clear indications, from the wash liquid market, that there is a big demand for cost efficient solutions, regarding removal of oil and particles in industrial wash liquid applications. Several builders of wash liquid systems, within this market, have expressed the problem with present techniques, and indicated that there is a big potential market, for the finder of a good solution to the problem.

A pre-study and a concept, Alfie 200 wash, have already been developed, and the EFU department is now facing the decision to finalize the product and select appropriate marketing strategy, e.g. marketing channels.

Within the EFU-group, there is a suspicion that there might be problems, in reaching this relatively new market, with the present sales organization, both internal sales organization and present channel partners.

The main reasons for this are that:

- The present sales organization has limited market knowledge and relations to potential customers, within the relatively new market segment, industrial wash liquid.
- It is of interest to gain market and application-knowledge that can be transformed into product specification.
- The present sales organization is optimized for capital intensive and more complex products within the present product portfolio.
1.7 **Problem discussion**

In the section above I have identified and discussed a few of the many forces influencing the area of marketing channels, and some of the changes taking place. As can be seen there are numerous reasons describing why the area of marketing channels is of interest for further study. Among them are, the high costs associated with launch of new products, the turbulent change in the business area of the marketing channels itself, technology, the rising cost of personal selling, and historical lack of sufficient attention to channel selection.

As mentioned, the area of marketing channels has been termed “The long neglected side of marketing”. However, the attitude appears to be changing. As management guru Peter Drucker predicted that in the twenty-first century business, the biggest change would not be in new methods of production or consumption, but in distribution channels. (Haas, 1995)

1.8 **Research Purpose**

Since the area of “marketing channels design” is stated to be of relevance and interest for further study, the following research purpose of this study have been composed.

> “How can a large Swedish company, within an industrial market, develop and design reliable marketing channels for a new product under development, in the area of sales and marketing.”

1.9 **Demarcations**

To clarify the research purpose, the focus of this thesis is the design aspect of marketing channels and not to select specific channel members. However, to assist the company in the selection of in the selection process an initial study was conducted. This study consisted of a simple market study, which will mostly be of interest personnel in channel management at the company where the thesis was conducted.
2 Theory - Literature Review

This chapter will present the theories that have been studied in order to increase my knowledge of industrial marketing channel. These theories will thereby create the foundation for the frame of reference in the following chapter 3.

2.1 What is a Marketing Channel

Distribution is an essential element in the product offering of the industrial marketer, reflecting the importance of availability and reliability of supply as purchasing objectives for the industrial buyer. Distribution has two related but distinct meanings in industrial marketing. First, distribution includes resellers who buy and sell the product as it moves along the channel of distribution. Second, distribution includes physical distribution, the movement and storage of products as they proceed from the manufacturer to the end user. The first aspect is often called the marketing channel; the latter is known as logistics. (Webster, Fredrick E., Industrial marketing strategy, 1991, s219)

“A distribution system,..., is a key external resource. Normally it takes years to build, and it is not easily changed. It ranks in importance with key internal resources such as manufacturing, research, engineering, and field sales personnel and facilities. It represents a significant corporate commitment to large numbers of independent companies whose business is distribution –and to the particular markets they serve. It represents, as well, a commitment to a set of policies and practices that constitute the basic fabric on which is woven extensive set of long-term relationships.” (Hayes, Jernster and Aaby, 1996, s.420) (Kotler, 2000?)

2.1.1 What work is performed by marketing channels?

Why would a producer delegate some of the selling job to intermediaries? Delegation means relinquishing control over how and to whom the products are sold, but producers do gain several advantages by using intermediaries, according to Kotler (2003):

- Many producers lack the financial resources to carry out direct marketing.
- In some cases direct marketing simply is not feasible.
- Producers who do establish their own channels can often earn greater return by increasing their investment in their main business. For example, if a company earns a 20 percent rate of return on manufacturing and only a 10 percent return on retailing, it does not make sense to undertake its own retailing.

Intermediaries normally achieve superior efficiency in making goods widely available and accessible to target markets. Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own. (Kotler, 2003) According to Stern and El- Ansary:

*Intermediaries smooth the flow of goods and services... This procedure is necessary in order to bridge the discrepancy between the assortment of goods and services generated by producer and the assortment demand by*
the consumer. The discrepancy results from the fact that manufacturers typically produce a large quantity of a limited variety of goods, whereas consumers usually desire only a limited quantity of a wide variety of goods.

The figure 2.1 below shows one major source of cost savings using intermediaries. Part (a) shows three producers, each using direct marketing to reach three customers. This system requires nine different contacts. Part (b) shows three producers working through one distributor, who contacts the three customers. This system requires only six contacts. In this way, intermediaries reduce the number of contacts and the work.

![Diagram](image)

**Fig.2.1** The effects of using marketing channels

### 2.1.2 Tasks and responsibilities for marketing channel members

A marketing channel performs the work of moving goods from producer to customers. It overcomes the time, place, and possession gaps that separate goods and services from those who need or want them. Members of the marketing channel perform a number of key functions, which is exemplified below (Kotler, 2003):

- They gather information about potential and current customers, competitors, and other actors and forces in the marketing environment.
- They develop and disseminate persuasive communications to stimulate purchasing.
- They reach agreements on price and other terms so that transfer of ownership or possession can be affected.
- They place orders with manufacturers.
- They acquire the funds to finance inventories at different levels in the marketing channel.
- They assume risks connected with carrying out channel work.
- They provide for successive storage and movement of physical products.
- They provide for buyers’ payment of their bills through banks and other financial institution.
- They oversee actual transfer of ownership from one organization or person to another.
Some functions (physical, title, promotion) constitute a forward flow of activity from the company to the customer; other functions (ordering and payment) constitute a backward flow from customers to the company. Still others (information, negotiation, finance and risk taking) occur in both directions. (Kotler, 2003)

2.2 The nature of Industrial marketing channels

Industrial products tend to have fewer customer outlets than consumer products. The number of retail outlets for consumer products such as food, clothing, sporting goods, books, furniture, and so on, is many, many times greater than the available outlets for the typical industrial product, many thousands compared to several hundreds or less. There are several reasons for this. First, industrial customers are fewer in number and, with a few exceptions for such products as office supplies; there is simply no need for extensive distribution. Second, manufacturer-direct-to-user marketing channels are much more prevalent than in consumer markets. Third, industrial distribution often requires a high level of technical expertise that demands investments in training and physical facilities and can only be made on a reasonably selective basis. (Webster, 1991)

These factors affect not only the number of resellers required to cover the industrial market, but also the quality of the relationship between the manufacturer and the reseller. Industrial reseller will tend to have closer relationships with their suppliers than consumer reseller. Similarly the industrial manufacturer will tend to depend more heavily on each member of the channel and may do more to support that channel member. The industrial reseller may have a critical role to play, not only in assuring availability of the product, but also in completing the process of tailoring it to the customer’s needs. (Webster, 1991)

2.3 Marketing channel structure

The concept of channel structure is one that is often vaguely defined in the marketing literature. Authors tend to emphasize a particular dimension of channel structure and then to proceed to a detailed discussion without defining what they mean by channel structure itself. Rosenbloom (1995) defines channel structure as follows:

*The group of channel members to which a set of distribution tasks has been allocated.*

This definition suggests that in the development of channel structure, the channel manager is faced with an allocation of decision; that is, given set of distribution tasks that must be performed to accomplish a firm’s distribution objectives, the manager must decide how to allocate or structure the tasks. Thus, the structure of the channel will reflect the manner in which he or she has allocated these tasks among the members of the channel. (Rosenbloom, 1995)

The basis for making such allocation decisions is specialisation and division of labour. Ideally the channel manager would like total control over the allocation of distribution
tasks so that he or she could assign these tasks to the particular firms or parties who are best suited to perform them. However, since the channel includes members that are independent firms, and because the channel is subject to environmental constraints, in reality the channel manager does not often have total control of the allocation of distribution tasks. (ibid)

According to Rosenbloom (1995) channel structure can be described by the following dimensions:

- Number of levels in the channel
- Number of intermediaries at each level
- Types of intermediaries at each level

2.3.1 Number of levels in the channel

The number of alternatives that the channel manager can realistically consider for this structural dimension is often limited to no more than two or three choices. For example, it might be feasible to consider:

- Going direct (two-level)
- Using one intermediary (three-level)
- Or possibly using two intermediaries (four-level)

These limitations result from a variety of factors such as the particular industry practices, nature and size of the market, availability of intermediaries, and other variables. In some instances this dimension of channel structure is the same for all manufacturers in the industry and may remain virtually fixed for long periods of time. In other industries it is more flexible and subject to change in relatively short time periods. (Rosenbloom, 1995)

2.3.2 Number of intermediaries

The choice of channels will be influenced by the firm’s positioning strategy (Rosenbloom, 1995). Companies, therefore, have to decide on the number of intermediaries to use at each level. Three strategies are available for deciding geographical market coverage (Kotler, 2003).

- **Intensive distribution.** For low-priced, convenience or impulse products, companies will generally want to maximize the number of outlets carrying them. The more places carrying the product, the more likely it is to be bought. The more intensive the distribution required, the greater the efficiencies offered by intermediaries. (Doyle, 1998, s. 330)

- **Exclusive distribution.** For high-priced, luxury products, the manufacturer will often limit distribution to a very small number of intermediaries. The intermediaries normally gains better margins and the exclusive right to sell the product in a specific area. The manufacturer hopes to achieve in return a greater
sales effort, greater control of pricing and selling practices, and a superior brand image. (Doyle, 1998, s. 330)

- **Selective distribution.** Manufacturer of speciality goods will often look for a compromise between intensive and selective distribution. Here the manufacturer aims to have sufficient cover, but to restrict it sufficiently to be able to select motivated knowledgeable dealers. (Doyle, 1998, s. 330) Furthermore, this strategy aims at firms who like to choose their channel members or “partners” very carefully and then work closely with them in the distribution of the firm’s products. (Rosenbloom, 1995, s228)

2.3.3 **Types of intermediaries at each level**

The third dimension of channel structure deals with the particular types of intermediaries to be used, if any, at the various levels of the channel. (Rosenbloom, 1995, s229) Companies can choose from a wide variety of channels for reaching customers-form internal sales force to agents, distributors, dealers, direct mail, telemarketing, and the Internet (Kotler, 2003). At this point, it may be useful to describe channel systems commonly used in business markets. Review of figure 2.2 illustrates that these systems may be used in terms of their channel components. (Haas, 1995)

![Diagram of Types of Industrial Marketing Channels](image)

**Fig.2.2** Types of industrial marketing channels

The figure indicates that business channels may be:

1. Direct to customers
2. Through industrial distributors
3. Through manufacturers representatives to customers
4. Through various combination of distributors and representatives
Thus, business channels may be understood by analyzing these approaches and becoming familiar with the characteristics of each alternative. For example, to use distributors or manufacturers’ representatives, it is first necessary to understand what each type of intermediary is and what advantages or disadvantages each offers the marketing manager. Similarly, the positive and negative aspects of the direct channel should be understood. (Haas, 1995) According to Haas (1995) marketing channels can be divided in direct channels and indirect channels.

**Direct channels**
Direct channels are very common in business marketing, and they account for large percentage of the dollar value of shipments through business channels. The term direct channels means there are no independent intermediaries involved. Products are sold directly from the business marketing company to the organizational customer. Although no independent channel intermediaries are involved, this does not means that there is nothing happening between marketer and customer. In almost all instances, there is some type of compensated company representative operating between the producer and the customer. The discussion that follows will help to clarify the point being made here. There is not, however, a single type of direct channel, but rather a number of quite different channels operation in business markets. (Haas, 1995)

**Field Salespeople.** Perhaps the most widely used direct channel involves the use of company salespeople who sell directly to organizational customer. The salesperson contacts the customer and makes the sale with the goods then shipped directly to the customer either from the factory or from the regional branch location or warehouse. Regional sales offices may not be used, but the main point is that company field salespeople constitute the actual channel of distribution. Management of this type of channel is basically sales management. (Haas, 1995)

**Inside Salespeople.** Some business marketing companies use inside or telephone salespeople extensively as a channel of distribution. This channel is rarely used in an exclusive manner, but it is common as a support for the direct sales channel. For example, inside sales people may be used with straight rebuy customers in a sales maintenance capacity. This channel is similar in many ways to the field salespeople channel except that contracts is made by telephone rather than field sales call. Again, management of an inside sales channel is usually the responsibility of the sales manager. (Haas, 1995)

**Telemarketing** is a newer direct channel used in business markets to present and prospective customers. Telemarketing can be viewed as an expansion of inside sales into newer forms of telecommunication technology such as computercontrolled scripts and computer-to-computer communication between buyer and seller. (Haas, 1995)

**Catalogs.** There are in some, but not many, direct channels in which no personal contacts is involved. This channel typically exists with relatively standardized products such as MRO supplies, processed materials, and some component parts. The channel is a
relatively simple one, whereby the customer orders directly from a catalog and the goods are then shipped.

**National or Major Accounts,** Another form of direct channel often found in business marketing is the national or major account. This type of direct channel may also be called house, corporate, or key account. Typically involving very large, important customers with whom partnerships or alliances are created, these accounts are dealt with directly without any intermediaries.

**Indirect channels**
Although direct channels may account for a large percentage of the dollar value of shipments in business marketing, this does not mean that indirect channels are either unimportant or rarely used. The rising cost of field sales have made indirect channel options much more appealing.

**Industrial Distributor,** is an industrial distributor is an independently owned and managed operation that buys, stocks, and sell products like for example production tools, operating equipment, and other supplies used by all forms of industry. The distributor is basically a wholesaler that services and sells to business markets instead of consumer markets. According to Rosenbloom (1995) there are three basic types of industrial distributors. There are specialist distributors, who specialise in certain product categories such as bearings or cutting tools, and there are generalist distributors, who are almost like industrial supermarkets, stocking a wide variety of goods without any specific area of specialisation. There are also the combination house distributors, who basically are a combination of wholesaler and distributor and operate in both industrial and consumer markets.

Industrial distributors are commonly used in situations where:

- The product is relatively standardised
- The unit value of the product is low
- Gross margin is low
- Customer purchasing effort is low
- Customers make frequent purchases
- The market is decentralised and scattered

**Manufacturers’ Representative** is the other commonly used intermediary in business marketing is the manufacturers’ representative, often simply called the rep. A manufacturers’ representative is a self-employed salesperson who represents one or more manufacturers on a commission basis. Unlike the distributor, the representative does not take title of the goods involved, and usually does not even take possession of it. Basically, the rep is an independent salesperson that usually sells within assigned territories and is compensated on a straight commission basis for those sales. The rep often represents a number of manufacturers in that territory, whose products are normally complementary rather than competitive. With a line of complementary products from various manufacturers, the reps are often able to provide complete product lines to their
customers. Normally, the rep does not possess much authority when it comes to price and terms of sale. The function of this channel intermediary is just simply to sell the principal’s products in the assigned territory.

In summary, the use of reps seems most appropriate when the following conditions exists:

- Customers require personal selling but the market is not large enough to support full-time company sales personnel.
- Gross margins are not large enough to support the cost of full-time company sales personnel, but personal selling is required.
- The manufacturer is moving into new markets and wishes to penetrate those markets quicker by using already established rep contacts in those markets.
- The product is better sold as part of a total package with other manufacturers’ products rather than an individual item.
- The market is new and does not have full-time sales personnel, but customers require personal selling.

2.4 Design and Selection of marketing channel structures

The choice of the most effective channel of distribution is an important aspect of marketing strategy. Finding and selecting the right channel intermediaries is crucial to the success of the marketing strategy. (Hayes, Jernster and Aaby, 1996, s.420) The choice and resulting performance of a specific partner or partners are, of course, the ultimate determinants of the success or failure of a marketing channel (Stern & El-Ansary, 1992, s235). Clearly, Companies need to select their channels members carefully. To customers, the channel members are the company. (Kotler, 2000?)

There is a wide variation in the term design as it applies to the marketing channel. Some authors use the term as a noun to describe channel structure. Others use it to denote the formation of a new channel from scratch, while still others use it more broadly to include modifications to existing channels. Finally, design has also been used synonymously with the term selection, with no distinction made between the two. Such variations in usage lead to a good deal of confusion. Therefore, before proceeding further we will define more precisely what we mean by design as it applies to the marketing channel (Rosenbloom, 1995):

Channel design refers to those decisions involving the development of new marketing channels where none had existed before, or to the modification of existing channels

Producers, manufacturers, wholesalers (consumer or industrial) and retailers all face channel design decisions. For retailers, however, channel design is viewed from a perspective opposite to that of producers and manufacturers. Retailers look “up the channel” in an attempt to secure suppliers, rather than “down the channel” toward the
market (as is the case for producers and manufacturers). Wholesale intermediary face channel design decisions from both perspectives. (Rosenbloom, 1995)

The channel design decision may be broken down into seven phase or steps:

1. Recognizing the need for a channel design decision
2. Setting and coordinating distribution objectives
3. Specifying the distribution tasks
4. Developing possible alternative channel structure
5. Evaluating the variables affecting channel structure
6. Choosing the “best” channel structure
7. Selecting channel members

These phases will be described, more in detail below.

2.4.1 Phase 1: Recognize the need for a channel design decision

Many situations can indicate the need for a channel design decisions among them are the following: (Rosenbloom, 1995, s.217)

1. Developing a new product or product line. If existing channels for other products are not suitable for the new product or product line, a new channel may have to be set up or the existing channels modified in some fashion.
2. Aiming an existing product at a new target market. A common example of this situation is a firm’s introduction of a product in the consumer market after it has sold in the industrial market.
3. Making a major change in some other component of the marketing mix. For example, a new pricing policy emphasizing lower prices may require a shift to lower. Price dealers such as discount department stores.
4. Establishing a new firm, from scratch or as a result of mergers or acquisitions.
5. Adapting to changing existing intermediaries might make their policies so as to inhibit the attainment of the firm’s distribution objectives. For example, If intermediaries are beginning to emphasize their own private brand, then the manufacturer may want to add new distributors who will promote the company’s products more enthusiastically.
6. Dealing with changes in availability of particular kinds of intermediaries. For example, French, manufacturers of luxury goods such as Yves St. Laurent evening ware, limoges china, Christofle silverware faced channel design decisions in the U.S. market when the number of prestigious department stores was reduced as a result of the wave of acquisitions and mergers that occurred in the retail sector during the late 1980s
7. Opening up new geographic marketing areas (territories).
8. Facing the occurrence of major environmental changes. These changes may be in the economic, sociocultural, competitive, technological, or legal spheres.
9. Meeting the challenges of conflict pr other behavioural problems. For example, in some instances conflict may become so instance that it is not possible to resolve it without modifying the channel. A loss of power by a manufacturer to his distributors
may also foster the need to design an entirely new channel. Further, changing roles and communications difficulties may confront the marketer with channel design decisions.

10. Reviewing and evaluating. The regular periodic reviews and evaluations undertaken by a firm may point to the need for changes in the existing channels and possibly the need for new channels.

This list, although by no means comprehensive, offers an overview of the more common conditions that may require the channel manager to make channels design decision. It is important to be familiar with this list, because channel design decisions are not necessarily obvious, especially those involving modification rather than setting up of new channels.

2.4.2 Phase 2: Set Channel objectives

Having recognized that a channel design decision is needed, the channel manager should try to develop a channel structure, whether from scratch or by modifying existing channels, that will help achieve the firm’s distribution objectives efficiently. Yet quite often at this stage of the channel design decision, the firm’s distribution objectives are not explicitly formulated, particularly since the changed conditions that created the need for channel design decisions might also have created the need for new or modified distribution objectives. It is important for the channel manager to evaluate carefully the firm’s distribution objectives at this point to see if new ones are needed. (Rosenbloom, 1995, p219)

In order to set distribution objectives that are well-coordinated with other marketing and firm objectives and strategies, channel managers need to perform three tasks (ibid):

1. They should familiarize themselves with the objectives and strategies in the other marketing mix areas and any relevant objectives and strategies of the firm.
2. They should set distribution objectives and state them explicitly.
3. The should check to see if the distribution objectives they have set are congruent with marketing and other general objectives and strategies of the firm.

Some typical objectives used by business marketing managers in setting up their channel of distribution follow. (Haas, 1995, p432)

- Low cost of operation
- Control
- Closer relationships with intermediaries
- Sales effort
- Service and technical assistance
- Market feedback
- Company image
2.4.3 Phase 3: Specifying the distribution tasks

After the distribution objectives have been set, a number of distribution tasks (intermediary functions) must be performed if the distribution objectives are to be met. The channel manager should, therefore, specify explicitly the nature of these tasks. (Rosenbloom, 1995, s219)

Over the years marketing scholars have discussed numerous lists of marketing tasks (functions). These lists generally include such activities as buying, selling, communication, transportation, storage, risk taking, financing, breaking bulk and others. Such classifications of marketing functions, while perhaps useful to those seeking to explain the role of marketing in a macro context, are of little direct value to the channel manager operating in the individual firm. The job of the channel manager in outlining distribution functions or tasks is a much more specific and situational dependent one. The kind of tasks required to meet specific distribution objectives must be precisely stated.

To give an example, according to Rosenbloom (1995) the distribution tasks will be can be defined as follows:

- Promotion
- Stocking
- Order solicitation and handling
- Pre- or post-sales service
- Market research
- Sales financing
- A variety of value-adding activities
- Selling
- Communication
- Transportation
- Storage
- Risk taking
- Financing

The specification of distribution tasks for products sold in industrial marketing often has to be even more specifically stated compared to consumer products. For example, a steel or metal producer whose distribution objectives call for dealing with a target market that contains many small customers would have such basic distribution tasks as selling, communication, transportation, storage, risk taking, financing. But in addition, in order to serve the smaller customers, the producer would probably have to perform many more specialized tasks, such as the following (Rosenbloom, 1995):

- Maintain readily available inventory (specified in terms of quality and type)
- Provide rapid delivery (specified in terms of days or hours)
- Offer credit
- Provide emergency service
• Supply semi fabrication function such as cutting, shearing, slitting, threading, pattern cutting, pattern rolling, re-rolling, stretcher levelling, welding, grinding, forcing, and reaming.
• Include packaging and special handling
• Provide technical assistance such as problem analysis, product selection, application, and end use product.
• Maintain market information
• Offer storage space
• Allow for absorption of size and grade obsolescence
• Process orders and bill for many accounts
• Offer return provision
• Others

Though a number of these functions appear to be production rather than distribution tasks, when viewed in the context of being necessary to meet a particular distribution objective (such as dealing with smaller customers) they are indeed distribution tasks. Their performance of these specialized tasks would be necessary because the distribution objective called for dealing with many small customers, and in most cases small customers could not perform these tasks for themselves. Consequently, the specific kinds of distribution tasks required are mainly a function of the distribution objectives that have been set and, of course, the types of firms involved. (Rosenbloom, 1995)

2.4.4 Phase 4: Developing possible alternative channel structures

Having specified in detail the particular distribution tasks that need to be performed to achieve the distribution objectives, the channel manager should then consider alternative ways of allocating these tasks. The allocation alternatives (possible channel structure) should then be in terms of the following three dimensions (Rosenbloom, 1995, s. 226):

• Number of levels in the channel
• Number of intermediaries at each level
• Identify types of available potential intermediaries at each level

These three dimensions will be discussed below.

Number of levels in the channel

The number of alternatives that the channel manager can realistically consider for this structural dimension is often limited to no more than two or three choices. For example, it might be feasible to consider:

• Going direct (two-level)
• Using one intermediary (three level)
• Or possibly using two intermediaries (four-level)
These limitations result from a variety of factors such as the particular industry practices, nature and size of the market, availability of intermediaries, and other variables. In some instances this dimension of channel structure is the same for all manufacturers in the industry and may remain virtually fixed for long periods of time. In other industries it is more flexible and subject to change in relatively short time periods.

**Number of intermediaries**
The choice of channels will be influenced by the firm’s positioning strategy (Rosenbloom, 1995). Companies, therefore, have to decide on the number of intermediaries to use at each level. Three strategies are available for deciding geographical market coverage (Kotler, 2003).

- **Intensive distribution.** For low-priced, convenience or impulse products, companies will generally want to maximize the number of outlets carrying them. The more places carrying the product, the more likely it is to be bought. The more intensive the distribution required, the greater the efficiencies offered by intermediaries. (Doyle, 1998, s. 330)

- **Exclusive distribution.** For high-priced, luxury products, the manufacturer will often limit distribution to a very small number of intermediaries. The intermediaries normally gains better margins and the exclusive right to sell the product in a specific area. The manufacturer hopes to achieve in return a greater sales effort, greater control of pricing and selling practices, and a superior brand image. (Doyle, 1998, s. 330)

- **Selective distribution.** Manufacturer of speciality goods will often look for a compromise between intensive and selective distribution. Here the manufacturer aims to have sufficient cover, but to restrict it sufficiently to be able to select motivated knowledgeable dealers. (Doyle, 1998, s. 330) Furthermore, this strategy aims at firms who like to choose their channel members or “partners” very carefully and then work closely with them in the distribution of the firm’s products. (Rosenbloom, 1995, s228)

**Types of intermediaries at each level**
The third dimension of channel structure deals with the particular types of intermediaries to be used, if any, at the various levels of the channel. (Rosenbloom, 1995, s229) Companies can choose from s wide variety of channels for reaching customers-form internal sales force to agents, distributors, dealers, direct mail, telemarketing, and the Internet (Kotler, 2003). Nevertheless, at this phase of channel design decision, the channel manager is likely to have a general awareness of the kinds of intermediaries available to serve his or her industry, or have a readily available means for finding out. Trade association data, non-competing firms in the industry, customers, or Internet are also good sources of information. The emphasis of the channel manager’s analysis at this point should focus on the basic types of distribution tasks performed by these intermediaries. (Rosenbloom, 1995, s229)
2.4.5 Phase 5: Evaluating variables affecting channel structure

Having laid out several possible alternative channel structures, the channel manager should then evaluate a number of variables to determine how they are likely to influence various channel structures. Although there are a myriad of such variables, six basic categories can be formed in the analysis of alternative channel structures: (Rosenbloom, 1995, p.230)

1. Market variables
2. Product variables
3. Company variables
4. Intermediary variables
5. Environmental variables
6. Behavioral variables

In the course of discussing the variables in these categories, we will often cite a number of heuristics (rule of thumb) that relate these variables to channel structure. An example of one such heuristics is as follows:

*If a product is technically complex, the manufacturer should sell directly to its user instead of through intermediaries*

Here a product variable (technically complexity) seemingly yields a simple prescription for channel structure. It would be nice if things were simple, but unfortunately such is not the case. Such heuristics, which are commonly mentioned in the marketing literature, are only crude guide to decision making. They should not be viewed as clear-cut prescriptions for choosing a particular channel structure. They are use full only to the extent that they offer some rough reflection of what would typically be expected given a particular condition, and thereby provide a point of departure for that analysis of different channel structures.

With this caveat in mind, we return to a discussion of the six categories of variables and some of the related heuristics relevant to choosing channel structure.

1. **Market variables**
   - Market geography

   Heuristics:
   “The greater the distance between the manufacturer and its markets, the higher the probability that the use of intermediaries will be less expensive than direct distribution.”
• Market size
Heuristics:
“If the market is large, the use of intermediaries is more likely to be needed. Conversely, if the market is small, a firm is more likely to be able to avoid the use of intermediaries.”

• Market density
Heuristics:
“The less dense the market, the more likely it is that intermediaries will be used. Stated conversely, the greater the density of the market, the higher the likelihood of eliminating intermediaries”

2. Product variables
• Bulk and weight
Heuristics:
“Heavy and bulky products have very high handling and shipping costs relative to their value. The producer of such products should therefore attempt to minimize these costs by shipping them only in large lots to the fewest possible points. Consequently the channel structure for heavy and bulky products should, as a general rule, be as short as possible-usually direct from the producer to the user. The exception to this occurs when customers buy in small quantities and need quicker delivery. In this case it may be necessary to use some form of intermediary.”

• Perishability
Heuristic:
“When products are highly perishable, channel structures should be designed to provide for rapid delivery from producer to consumers.”

• Unit value
Heuristic:
“In general, the lower the unit value of the product, the longer the channels should be. This is because the low unit value leaves a small margin for distribution costs.”

• Degree of standardization
Heuristic:
“In general, the influence of this product variable on channel structure is characterized by the relationship shown in figure 2.3. Essentially, figure 2.3 shows that custom-made products go directly from the producer to the user, but as products become more standardized, the opportunity to lengthen the channel including intermediaries increases.”
Fig. 2.3 Heuristic describing degree of standardization

- Degree of technical complexity
  Heuristics:
  “If a product is technically complex, the manufacturer should sell directly to its user instead of through intermediaries.”

- Newness
  Heuristics:
  “Many new products in industrial markets require extensive and aggressive promotion in the introductory stage to build primary demand. Usually, the longer the channel, the more difficult it is to achieve this kind of promotional efforts from all of the channel members. Consequently, in the introductory stage a shorter channel is generally viewed as an advantage for gaining product acceptance. Further, the degree of selectivity also tends to be higher for new products because a more carefully selected group of intermediaries is more likely to provide more aggressive promotion.”

3. **Company variables**
   - Size
     Heuristic:
     “In general, the range of options for different channel structures is a positive function of a firm’s size. The power bases available to large firms, particularly those of reward, coercion, and expertise-enable them to exercise a substantial amount of power in the channel. This gives large firms a relatively high degree of flexibility in choosing channel structures, compared with smaller firms. Consequently, the larger firm’s capacity to develop channel that at least approach
an optimal allocation of distribution tasks is typically higher than for smaller firms.”

- Financial capacity
  Heuristic:
  “Generally, the greater the capital available to a company, the lower is its dependence on intermediaries. In order to sell directly to ultimate industrial users, a firm usually needs its own sales force and support service or retail stores, warehousing, and order processing capabilities. Larger firms are better able to bear high cost of these facilities.”

- Managerial expertise
  Heuristic:
  “Some firms lack the managerial skills necessary to perform distribution tasks. When this is the case, channel design must of necessity include the services of intermediaries, which may include wholesaler, manufacturers’ representatives, selling agents, brokers, or others. Over time as the firm’s gains experience, it may be feasible to change the structure to reduce the amount of reliance on intermediaries.”

- Objectives and strategy
  Heuristic:
  “Marketing and general objectives and strategies (such as a desire to exercise a high degree of control over the product and its service) may limit the use of intermediaries. Further, such strategies as an emphasis on aggressive promotion and rapid reaction to changing market conditions will constrain the types of channel structures available to those firms employing such strategies.”

Internal sales organization

4. **Intermediary variables**
   - Availability
     Heuristic:
     “In a number of cases, the availability of adequate intermediaries will influence channel structure.”

   - Cost
     “Heuristic: Cost of using intermediaries is always a consideration in choosing a channel structure. If the channel manager determines the cost of using intermediaries is too high for the services performed, the channel structure is likely to minimize the use of intermediaries.”
5. Market behavior
Market behavior refers to the following four types of buying behavior:
(See fig 2.4)
- How customers buy.
- When customers buy
- Where customers buy
- Who does the buying?

Heuristics:

<table>
<thead>
<tr>
<th>Buying habits</th>
<th>CORRESPONDING CHANNEL STRUCTURE HEURISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>How</td>
<td>Use long channels to reach the market</td>
</tr>
<tr>
<td>Customers typically buy in very small quantities.</td>
<td></td>
</tr>
<tr>
<td>When</td>
<td>Add intermediaries to the channel to perform the storage function, thereby reducing peaks and valleys in production</td>
</tr>
<tr>
<td>Buying is highly seasonal.</td>
<td></td>
</tr>
<tr>
<td>Where</td>
<td>Eliminate wholesale and retail intermediaries and sell direct</td>
</tr>
<tr>
<td>Consumers increasingly tend to shop at home</td>
<td></td>
</tr>
<tr>
<td>Who</td>
<td>Direct distribution for greater control of sales force to successfully reach all parties responsible for making purchase decisions</td>
</tr>
<tr>
<td>Industrial market: Many individuals influence the purchasing decision</td>
<td></td>
</tr>
</tbody>
</table>

Fig. 2.4 Heuristic describing market behavior

2.4.6 Phase 6: Choosing the “best” channel structure

Strait qualitative judgment approach, as the name suggests, this approach to choose channel structure rely heavily on managerial judgment and heuristics, or rule of thumb. (Rosenbloom, 1995, s.246)

The qualitative approach is the crudest but, in practice, the most commonly used approach for choosing channel structures. Under this approach, the various alternative channel structures that have been generated are evaluated by management in terms of decision factors that are thought to be important. These may include such factors as short- and long-run cost and profit considerations, channel control issues, long-term growth potential and many others. Sometimes, however, these decision factors are not stated explicitly, and their relative importance is also not made clear. Nevertheless, an
alternative is chosen which, in the opinion of management, best satisfies the various explicit or implicit decision factors.

1. Marketing through present distributors (Present distribution alternative)
2. Marketing through new distributors already selling to the swimming pool trade (New distributors alternative)
3. Buying a small company already in this market to utilize its distributions (Acquisition alternative)
4. Selling the chemical in bulk to companies already in this market (private brand alternative)
5. Packaging and selling the chemical through mail campaigns directed at swimming pool owners (Direct mail alternative)

**Fig.2.5** Example-company with five channel alternatives

In the example above, a company has generated five channel alternatives (shown in figure 2.5) If the straight qualitative judgement approach were to be used for choosing the “best” alternative, management would subjectively “weight” each of the alternatives in Figure 2.5 in terms of the decision factors it believes to be important. After considering the pros and cons of the five alternatives, management would then choose the alternative that in its judgement is the best one.

Regardless of which judgmental-heuristic approach is used, large doses of judgement and “guesstimation” are virtually unavoidable. To say otherwise is to imply that a greater degree of precision exists than is actually the case. This is not to say that the so-called judgmental-heuristic approach is totally subjective. On the contrary, in some cases management’s ability to make sharp judgments may be quit high and, if this is coupled with good empirical data on costs and revenues, highly satisfactory (though not optimal) channel choice decisions may be made using judgemental-heuristic approaches.

Judgmental-heuristic approaches also enable the channel manager to readily incorporate non-financial criteria (decision factors) into channel choice decisions. Non-financial criteria such as the degree of control or goodwill available from a particular channel alternative may be of real importance. As pointed out:

*These two other elements (channel control and goodwill must be take into consideration in arriving at the choice. For example, an analysis may show wholesalers as providing the highest contribution to profit and overhead, but it may be that in time these wholesaler, if they gain relative control over the channel, will demand higher and higher margins and provide less and less selling effort.*

If such criteria as goodwill are important considerations, judgmental-heuristic approaches offer the flexibility to include these decisions.
2.4.7 Phase 7: Identification of potential marketing channel members

The next step is normally to select channel intermediaries, Rosenbloom (1995), within the select marketing channel segment. However, in this study, there is a demarcation to just identify all potential marketing channels in the Swedish market. Therefore, the selection of specific channel intermediaries is not of relevance for this thesis.
3 FRAME OF REFERENCE

The previous chapter presented several relevant theories, however theories and models are in many cases very comprehensive and therefore difficult to use in their full extent. Hence, in order to obtain a proper focus in the research work, it is necessary to create a frame of reference. The reason for this is that there are times when one only uses parts of models and theories, which are of significance to the research at hand. In this chapter the chosen theories or parts of chosen theories will be presented in a frame of reference. Furthermore, a conceptualization and operationalization is made to define and make things measurable.

“Frame of reference explains, either graphically or in narrative form, the main things to be studied- the key factors, constructs or variables – and the presumed relationships among them.” (Miles & Huberman, 1994, p. 19)

3.1 Emerged frame of reference.

The theories and models presented in the previous chapter were comprehensive. However, to fit the selected research purpose a combination of several theories had to be made. During the development of the frame of reference following statement by Zinkmund (2000) was kept in mind:

“Every primary researcher has the right to define the terms or concepts under investigation to satisfy the purpose of his primary investigation.”

Research purpose: “How can a large Swedish company, within an industrial market, develop and design reliable marketing channels for a new product under development, in the area of sales and marketing.”

To answer this research purpose, the tools presented, in the previous theory chapter; for selection of marketing channels can be summarized and defined as follows (See fig.3.1):

Fig.3.1 Seven-phase model for selection of marketing channels
3.2 Conceptualisation
In this section a definition of variables and elements from selected theories will be presented. To define the frame of reference, the marketing channel design model, will be made conceptualized phase by phase.

“Conceptualization means, inventing or contriving an idea or explanation and formulating it mentally” (www.hyperdictionary.com)

3.2.1 Phase 1: Recognize the need for a channel design decision
Many situations can indicate the need for a channel design decisions among them are the following: (Rosenbloom, 1995, s.217)

1. Developing a new product or product line. If existing channels for other products are not suitable for the new product or product line, a new channel may have to be set up or the existing channels modified in some fashion.
2. Aiming an existing product at a new target market. A common example of this situation is a firm’s introduction of a product in the consumer market after it has sold in the industrial market.
3. Making a major change in some other component of the marketing mix. For example, a new pricing policy emphasizing lower prices may require a shift to lower. Price dealers such as discount department stores.
4. Establishing a new firm, from scratch or as a result of mergers or acquisitions.
5. Adapting to changing existing intermediaries might make their policies so as to inhibit the attainment of the firm’s distribution objectives. For example, If intermediaries are beginning to emphasize their own private brand, then the manufacturer may want to add new distributors who will promote the company’s products more enthusiastically.
6. Dealing with changes in availability of particular kinds of intermediaries. For example, French, manufacturers of luxury goods such as Yves St. Laurent evening ware, limoges china, Christofle silverware faced channel design decisions in the U.S. market when the number of prestigious department stores was reduced as a result of the wave of acquisitions and mergers that occurred in the retail sector during the late 1980s.
7. Opening up new geographic marketing areas (territories).
8. Facing the occurrence of major environmental changes. These changes may be in the economic, sociocultural, competitive, technological, or legal spheres.
9. Meeting the challenges of conflict pr other behavioural problems. For example, in some instances conflict may become so instance that it is not possible to resolve it without modifying the channel. A loss of power by a manufacturer to his distributors may also foster the need to design an entirely new channel. Further, changing roles and communications difficulties may confront the marketer with channel design decisions.
10. Reviewing and evaluating. The regular periodic reviews and evaluations undertaken by a firm may point to the need for changes in the existing channels and possibly the need for new channels.
3.2.2 Phase 2: Set Channel objectives

Having recognized that a channel design decision is needed, the channel manager should try to develop a channel structure, whether from scratch or by modifying existing channels, that will help achieve the firm’s distribution objectives efficiently. Yet quite often at this stage of the channel design decision, the firm’s distribution objectives are not explicitly formulated, particularly since the changed conditions that created the need for channel design decisions might also have created the need for new or modified distribution objectives. It is important for the channel manager to evaluate carefully the firm’s distribution objectives at this point to see if new ones are needed. (Rosenbloom, 1995, s219)

Some typical objectives used by business marketing managers in setting up their channel of distribution follow. (Haas, 1995, s432)

- Low cost of operation
- Control
- Closer relationships with intermediaries
- Sales effort
- Service and technical assistance
- Market feedback
- Company image

Hence, the subsequent step becomes to determine marketing channel strategy for the new product, with regards to the factors above.

3.2.3 Phase 3: Specifying the distribution tasks

After the distribution objectives have been set, a number of distribution tasks (intermediary functions) must be performed if the distribution objectives are to be met. The channel manager should, therefore, specify explicitly the nature of these tasks. (Rosenbloom, 1995, s219)

To give an example, according to Rosenbloom (1995) the distribution tasks will be defined as follows:

- Promotion
- Stocking
- Order solicitation and handling
- Pre- or post-sales service
- Market research
- Sales financing
- A variety of value-adding activities
- Selling
- Communication
- Transportation
• Storage
• Risk taking
• Financing.
• Maintain readily available inventory (specified in terms of quality and type)
• Provide rapid delivery (specified in terms of days or hours)
• Offer credit
• Provide emergency service
• Supply semi fabrication function such as cutting, shearing, slotting, threading, pattern cutting, pattern rolling, re-rolling, stretcher levelling, welding, grinding, forcing, and reaming.
• Include packaging and special handling
• Provide technical assistance such as problem analysis, product selection, application, and end use product.
• Maintain market information
• Offer storage space
• Allow for absorption of size and grade obsolescence
• Process orders and bill for many accounts
• Offer return provision
• Others

3.2.4 Phase 4: Developing possible alternative channel structures
Having Specified in detail the particular distribution tasks that need to be performed to achieve the distribution objectives, the channel manager should then consider alternative ways of allocating these tasks. The allocation alternatives (possible channel structure) should then be in terms of the following three dimensions (Rosenbloom, 1995, s. 226):

- Number of levels in the channel
- Number of intermediaries at each level
- Identify types of available potential intermediaries at each level

**Number of levels in the channel**
The number of alternatives that the channel manager can realistically consider for this structural dimension is often limited to no more than two or three choices. For example, it might be feasible to consider:

- Going direct (two-level)
- Using one intermediary (three level)
- Or possibly using two intermediaries (four-level)

These limitations result from a variety of factors such as the particular industry practices, nature and size of the market, availability of intermediaries, and other variables. In some instances this dimension of channel structure is the same for all manufacturers in the industry and may remain virtually fixed for long periods of time.
In other industries it is more flexible and subject to change in relatively short time periods.

**Number of intermediaries**
The choice of channels will be influenced by the firm’s positioning strategy (Rosenbloom, 1995). Companies, therefore, have to decide on the number of intermediaries to use at each level. Three strategies are available for deciding geographical market coverage (Kotler, 2003, s.513).

- **Intensive distribution.** For low-priced, convenience or impulse products, companies will generally want to maximize the number of outlets carrying them. The more places carrying the product, the more likely it is to be bought. The more intensive the distribution required, the greater the efficiencies offered by intermediaries. (Doyle, 1998, s. 330)

- **Exclusive distribution.** For high-priced, luxury products, the manufacturer will often limit distribution to a very small number of intermediaries. The intermediaries normally gains better margins and the exclusive right to sell the product in a specific area. The manufacturer hopes to achieve in return a greater sales effort, greater control of pricing and selling practices, and a superior brand image. (Doyle, 1998, s. 330)

- **Selective distribution.** Manufacturer of speciality goods will often look for a compromise between intensive and selective distribution. Here the manufacturer aims to have sufficient cover, but to restrict it sufficiently to be able to select motivated knowledgeable dealers. (Doyle, 1998, s. 330) Furthermore, this strategy aims at firms who like to choose their channel members or “partners” very carefully and then work closely with them in the distribution of the firm’s products. (Rosenbloom, 1995, s228)

**Types of intermediaries at each level**
The third dimension of channel structure deals with the particular types of intermediaries to be used, if any, at the various levels of the channel. (Rosenbloom, 1995, s229) Companies can choose from a wide variety of channels for reaching customers-form internal sales force to agents, distributors, dealers, direct mail, telemarketing, and the Internet (Kotler, 2003). Nevertheless, at this phase of channel design decision, the channel manager is likely to have a general awareness of the kinds of intermediaries available to serve his or her industry, or have a readily available means for finding out. Trade association data, non-competing firms in the industry, customers, or Internet are also good sources of information. The emphasis of the channel manager’s analysis at this point should focus on the basic types of distribution tasks performed by these intermediaries. (Rosenbloom, 1995, s229)
3.2.5 Phase 5: Evaluating variables affecting channel structure

Having laid out several possible alternative channel structures, the channel manager should then evaluate a number of variables to determine how they are likely to influence various channel structures. Although there are a myriad of such variables, six basic categories can be formed in the analysis of alternative channel structures: (Rosenbloom, 1995, s.230)

1. Market variables
2. Product variables
3. Company variables
4. Intermediary variables
5. Environmental variables
6. Behavioral variables

To define these variables, a number of heuristics (rule of thumb), described by Rosenbloom, 1995, have been selected. These heuristics gives an idea about how each variable affect channel structure. Below a description of each variable and it’s attached heuristic is presented:

1. **Market variables**
   - Market geography
     Heuristics:
     “The greater the distance between the manufacturer and its markets, the higher the probability that the use of intermediaries will be less expensive than direct distribution.”
   - Market size
     Heuristics:
     “If the market is large, the use of intermediaries is more likely to be needed. Conversely, if the market is small, a firm is more likely to be able to avoid the use of intermediaries.”
   - Market density
     Heuristics:
     “The less dense the market, the more likely it is that intermediaries will be used. Stated conversely, the greater the density of the market, the higher the likelihood of eliminating intermediaries”

2. **Product variables**
   - Bulk and weight
     Heuristics:
     “Heavy and bulky products have very high handling and shipping costs relative to their value. The producer of such products should therefore attempt to minimize these costs by shipping them only in large lots to the fewest possible points. Consequently the channel structure for heavy and bulky products should, as a
general rule, be as short as possible-usually direct from the producer to the user. The exception to this occurs when customers buy in small quantities and need quicker delivery. In this case it may be necessary to use some form of intermediary.”

- Perishability
Heuristic:
“When products are highly perishable, channel structures should be designed to provide for rapid delivery from producer to consumers.”

- Unit value
Heuristic:
“In general, the lower the unit value of the product, the longer the channels should be. This is because the low unit value leaves a small margin for distribution costs.”

- Degree of standardization
Heuristic:
“In general, the influence of this product variable on channel structure is characterized by the relationship shown in figure 3.1. Essentially, figure 3.1 shows that custom-made products go directly from the producer to the user, but as products become more standardized, the opportunity to lengthen the channel including intermediaries increases.”

Fig.3.1 Heuristic describing degree of standardization
• Degree of technical complexity
  Heuristics:
  “If a product is technically complex, the manufacturer should sell directly to its
  user instead of through intermediaries.”

• Newness
  Heuristics:
  “Many new products in industrial markets require extensive and aggressive
  promotion in the introductory stage to build primary demand. Usually, the longer
  the channel, the more difficult it is to achieve this kind of promotional efforts
  from all of the channel members. Consequently, in the introductory stage a shorter
  channel is generally viewed as an advantage for gaining product acceptance.
  Further, the degree of selectivity also tends to be higher for new products because
  a more carefully selected group of intermediaries is more likely to provide more
  aggressive promotion.”

3. Company variables
   • Size
     Heuristic:
     “In general, the range of options for different channel structures is a positive
     function of a firm’s size. The power bases available to large firms, particularly
     those of reward, coercion, and expertise-enable them to exercise a substantial
     amount of power in the channel. This gives large firms a relatively high degree of
     flexibility in choosing channel structures, compared with smaller firms. Consequently,
     the larger firm’s capacity to develop channel that at least approach
     an optimal allocation of distribution tasks is typically higher than for smaller
     firms.”

   • Financial capacity
     Heuristic:
     “Generally, the greater the capital available to a company, the lower is its
     dependence on intermediaries. In order to sell directly to ultimate industrial users,
     a firm usually needs its own sales force and support service or retail stores,
     warehousing, and order processing capabilities. Larger firms are better able to
     bear high cost of these facilities.”

   • Managerial expertise
     Heuristic:
     “Some firms lack the managerial skills necessary to perform distribution tasks.
     When this is the case, channel design must of necessity include the services of
     intermediaries, which may include wholesaler, manufacturers’ representatives,
     selling agents, brokers, or others. Over time as the firm’s gains experience, it may
     be feasible to change the structure to reduce the amount of reliance on
     intermediaries.”

   • Objectives and strategy
Heuristic:
“Marketing and general objectives and strategies (such as a desire to exercise a high degree of control over the product and its service) may limit the use of intermediaries. Further, such strategies as an emphasis on aggressive promotion and rapid reaction to changing market conditions will constrain the types of channel structures available to those firms employing such strategies.”

Internal sales organization

4. **Intermediary variables**
   - Availability

   Heuristic:
   “In a number of cases, the availability of adequate intermediaries will influence channel structure.”

   - Cost

   “Heuristic:
   Cost of using intermediaries is always a consideration in choosing a channel structure. If the channel manager determines the cost of using intermediaries is too high for the services performed, the channel structure is likely to minimize the use of intermediaries.”
5. Market behavior
Market behavior refers to the following four types of buying behavior:
(see fig. 3.2)
- How customers buy.
- When customers buy
- Where customers buy
- Who does the buying?

Heuristics:

<table>
<thead>
<tr>
<th>Buying habits</th>
<th>CORRESPONDING CHANNEL STRUCTURE HEURISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How</strong></td>
<td>- Use long channels to reach the market</td>
</tr>
<tr>
<td>Customers typically buy in very small quantities.</td>
<td>- Add intermediaries to the channel to perform the storage function, thereby reducing peaks and valleys in production</td>
</tr>
<tr>
<td><strong>When</strong></td>
<td>- Eliminate wholesale and retail intermediaries and sell direct</td>
</tr>
<tr>
<td>Buying is highly seasonal.</td>
<td>- Direct distribution for greater control of sales force to successfully reach all parties responsible for making purchase decisions</td>
</tr>
<tr>
<td><strong>Where</strong></td>
<td>- Consumers increasingly tend to shop at home</td>
</tr>
<tr>
<td><strong>Who</strong></td>
<td>- Industrial market: Many individuals influence the purchasing decision</td>
</tr>
</tbody>
</table>

Fig. 3.2 Heuristic describing degree of standardization

3.2.6 Phase 6: Choosing the “best” channel structure

**Strait qualitative judgment approach**, as the name suggests, this approach to choose channel structure rely heavily on managerial judgment and heuristics, or rule of thumb. (Rosenbloom, 1995, s.246)

The qualitative approach is the crudest but, in practice, the most commonly used approach for choosing channel structures. Under this approach, the various alternative channel structures that have been generated are evaluated by management in terms of decision factors that are thought to be important. These may include such factors as short- and long-run cost and profit considerations, channel control issues, long-term growth potential and many others. Sometimes, however, these decision factors are not stated explicitly, and their relative importance is also not made clear. Nevertheless, an alternative is chosen which, in the opinion of management, best satisfies the various explicit or implicit decision factors.
In the following example, a company has generated five channel alternatives (shown in figure 3.3). If the straight qualitative judgement approach were to be used for choosing the “best” alternative, management would subjectively “weight” each of the alternatives in figure 3.3 in terms of the decision factors it believes to be important. After considering the pros and cons of the five alternatives, management would then choose the alternative that in its judgement is the best one.

1. Marketing through present distributors (Present distribution alternative)
2. Marketing through new distributors already selling to the swimming pool trade (New distributors alternative)
3. Buying a small company already in this market to utilize its distributions (Acquisition alternative)
4. Selling the chemical in bulk to companies already in this market (private brand alternative)
5. Packaging and selling the chemical through mail campaigns directed at swimming pool owners (Direct mail alternative)

Fig.3.3 Example-company with five channel alternatives

Regardless of which judgmental-heuristic approach is used, large doses of judgement and “guesstimation” are virtually unavoidable. To say otherwise is to imply that a greater degree of precision exists than is actually the case. This is not to say that the so-called judgemental-heuristic approach is totally subjective. On the contrary, in some cases management’s ability to make sharp judgments may be quite high and, if this is coupled with good empirical data on costs and revenues, highly satisfactory (though not optimal) channel choice decisions may be made using judgemental-heuristic approaches.

Judgmental-heuristic approaches also enable the channel manager to readily incorporate non-financial criteria (decision factors) into channel choice decisions. Non-financial criteria such as the degree of control or goodwill available from a particular channel alternative may be of real importance. As pointed out:

These two other elements (channel control and goodwill must be take into consideration in arriving at the choice. For example, an analysis may show wholesalers as providing the highest contribution to profit and overhead, but it may be that in time these wholesaler, if they gain relative control over the channel, will demand higher and higher margins and provide less and less selling effort.

If such criteria as goodwill are important considerations, judgmental-heuristic approaches offer the flexibility to include these decisions.
3.2.7 Phase 7: Identification of potential marketing channel members

The next step is normally to select channel intermediaries, Rosenbloom (1995), within the select marketing channel segment. However, in this study, there is a demarcation to just identify all potential marketing channels in the Swedish market. Therefore, the selection of specific channel intermediaries is not of relevance for this thesis.

3.3 Operationalization

A concept must be made operational in order to be measured. An operational definition gives meaning to a concept by specifying the activities or operations necessary to measure it. (Zinkmund, 2000) Furthermore, the operational definition specifies which observation that has to be made in order to catch a phenomenon.

"Defines which observable characteristics will be measured and the process for assigning a value to the concept.” (McDaniel and Gates, 1999)

Research purpose: “How can a large Swedish company, within an industrial market, develop and design reliable marketing channels for a new product under development, in the area of sales and marketing.”

To measure the conceptualized frame of reference, the marketing channel design model, will be made operational phase by phase.

3.3.1 Phase 1: Recognize the need for a channel design decision

As was mentioned in the conceptualization many situations can indicate the need for channel design decision. To determine if there, in this case, is a real need for channel decision a comparison, between the reasons presented by (Rosenbloom, 1995) and the principal company problem was made.

Question that need to be answered:

-Why would it be of interest to investigate different marketing channel alternatives?

3.3.2 Phase 2: Set Channel objectives

To set the distribution objectives the following question have to be set.

-What are the new distribution objectives for new product?

3.3.3 Phase 3: Specifying the distribution tasks

In accordance with the conceptualization of Phase 2, the third phase is not so much about measuring, as it is about defining the actual tasks that intermediaries are supposed to take responsibility for.

-What distribution tasks is the market channel supposed to handle?
3.3.4 Phase 4: Developing possible alternative channel structures
As was described in the conceptualization of phase 4, there are three dimensions to consider. Namely:

**Number of levels in the channel**
To determine the number of levels in the channel one of the following alternatives have to be selected.

- Going direct (two-level)
- Using one intermediary (three level)
- Or possibly using two intermediaries (four-level)

-Which of the described alternatives are most realistic?

**Number of intermediaries at each level**
To determine the number of intermediaries one of the following alternatives have to be selected.

- Intensive distribution
- Exclusive distribution
- Selective distribution

-Which of the described alternatives are most realistic?

**Identify types of available potential intermediaries at each level**
Here we want to identify possible alternative intermediaries, available on the market.

-Do you know some types of possible alternative distribution channels?

3.3.5 Phase 5: Evaluating variables affecting channel structure
To measure how the different variables are affecting the channel structure, a question is attached to variable. This question is then compared to the attached heuristic (cue).

1. **Market variables**
   - Market geography
     *Q1: Who is perceived to be closest to end user, Alfa-Laval or potential marketing channels?*
   
   - Market size
     *Q2: Is the market perceived to be larger or smaller, in terms of number of end-users, than other markets within Alfa Laval?*
   
   - Market density
     *Q3: Is the market perceived to be more or less dense, compared to other Alfa Laval markets?*
2. Product variables
   - Bulk and weight
     \[Q4: \text{Can the product be described as more or less bulky, compared to other products within Alfa Laval Tumba AB?}\]
   - Perishability
     \[Q5: \text{Can the product be described as more perishable than other products within Alfa Laval Tumba AB?}\]
   - Unit value
     \[Q6: \text{Is the product's unit value lower than other Alfa Laval Tumba AB products?}\]
   - Degree of standardization
     \[Q7: \text{Can the product be viewed as custom-made?}\]
   - Degree of technical complexity
     \[Q8: \text{Compared to other Alfa Laval products, can the products of concern be described as technically complex?}\]
   - Newness
     \[Q9: \text{Is the product new?}\]

3. Company variables
   - Size
     \[Q10: \text{Can the company Alfa Laval be viewed as large in terms of power?}\]
   - Financial capacity
     \[Q11: \text{Does the company have the financial resources to support and promote the product via direct sales channels, in a satisfying manner?}\]
   - Managerial expertise
     \[Q12: \text{Does management have sufficient market knowledge to finalize the development and customer adaptation of the products?}\]
   - Objectives and strategy
     \[Q13: \text{Does the internal sales organization have the capacity to sell just one product to one customer at a time?}\]
4. Intermediary variables
   • Availability
     Q14: Is there a sufficient number of potential external sales channels to promote the product?

   • Cost
     Q15: Is the cost for sales perceived to be higher in external or internal channels?
     Q16: Is the cost for services perceived to be higher in external or internal channels?
     Q17: Is intermediaries perceived sell and service the product involved?
     Q18: Who is perceived to have the highest degree of market knowledge, Internal sales organization or external distributors?

5. Market behavior
   Q19: Does customers typically buy in very small quantities?
   Q20: Is the buying highly seasonal?
   Q21: Where do customers buy?
   Q22: Is there many people involved in the purchasing decision?
### Phase 6: Choosing the “best” channel structure

As was described in the conceptualization of phase 6, the straight qualitative judgmental approach was selected to measure and evaluate the different channel alternatives that were generated in phase 4. The different channel alternatives were then evaluated by decision factors that were sought to be important. To measure and rank each alternative between themselves, the respondent is asked to grade each channel alternative from 1-5, for every factor. (See fig.3.4) Then is each channel’s factor score is summarized, to calculate the “best” channel alternative. 1 = The least appropriate marketing channel alternative. 5 = The best marketing channel alternative.

<table>
<thead>
<tr>
<th>CHANNEL OPTIONS</th>
<th>Direct marketing channels</th>
<th>Suppliers of industrial wash liquid</th>
<th>Suppliers of industrial wash liquid machines</th>
<th>Manufacturer of industrial wash liquid machines</th>
<th>Other suppliers of wash liquid cleaning equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closet customer relations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mechanical knowledge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical knowledge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market knowledge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to new product development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total factor sum:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fig. 3.4 Example-company with five channel alternatives
3.3.7 Phase 7: Identification of potential marketing channel members

In the previous step the “best” channel structure were selected. This step, however, is to identify and gather information about potential marketing channel members, that fit the selected channel structure. To see how the information was gathered view the methodology chapter.

To measure and if a potential company where active and situated in the selected types of marketing channels the following question had to be met.

-Is the company active in one of the two highest ranked types of market channel structures, evaluated in phase 6?
4 RESEARCH METHODOLOGY

4.1 Introduction
This chapter will cover the research methodology of this thesis-report. The method section describes and motivates the choice of the data collection method. It also describes how I have conducted the case study at the company, Alfa Laval Tumba AB, EFU, and how and where I have gathered the information that later will be analyzed. Finally method problems are discussed as well as how validity and reliability can be increased.

4.2 Research Purpose
“How can a large Swedish company, within an industrial market, develop and design reliable marketing channels for a new product under development, in the area of sales and marketing.”

4.3 Research Character
Business research provides information to reduce uncertainty. It helps focus decision-making. Because of the variety of research activities, it would be helpful to categorize the types of business research. Classifying them on the basis of purpose or function allows us to understand how the nature of the problem influences the choice of research method. (Zikmund, 1999, p.50)

All research approaches can be classified into one of three general categories of research. These categories differ significantly in terms of research purpose, research questions, the precision of the hypotheses that are formed, and the data collection methods that are used. (Aaker et al., 1998, p.73) The nature of the problem will determine whether the research is (Zikmund, 1999):

- Explorative
- Descriptive
- Causal

Explorative research is the initial research conducted to clarify and define the nature of the problem (Zikmund, 1999). Furthermore, exploratory research is used when one is seeking insights into the general nature of the problem, the possible decision alternatives, and relevant variables that need to be considered. (Aaker et al., 1998, p.73) Explorative research seeks to determine the answers to why and how questions, to understand which variables that are of interest. (Lars-ole Forsberg, 2001)

Descriptive research is designed to describe characteristics of a population or a phenomenon. Descriptive research seeks to determine the answers to who, what, when, and where questions. Accuracy is of paramount importance in descriptive research. If the
study does not present a precise measurement, it will mislead the managers who are making decisions based on the study. (Zikmund, 1999)

**Causal research** is conducted to identify cause-and-effect relationships among variables where the research problem has already been narrowly defined (Zikmund, 1999). This means that, when it is necessary to show that one variable causes or determines the value of other variables, a causal research approach must be used. Because the requirements for proof of causality are so demanding, the research questions and relevant hypotheses are very specific. (Aaker et al., 1998,)

For this study, an initial *explorative approach* was used to get an overview of the research problem area at hand. The reason for this was that it at the start was quite difficult to determine in what area of marketing the research problem really belonged. However, after this initial literature study and research problem determination, a deeper understanding in the area marketing channel design, with regards to new product development research problem was needed. In other words, a more *descriptive approach* was needed to get this deeper understanding. But from a scientific point of view the research conducted were mostly of an *explorative nature*, trying to answer the research purpose.

> “How can a large Swedish company, within an industrial market, develop and design reliable marketing channels for a new product under development, in the area of sales and marketing.”

### 4.4 Deductive versus Inductive

In a research work, like this master thesis, there should be a discussion on whether a deductive or inductive approach shall be used. The *deductive approach* starts with a study of theories within the selected area that later on are tested in reality to examine if the theories have any accordance with reality. Through this a logical and thoughtful conclusion can be made. The *inductive approach* starts with an empirical work to formulate general hypotheses that later are tested in reality. It can be said that in an inductive approach the conclusions are based on empirical data, which gives the method a weakness if it is not built on all possible observation. (Eriksson, 1997)

For this thesis a *deductive approach* was used because the work started with a theory study, which later on were tested and compared with reality.

### 4.5 Qualitative versus Quantitative

As stated by McDaniel, (1999) scientific research can be divided into two categories, namely qualitative and quantitative.

The *quantitative method* is structured and formalized, and defines which conditions are of special interest from the chosen research problem. The researcher is examining many objects with few considerations. This method’s result is broad and can be used in a statistical manner. The *qualitative method* is much less formalized and its primary
purpose is explorative. The central objective in qualitative methods is to collect information in different ways so as to obtain a deeper understanding and a possibility to describe the entirety. (Eriksson, 1997)

The research character of this thesis work started with an explorative approach, and as mentioned earlier the qualitative method is of a more explorative nature. Therefore this work can be viewed as more explorative. As stated by Dr. Lars-ole Forsberg, (lecture 09-2001), a roughly correct answer on the right question is better than a correct answer on the wrong question. Which is what you get with a qualitative method.

4.6 Data collection methods
According to Brassington (2000) and Zikmund (2000), there are two major types of data collection. These two types of research are presented and explained below.

4.6.1 Secondary data
Secondary data is data gathered and recorded by someone else prior to (and for purposes other than) the current needs of the researcher. Secondary data is usually historical, already assembled, and does not require access to respondents or subjects. Market potential is often estimated with secondary data. (Zikmund, 2000)

The primary advantage of secondary data is that obtaining secondary data is almost always less expensive than acquiring primary data. In addition, secondary data can be obtained rapidly. Many of the activities normally associated with primary data collection (e.g., sampling, data processing) are eliminated when acquiring secondary data. (Ibid)

An inherent disadvantage of secondary data is that it is not designed specifically to meet the researcher’s needs. Furthermore, secondary information quickly becomes outdated in our rapidly changing environment. Since the purpose of most studies is to predict the future, helpful secondary data must be obtained in a timely fashion. (Ibid)

4.6.2 Primary data
Sometimes also called field research, primary research is undertaken by, or commissioned by, an organization for a specific purpose. The required information does not already exist in any available form and so the research has to be undertaken from scratch. The advantage of primary research is that it is exactly tailored to the problem in hand, but it can also be time consuming to undertake. (Brassington, 2000)

Once the researcher has recognized that information is needed (that is not currently available), they must decide from what source they can most effectively get that information. It is well worth checking secondary data sources first to see what has already been done. The pursuit of secondary data should be exhaustive, as secondary is far more cost effective and quicker to collect than primary data. If there is no appropriate secondary data commercially available, then a primary research study will have to be developed from scratch. (Ibid) The most common method of generating primary data is through surveys. (Zikmund, 2000)
4.6.3 Data collection method for this thesis

For this study mostly primary data was used for phase 1-6. The primary data was collected from several interviews with the respondent. The selected respondent for the interviews were the channel manager at Alfa Laval Tumba AB, EFU. The reason for selecting this respondent was simply that it was the most knowledgeable individual at the company, with market channel knowledge. Especially, with regard to the specific case study at hand.

Regarding phase 7, as mentioned earlier there is a demarcation in this thesis not to select intermediaries for this specific marketing channel. However, to assist the Alfa Laval Tumba AB, EFU in the selection process, an initial pre-study of the market at hand was conducted to identify potential channel intermediaries. Therefore it should also be a discussion about the data collection method for phase 7, regarding identification of potential channel members. To collect data about companies active in the “best” channel structure, in phase 6, secondary data was collected.

This secondary data was retrieved through interest group organisations for industrial surface treatment, Internet, databases with specific company information. It is also worth mentioning that The Standard Industrial Classification System (SIC) wasn’t detailed enough to distinguish companies in the aimed market.

When companies in the selected market were identified with, secondary data, primary data was collected via phone interviews with each of these potential intermediary companies. The aim with these phone interviews was to identify number of sold industrial washing machines.

4.7 Type of Research Technique

According to Dr. Lars-ole Forsberg, (lecture 09-2001), there are three main types of research:

- Case study
- Survey
- Experiments

Case Study. The purpose of case study is to obtain information from one or a few situations that are similar to the researcher’s problem situation. As with all exploratory research the result from case analyses should be seen as tentative. Generalizing from a few cases can be dangerous, since most situations are atypical in some sense. (Zikmund, 2000, p.107-108)

Survey. The most common method of generating primary data is through surveys. A survey is a research technique in which information is gathered from a sample of people
through use of a questionnaire. The task of writing a questionnaire, determining the list of questions, and designing the exact format of the printed or written questionnaire is an essential aspect of the development of a survey research design.

**Experiments.** Business experiments hold the greatest potential for establishing cause-and-effect relationships. The use of experimentation allows investigation of changes in one variable, such as productivity, while manipulating one or two other variables, perhaps social rewards or monetary rewards, under controlled conditions. Ideally, experimental controls provide a basis for isolating *Causal factors* because outside influences do not come into play.

As been mentioned at numerous times, this work is of an *explorative* nature and therefore it was natural to use a *case study*, to try to get answer the research purpose.

### 4.8 Sampling

Besides deciding which method should be used to collect data, one must also decide from what or where to collect it. (Zikmund, 2000)

The selection of a sampling method will depend on the objectives of the study, the financial resources available, time limitations and the nature of the problem under investigation. The major alternative sampling methods can be grouped under two headings: *probability* sampling methods and *non-probability* sampling methods. A number of alternatives are available under each of these headings. (McDaniels, 1999)

In *probability sampling* every element in the population has a known nonzero probability of selection. The simple random sample is the best-known probability sample, in which each member of the population has an equal probability of being selected. In *non-probability* sampling the probability of any particular member of the population being chosen is unknown. The selection of sampling units in non-probability sampling is quite arbitrary, as researchers rely heavily on personal judgment. Nevertheless, there are occasions when non-probability samples are best suited for the researcher's purpose. (Zikmund, 2000)

*Non-probability* sampling has been used to collect data for this study. The reason for this is that it simply was no other respondents with the specific knowledge available for this specific case.
4.9 Selected Research method for the study
To get an overview of the method used, to be able to answer the research purpose, a graphic method summary was constructed. See figure 4.1 below.

Fig.4.1 Research method

4.10 Method problems
Here the two method problems, validity and reliability, are discussed and what was done to increase them.

4.10.1 Reliability
When the outcome of the measuring process is reproducible, the measuring instrument is reliable. Reliability applies to a measure when similar results are obtained over time and across situations. Broadly defined as follows (Zikmund, 2000):

“The degree to which measures are free from errors and therefore yield consistent results.”
Degree of reliability is decided from how the measurements are made and therefore depends on the accuracy of the measurement procedure. High reliability is established if two or more independent measurements give the same result. (See fig4.2) To accomplish this the measurements must be free from errors. If the respondent misunderstands one question or the interviewer by mistake misinterprets the respondent’s answer, the data reliability will decrease. To achieve satisfying reliability sources of error must be minimized (Hellevik O., 1984).

For this thesis several precautions where taken to reduce sources of errors, and thereby increase reliability. When the interview was conducted the interviewer had a tape recorder to verify that all the replies, by the respondent, was correctly noted and that the interviewer could concentrate on the replies. The respondent where asked control questions to see that the respondent had understood the question correctly and that the interviewer had understood the replies correctly. Furthermore, since several repeated personal interviews where conducted (for phase 1-6) and the closeness of the main respondent one did not miss out on meaningful formulations and gestures.

4.10.2 Validity

Researchers want to know if their measure is valid, and the question of validity expresses their concern with accurate measure (Zikmund, 2000). Broadly defined as follows (Zikmund, 2000):

“The ability of a scale or measuring instrument to measure what is intended to be measured.”

In order to achieve high validity, the obtained data needs to have high reliability. However, high reliability is not enough, it will not always lead to high validity; the data must also be relevant for the given problem. Also, in order for the data to be valid, it is not as important for the data to be obtained from different sources, as it is for the data to
be obtained from the right sources. As mentioned earlier by Dr. Lars-ole Forsberg, (lecture 09-2001), a roughly correct answer on the right question is better than a correct answer on the wrong question. That is also the reason for selecting the most knowledgeable respondent for this specific reason, regarding phase 1-6.

The degree of validity of this report depends on the reliability of the facts presented, and whether or not the right variable is being measured. The fact is that it is difficult to determine whether or not a method is 100 percent valid. When forming the interview guide the questions were put forth in such a way that the respondent would give as valid answers as possible. An effort to avoid leading questions was made during the interview.

The following measures was taken to increase the validity:

- Probing technique was used, which means that during the interview, control questions were asked to assure that no misunderstandings had taken place regarding the questions.
- The interview was made with the most knowledgeable person in the area of study presented in the report, the purchasing manager.

4.10.3 Factors that may affect validity and reliability negatively

There are several factors that, if not carefully avoided, may lead to a lesser degree of reliability and validity than what is desired. For example, the respondent may withhold sensitive or crucial information based on their individual biases or opinions. Another disadvantage of some interviews is that often only one or few respondents are questioned, and those respondents may not be the most knowledgeable about the subject in question. This affects reliability negatively since a subjective, or even inaccurate, picture is presented. However the respondent in this case where most interested in getting the “best” possible channel structure since it was the channel manager responsible this specific product.

Regarding phase 7 (identification of potential market channel members), phone interviews were conducted to find out the number of sold industrial washing machines per year from each possible channel intermediary company. This type of company information can be view as very sensitive, since all companies where competing in the same market segment. It is worth to mentioning that some companies did not even give an answer to this question. Therefore, it had to be explained to each responding company why this fact was of interest and the background to the study, to get the respondent to answer this question. In other words it had to be explained that Alfa Laval Tumba AB, EFU were interested in finding new channel members for the new product and that the figure; number of sold machines per year, was a part of that decision.

The risk is that the responding companies gave exaggerated figures e.g. number of sold machines per year, to be classified as a potential intermediary channel. This give the reply of the respondent a natural bias.
To but give an estimate of the validity of these figures and put them in a perspective they were compared with total annual turnover for each company. This information was gathered from a non-bias source, namely a company fact database.
5 RESULTS – DATA PRESENTATION OF CASE

This chapter presents the results gathered during the interview with the channel manager (phase 1- phase 6) at Alfa Laval Tumba AB, at the department EFU. Furthermore, the results from phase 7 (Identification of potential marketing channel members) are presented.

5.1 Interview with the channel manager at Alfa Laval, EFU, phase 1-6

The findings that are presented below are a presentation of replies from an interview that was conducted at Alfa Laval Tumba AB, EFU, with their channel manager. A complete interview guide is to be found in the appendix.

Date: 2004-03-07

Place: Alfa Laval Tumba AB dep. EFU

Respondent name: Johan Ihrfors

Respondent position: Channel manager

5.1.1 Phase 1: Recognize the need for a channel design decision

Why would it be of interest to investigate different marketing channel alternatives?

Reply:

- At the moment Alfa Laval is in the starting block of developing a new product. Before going any further in the development phase of the new product it would be of interest to investigate if existing channels of distribution is usable for the new product.

- It is a general channels strategy, within EFU, to consider use of external sales channels

- The department of EFU wants to explore the marketing channel possibilities for future development the product Alfie 200 wash.

- Suspected difficulties in reaching the market, with this product, with present sales organization

- Want access to new markets

- Gain access to market knowledge within Alfie 200 Wash
• It is important to gain information about market trends. This knowledge can then be transferred from customer to distributor who then can transfer the knowledge to Alfa Laval.

5.1.2 Phase 2: Set Channel objectives (Doyle, Haas)

-How can the distribution objectives be described for the new product?

Reply:

*Prioritized objectives:*
- Closer relationships with intermediaries. The reason for this is that it would be of interest to get input from market actors in the new product development process. Furthermore, it would save a lot of money on market research.

- Service and technical assistance. Alfa Laval is a manufacturer of high quality products and therefore it is important that the service provided to end user is at the same level.

- Market feedback. To be able to provide end users with the product performance that they expect, it is very important with knowledge transfer from end user back to us.

*Not prioritized objectives:*
- Low cost of operation. Of course it is of interest with distribution costs. However, the future product Alfie 200 wash is expected to have a fix market price, weather sold by the internal sales force or by external intermediaries.

- Control. The control issues goes hand in hand with closer relationships with intermediaries. However, with closer relationships the need for control diminishes, because there is a there is a mutual respect and understanding.

- Sales effort. To sell products for Alfa Laval it is expected that the sales, in what ever form, is working

- Company image.

*EFU overall objective:*
- To be known by present and future potential end customer.

- Alfa Laval Tumba AB and the separator technique shall be the first hand choice by system builders of washing equipment (manufacturer and supplier) and wash liquid supplier.

- Further more to be known by suppliers of cleaning/filtration equipment

- Alfie 200 Wash should pave the way for EFU’s other customer assortment
- Build up knowledge and connection towards end customer

5.1.3 Phase 3: Specifying the distribution tasks (Rosenbloom)

What distribution tasks is the market channel supposed to handle?

Answer:

- Market information
- Provide assistance in the new product development
- Promotion
- Stocking
- Market communication
- Selling
- Provide service to end-user.
- Provide technical assistance to end-users.

5.1.4 Phase 4: Developing possible alternative channel structures (Doyle, Rosenbloom, Kotler)

Number of levels in the channel

-Which of the following alternatives are most realistic?
  - Going direct (two-level)
  - Using one intermediary (three level)
  - Or possibly using two intermediaries (four-level)

Answer: Using one intermediary (three level) or possibly going direct (two-level)

Number of intermediaries

-Which of the following alternatives are most realistic?

Answer: Selective distribution. (A few carefully selected partners)

Types of intermediaries

-Do you now some types of possible alternative distribution channels?

Answer:
  - Company’s internal sales force channel
  - Suppliers of wash liquid.
  - Supplier of industrial washing machines
  - Manufacturer of washing machines
  - Other suppliers of cleaning of wash liquid
5.1.5 Phase 5: Evaluating variables affecting channel structure  
(Rosenbloom)

To identify the most important factors affecting channel strategy the following questions have to be answered:

**Market variables**

**Q1: Who is perceived to be closest to end user, Alfa-Laval or potential marketing channels?**  
Reply: Intermediaries are closer to the market and end-user of concern.

**Q2: Is the market perceived to be larger or smaller, in terms of number of end-users, than other markets within Alfa Laval?**  
Reply: The market size is substantial with a considerable amount of end-users.

**Q3: Is the market perceived to be more or less dense, compared to other Alfa Laval markets?**  
Reply: The market is scattered all over the country. In other words there is a low-density market.

**Product variables**

**Q4: Can the product be described as more or less bulky, compared to other products within Alfa Laval Tumba AB?**  
Reply: The product is lighter and less bulky compared to other separation products with in Alfa Laval

**Q5: Can the product be described as more perishable than other products within Alfa Laval Tumba AB?**  
Reply: Not of interest.

**Q6: Is the products unit value lower than other Alfa Laval Tumba AB products?**  
Answer: The unit value is low and the product margin is high, allowing the use of potential external market channels.
Q7: Can the product be viewed as custom-made?

Answer: No, the fully developed product is expected to be more or less identical.

Q8: Compared to other Alfa Laval products, can the products of concern be described as technically complex?

Answer: No, the product is not technically complex compared to other Alfa Laval products and other potential intermediary products.

Q9: Is the product new?

Answer: The product can be viewed as very new since it’s not completely developed.

Company variables

Q10: Can the company Alfa Laval be viewed as a large in terms of power?

Answer: Yes, Alfa Laval can be viewed as a large company.

Q11: Does the company have the financial resources to support and promote the product via direct sales channels, in a satisfying manner?

Answer: Yes, Alfa Laval has the resources, but it is not prioritized within the company.

Q12: Does management have sufficient market knowledge to finalize the development and customer adaptation of the products?

Answer: Alfa Laval would have no problem in developing the separator itself. However, Alfa Laval needs to gain knowledge on how to adapt the product to final end user demands.

Q13: Does the internal sales organization have the capacity to sell just one product to one customer at a time?

Reply: At the moment Alfa Laval sales force are not focused on selling one specific product. Instead the sales force is selling a wide variety of products, from the product portfolio. In other words, a specific internal salesman can’t prioritize this product.
RESULTS

Intermediary variables

**Q14: Is there a sufficient number of potential external sales channels to promote the product?**

Answer: Yes, the presented potential of intermediaries is sufficient for market coverage in Sweden.

**Q15: Is the cost for sales perceived to be higher in external or internal channels?**

Answer: Alfa Laval has the highest sales costs.

**Q16: Is the cost for services perceived to be higher in external or internal channels?**

Answer: Alfa Laval has the highest service cost.

**Q17: Is intermediaries perceived sell and service the product involved?**

Reply: Yes!

**Q18: Who is perceived to have the highest degree of market knowledge, Internal sales organization or external distributors?**

Reply: It has to be actors (like suppliers of wash liquid) within the market segment.
Market behavior

Q19: Does customers typically buy in very small quantities?

Reply: After discussions with Manufacturers of wash liquid machinery, it seems like customers buy in small quantities. The reason for this is that the investment, in buying new washing equipment, is substantial.

Q20: Is the buying highly seasonal?

Reply: No

Q21: Where do customers buy?

Reply: No of interest (The heuristic in this case does not fit the specific problem)

Q22: Is there many people involved in the purchasing decision?

Reply: Yes, since there are substantial investments involved.
5.1.6 Phase 6: Choosing the “best” channel structure

In this section the respondent (channel manager) were asked to grade each channel alternative. The result is presented in Figure 5.1.

<table>
<thead>
<tr>
<th>CHANNEL OPTIONS</th>
<th>Direct marketing channels</th>
<th>Suppliers of industrial wash liquid</th>
<th>Suppliers of industrial wash liquid machines</th>
<th>Manufacturer of industrial wash liquid machines</th>
<th>Other suppliers of wash liquid cleaning equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closet customer relations</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Mechanical knowledge</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Chemical knowledge</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Provide service and technical assistance</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Market knowledge</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Contribution to new product development</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

**Fig. 5.1** Grading of channel alternative

Grade each factor from 1-5.
1 = The least appropriate marketing channel alternative. 5= The best marketing channel alternative.
### 5.1.7 Identification of potential marketing channel members, phase 7

The findings that are presented in table 5.2 are the result of information gathered through the Internet, market organization, and personal interviews.

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of sold machines/year</th>
<th>Annual Turnover</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MANUFACTURER</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allkal AB (M)</td>
<td>-</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>KSG AB (M)</td>
<td>0</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Milama Tech AB (M)</td>
<td>50</td>
<td>10,5</td>
<td></td>
</tr>
<tr>
<td>SCS Målningssystem AB (M)</td>
<td>15</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Teijo AB (M)</td>
<td>85</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Tervento Industri AB (M)</td>
<td>2</td>
<td>17,7</td>
<td></td>
</tr>
<tr>
<td>TRIAB / Tri Innovations AB (M)</td>
<td>5</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Viverk Försäljnings AB (M)</td>
<td>25</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>A. Rubertsson AB*</td>
<td>-</td>
<td>(15)</td>
<td>(17)</td>
</tr>
<tr>
<td><strong>SUPPLIERS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agaria Trading AB (S)</td>
<td>-</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Bupi Cleaner Svenska AB (S)</td>
<td>200</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>JA Teknik AB (S)</td>
<td>40</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>Langed Industri AB (S)</td>
<td>0</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>O. Malmkvist AB (S)</td>
<td>0</td>
<td>40</td>
<td>42</td>
</tr>
<tr>
<td>Skeppshults Industri AB*</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Fig.5.2 Companies within the selected marketing channel
6 ANALYSIS

The result presented in the previous chapter is here analyzed and compared to the theory presented in the frame of reference. First an analysis of the interview replies was made (Phase 1-6) and, secondly the results presented in phase 7 were analyzed. It is important to notice that Phase 7 (Selection of potential channel members) was a demarcation of this thesis. However, to assist the company (Alfa-Laval AB) in the selection of channel members a basic identification and analysis of the size of the potential channel members was conducted.

6.1 Interview with the channel manager at Alfa Laval, EFU, phase 1-6

In this section an analysis of the interview replies from the channel manager will be presented.

6.1.1 Phase 1: Recognize the need for a channel design decision

As been mentioned in the frame of reference, there can be numerous reasons for channel design decisions. In this case several new reasons for channel design decisions emerged, previously not mentioned in theory. The main reason was development of a new product. Other reasons for channel design decisions, given by the respondent, is exploration of new marketing possibilities, to gain access to market knowledge and as a part of that to transfer the knowledge from the market and its market actors to product characteristics.

6.1.2 Phase 2: Set Channel objectives (Doyle, Haas)

The channel objectives for the new product (alfie 200 wash) presented by the respondent where:

- Closer relationships with intermediaries
- Service and technical assistance
- Market feedback
- The new product should pave way for EFU’s other customer assortment

According to the respondent the overall objective of the department EFU is:

- To be known by present and future potential customers
- To be the first hand choice by system-builders (suppliers, manufacturer) and end-users of washing equipment.
- To be known by other suppliers of cleaning of cleaning/filtration equipment.
- Build up knowledge and connection towards end customer.

When comparing the department of EFU’s overall objective, put forth by the respondent, with the channel objective for the new product (Alfie 200 wash) one can see several similarities. Among them are closer relations, market feedback, market knowledge build up, to be known by present and future customers. All this coincides well with the theory presented in the frame of reference. Which, states the importance of congruency between specific channel objectives of the and overall marketing objectives.
6.1.3 Phase 3: Specifying the distribution tasks (Rosenbloom)

When the respondent was asked what types of task the marketing channel is supposed to handle. The following tasks was stated to be of importance:

- Market information
- Provide assistance in the new product development
- Promotion
- Stocking
- Market communication
- Selling
- Provide service to end-user.
- Provide technical assistance to end-users.

When the replies, by the respondent is compared with the theory presented in the frame of reference, regarding distribution tasks one can see that there are several similarities. However, in conformity with Phase 1 and phase 2 one can see that there are also factors that are not mentioned in theory. These “new” intermediary tasks are to provide the company (Alfa Laval AB) with market information and also to provide assistance in the new product development.

6.1.4 Phase 4: Developing possible alternative channel structures (Doyle, Rosenbloom, Kotler)

When the respondent were asked about the structure of a potential marketing channel for the new product one could see that the channel manager had a good understanding of potential channel structure. This also co-insides well with theories in the frame of reference, were it is stated that the channel manager, at this point, should have a pretty good understanding of the expected channel structure.

**Number of levels in the channel**
- Using one intermediary (three level) or possibly going direct (two-level)

**Number of intermediaries**
- Selective distribution. (A few carefully selected partners)

**Types of possible intermediaries**
- Company’s internal sales force channel
- Suppliers of wash liquid.
- Supplier of industrial washing machines
- Manufacturer of washing machines
- Other suppliers of cleaning of wash liquid

As can be seen above the channel manager would prefer a relatively short channel, using one or a few carefully selected channel partners, and that the channel manager have gained knowledge about types of possible channel intermediaries.
6.1.5 Phase 5: Evaluating variables affecting channel structure (Rosenbloom)

This section aims to describe the evaluation of variables affecting channel structure, as described in the operationalization by Rosenbloom (1995). To measure how the different variables affected channel structure a question was attached to each variable. The reply from this question was then compared with the respective heuristic (cue) attached to each variable, presented in the conceptualization of Phase 5. To make the analysis of the results more understandable the summary below was constructed.

<table>
<thead>
<tr>
<th>Market variables</th>
<th>Intermediary vs. Company sales-force</th>
<th>Long or short channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1: Geography</td>
<td>Intermediary</td>
<td>Long</td>
</tr>
<tr>
<td>Q2: Size</td>
<td>Intermediary</td>
<td></td>
</tr>
<tr>
<td>Q3: Density</td>
<td>Intermediary</td>
<td></td>
</tr>
</tbody>
</table>

| Product variables             |                                      |                       |
| Q4: Bulk & Weight             | Intermediary                        | Long                  |
| Q5: Perishability             | N.o.i.                              | N.o.i.                |
| Q6: Unit value                | Intermediary                        | Long                  |
| Q7: Degree of standardization | Intermediary                        | Long                  |
| Q8: Degree of technical complexity | Intermediary                      |                       |
| Q9: Newness                   | Both*                               | Short*                |

| Company variables             |                                      |                       |
| Q10: Size                     | Free choice**                       | Free choice**         |
| Q11: Financial capacity       | Intermediary                        |                       |
| Q12: Managerial expertise     | Intermediary                        |                       |
| Q13: Internal sales organization | Intermediary                       |                       |

| Intermediary variables        |                                      |                       |
| Q14: Availability             | Free choice**                       |                       |
| Q15: Sales cost               | Intermediary                        |                       |
| Q16: Service cost             | Intermediary                        |                       |
| Q17: Intermediary involvement | Intermediary                        |                       |
| Q18: Degree of market knowledge | Intermediary                       |                       |

| Market behavior               |                                      |                       |
| Q19: How                      | Intermediary                        | Long                  |
| Q20: When                     | Intermediary                        |                       |
| Q21: Where                    | N.o.i.                              |                       |
| Q22: Who                      | Company sales                       |                       |

N.o.i. = Not of interest
* = A few carefully selected partners
** = Flexible selection of channel structures

Fig.6.1 Analysis of results given by heuristics
As can be seen in table 6.1 above, there is a clear indication that intermediaries should be used in the marketing channel. However, there is one exception and that is question 22, where internal company sales force is recommended. The reason for this is that there in industrial markets are many individuals involved in the purchasing decision and that direct distribution offer greater control of sales force to successfully reach all parties responsible for making purchase decisions. Since some of the heuristics also described channel length one can see indications that the channel manager has the option to select longer marketing channels. In this case there is also one exception, namely question 9, were it is stated that a short channel with a few carefully selected partners is recommended, when dealing with new products and launch on new markets.

The analytical conclusion one can draw from this fact is that, even though longer channel is possible, a shorter channel is recommended in launch of new products. Another conclusion one can identify is that it is important to work closely with a few carefully selected channel members, since there are more people involved in industrial purchasing decisions. (See secion 6.3)
### 6.1.6 Phase 6: Choosing the “best” channel structure

As can be seen in table 6.2 above, the highest graded channel alternatives are manufacturer of industrial wash liquid machines and suppliers of industrial wash liquid machines. And therefore, these two alternatives can be seen as the best channel alternatives to utilize.
6.2 Identification of potential marketing channel members, phase 7

As mentioned earlier there is a demarcation in this thesis not to select intermediaries for this specific marketing channel. However, to assist the company, Alfa Laval Tumba AB, EFU, in the selection process an initial market study was conducted to identify potential channel intermediaries, and therefore this section is of no interest to the academic person. However, the facts presented in the table below is a proof of that the selected types of distribution channel exists.

Market potential for Alfie 200 Wash

The Swedish market, for IWM, consists of approximately 13 companies. These 13 companies sell ~420 IWM/year.

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of sold machines/year</th>
<th>Annual Turnover</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MANUFACTURER</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allkal AB (M)</td>
<td>-</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>KSG AB (M)</td>
<td>0</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Milama Tech AB (M)</td>
<td>50</td>
<td>10,5</td>
<td></td>
</tr>
<tr>
<td>SCS Målningssystem AB (M)</td>
<td>15</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Teijo AB (M)</td>
<td>85</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Tervento Industri AB (M)</td>
<td>2</td>
<td>17,7</td>
<td></td>
</tr>
<tr>
<td>TRIAB / Tri Innovations AB (M)</td>
<td>5</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Viverk Försäljnings AB (M)</td>
<td>25</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>A. Rubertsson AB*</td>
<td>-</td>
<td>(15)</td>
<td>(17)</td>
</tr>
<tr>
<td>Industritvättmaskiner Bror Johansson AB*</td>
<td>(15-20)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>SUPPLIERS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agaria Tradin AB (S)</td>
<td>-</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Bupi Cleaner Svenska AB (S)</td>
<td>200</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>JA Teknik AB (S)</td>
<td>40</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>Langed Industri AB (S)</td>
<td>0</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>O. Malmqvist AB (S)</td>
<td>0</td>
<td>40</td>
<td>42</td>
</tr>
<tr>
<td>Skeppshults Industri AB*</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Number of sold washing machines per year: 422 IWM
Total industry turnover: 341,2 SEK
Total number of employees:

* = Not included in the calculation of Annual turnover and number of employees.

Fig.6.3 Analysis of results given by heuristics
An important detail to clarify is that table 6.3 above contains information about companies that sell other types of products. Therefore the figure total industry turnover and total number of employees cannot be viewed as statistically certain.
7 CONCLUSIONS AND DISCUSSION

In this chapter, the conclusions from the analysis, in the previous chapter, will be presented. It will also try to answer the research purpose of this thesis. The conclusion chapter can be described as two-headed. First of all, the conclusions regarding how the case study company, namely Alfa Laval AB, EFU can set up a marketing channel from the future product Alfie 200 Wash. Secondly, from the researchers' perspective, it is of interest to discuss details about the actual method and theory behind the design of marketing channels.

7.1 Research Purpose

“How can a large Swedish company, within an industrial market, develop and design reliable marketing channels for a new product under development, in the area of sales and marketing.”

7.2 Design of the future market channel structure for the product Alfie 200 Wash, at Alfa Laval Tumba AB, dep. EFU

The final conclusion of how the market channel structure could be set-up, can be described as follows:

External distributors vs. Internal sales organisation
- Use intermediaries in external distribution channels, which in this case is more efficient than the internal sales organisation. The reason for this is that channel intermediaries can focus on the sales of this specific product and that the companies presented as potential market channel members are well connected in the market. Furthermore, these companies have sufficient knowledge, about the needs and the wants of specific end-users, to be able to contribute with information in the product development process.

Channel length
- Use a three-level strategy in the distribution channel. This means that there should only be one level of distributors between Alfa Laval and the customers. (Alfa Laval-External distributor-Customer). According to the heuristics longer channels can be allowed, but in this case a relatively short channel is recommended, when dealing with new products and its launch.

Channel intensity
- Use selective distribution, with a few carefully selected partners. The reason for this is that selective distribution in general offers greater control of sales to successfully reach all customer-parties responsible for making purchase decisions, compared with intensive distribution. Furthermore, it’s recommended to use selective distribution when dealing with new products and it’s launch on new markets.
Recommended types of market channel distributor-companies

- Use manufacturers or suppliers of industrial wash liquid machines. The reason for this is that it was stated to be of importance that the potential marketing channel intermediaries could contribute with information and provide assistance in the development of the product Alfie 200 Wash. Furthermore, these recommended channel members where identified as closest to potential customers and able to provide service and technical customer-assistance. (See section 6.2)

7.3 Overall conclusion and final discussion

My conclusive evaluation of the model for design of market channel structure, presented in the frame of reference by Rosenbloom (1995), is that it’s a straightforward and very comprehensive theory for design of marketing channel structures. However, the method is quite complex and therefore could be refurbished to be more “user-friendly” and simplified for daily managerial use.

As an example, the method presented by Rosenbloom (1995), is open to judgmental decisions of how to interpret the results. This is especially clear in phase 5: (Evaluating variables affecting channel structure) and in phase 6: (Choosing the best channel structure). In these two phases the user of the method has to compare and interpret the results of for example the heuristics (cues). In this case for example, the majority of heuristics points to the use of intermediaries and longer distribution channels. It is therefore easy to come to the conclusion that several levels of intermediaries, in long channels are recommended, and not take consideration to the fact that a few heuristics points almost in the opposite direction. Namely the more conservative alternative, short channels with a few carefully selected distribution channel partners. It is therefore important to try to make a conservative and objective overall impression of, and take consideration to, all of the different heuristics and paying attention to contradictory results. This could be seen as a weakness of the method and it is important to shed light on the problem, which is also done in the theory by Rosenbloom (1995).

Regarding this thesis work, it is interesting to notice that a “new” finding emerged, not previously mentioned in theory. Present theories, within the area of marketing channel; states that a need for channel design decision is based on the fact that an existing new product or product-line might need a new marketing channel. This because, a new existing product might not fit existing marketing channels, within the company of concern.

In this case however, the respondent had a suspicion that a future potential marketing channel could contribute to and provide assistance in the development phase of a new product. In other words it could be possible to gain market knowledge, which later on could to be transformed to future product specification, through new marketing channels that are already well established within the market segment.
7.4 Recommendations for further research

Finally, my suggestions on future research will be presented.

- As was described in the research purpose, this thesis aimed to describe how a company could design new marketing channel structures for a new product. Furthermore, it aimed to investigate if potential channel companies, within the selected channel structure, existed in reality. The natural step to continue this process would be to select channel members (potential market channel companies) to be incorporated in the selected market channel structure. Therefore, it could be of interest to investigate and widen knowledge in how selection of market channel members could be performed.

- It would also be of interest to investigate how a company can develop relations to marketing channels that can contribute with market knowledge, in the new product development process.

- It would also be of interest to perform the same study in a different industry to investigate if the selected method for design of market channel structure can be made generalized.

- As can be seen in this thesis, the theory for design of market channel structure is somewhat extensive and complex. It could therefore also be of interest to investigate if the method can be made more “user friendly” and simplified for daily managerial use.
REFERENCES

In this chapter references used to solve the research purpose in this master thesis will be presented below.

8.1 Published references


Bodin Jan (2000). *Perpetual product development; a study of small technology-driven firms*, Umeå University, 2000


8.2 *Electronic references from Internet, databases*

www.hyperdictionary.com  
www.foretagsfakta.se  
www.gulasidorna.se

8.3 *Courses*

Forsberg, Lars-Ole, Director of Studies, Instructor, Ph.D. Candidate, Luleå University of Technology. Lecture in Research Methodology and Industrial marketing, 2001.

8.4 *Personal Interview*

Ihrfors Johan, Channel manager, Alfa Laval Tumba AB dep. EFU
9 APPENDIX

9.1 Interview guideline A1

Date:

Place:

Respondent name:

Respondent position:

Phase 1: Recognize the need for a channel design decision

- Why would it be of interest to investigate different marketing channel alternatives?

Phase 2: Set Channel objectives

- What are the new distribution objectives for new product?

Phase 3: Specifying the distribution tasks

- What distribution tasks is the market channel supposed to handle?
9.2 Interview guideline A2

Date:

Place:

Respondent name:

Respondent position:

Phase 4: Developing possible alternative channel structures
There are three dimensions to consider in channel design. Namely:

Number of levels in the channel
To determine the number of levels in the channel one of the following alternatives have to be selected.
  - Going direct (two-level)
  - Using one intermediary (three level)
  - Or possibly using two intermediaries (four-level)

-Which of the described alternatives are most realistic?

Number of intermediaries at each level
To determine the number of intermediaries one of the following alternatives have to be selected.
  - Intensive distribution
  - Exclusive distribution
  - Selective distribution

-Which of the described alternatives are most realistic?

Identify types of available potential intermediaries at each level
Here we want to identify possible alternative intermediaries, available on the market.

-Do you know some types of possible alternative distribution channels?
9.3 Interview guideline A3

Date:
Place:
Respondent name:
Respondent position:

**Phase 5: Evaluating variables affecting channel structure**
To measure how the different variables are affecting the channel structure, a question is attached to variable. This question is then compared to the attached heuristic (cue).

1. **Market variables**
   - Market geography
     
     **Q1:** Who is perceived to be closest to end user, Alfa-Laval or potential marketing channels?

   - Market size
     
     **Q2:** Is the market perceived to be larger or smaller, in terms of number of end-users, than other markets within Alfa Laval?

   - Market density
     
     **Q3:** Is the market perceived to be more or less dense, compared to other Alfa Laval markets?

2. **Product variables**
   - Bulk and weight
     
     **Q4:** Can the product be described as more or less bulky, compared to other products within Alfa Laval Tumba AB?

   - Perishability
     
     **Q5:** Can the product be described as more perishable than other products within Alfa Laval Tumba AB?

   - Unit value
     
     **Q6:** Is the products unit value lower than other Alfa Laval Tumba AB products?

   - Degree of standardization
     
     **Q7:** Can the product be viewed as custom-made?
APPENDIX

- Degree of technical complexity
  
  Q8: Compared to other Alfa Laval products, can the products of concern be described as technically complex?

- Newness
  
  Q9: Is the product new?

3. Company variables
   
   - Size
     
     Q10: Can the company Alfa Laval be viewed as a large in terms of power?

   - Financial capacity
     
     Q11: Does the company have the financial resources to support and promote the product via direct sales channels, in a satisfying manner?

   - Managerial expertise
     
     Q12: Does management have sufficient market knowledge to finalize the development and customer adaptation of the products?

   - Objectives and strategy
     
     Q13: Does the internal sales organization have the capacity to sell just one product to one customer at a time?

4. Intermediary variables
   
   - Availability
     
     Q14: Is there a sufficient number of potential external sales channels to promote the product?

   - Cost
     
     Q15: Is the cost for sales perceived to be higher in external or internal channels?

     Q16: Is the cost for services perceived to be higher in external or internal channels?

     Q17: Is intermediaries perceived sell and service the product involved?

     Q18: Who is perceived to have the highest degree of market knowledge, internal sales organization or external distributors?

5. Market behavior
   
   Q19: Does customers typically buy in very small quantities?
Q20: Is the buying highly seasonal?

Q21: Where do customers buy?

Q22: Is there many people involved in the purchasing decision?
9.4 Interview guideline A4

Date:

Place:

Respondent name:

Respondent position:

**Phase 6: Choosing the “best” channel structure**
Grade each channel alternative from 1-5, for every factor.
1 = The least appropriate marketing channel alternative.
5 = The best marketing channel alternative.

<table>
<thead>
<tr>
<th>CHANNEL OPTIONS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct marketing channels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers of industrial wash liquid</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers of industrial wash liquid machines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mechanical knowledge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical knowledge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market knowledge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to new product development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>