The Design and Management of Marketing Channels 2

Overview

Refresher

- Coordination
- Incentives

Solutions

- Channel Design
- Channel Management

Refresher
Coordination and Incentives

Coordination

Decisions are mutually dependent

Incentive Conflicts

Goals not aligned

When is Coordination Difficult?

Too many decision makers

- large firms

Decision makers too far from information

- May Company

Specialization

- different languages (May Company)
- different information systems (Continental)

Incentive problems

- Continental

Incentives: When Do Problems Arise?

Goals not congruent

- Within firms: vacations
- Between firms: wholesale price

Implications

- Distort information
- Distort actions and decisions

Relationship between incentives and coordination

Solutions

Channel Design

- Resources
- Coordination
- Incentives

Channel Management

- Contracts
- Co-location
- Standardization
- Exclusivity

Channel Design

Does Outsourcing Help or Hinder Coordination?

Helps: Coordination is difficult at large firms

- Decision makers too far apart (decentralized)
- Decision makers too far from information (centralized)

Hinders: Coordination is difficult between firms

- The procurement process (Knez and Simester)
- More decision makers (Burger King)
- Proprietary information (Continental)
- Harder to standardize (Continental)
- Co-location less likely

Channel Design

Does Outsourcing Help or Hinder Incentive Issues?

Helps: if goals are consistent

- Owners are more motivated than managers
- Example: owners are better at supervising employees than managers

Hinders: if goals are inconsistent

- Example: Burger King cannot implement the McDonald's ordering system

Two Intermediate Solutions

1. **Hybrid channels**

   Channel conflict (State Farm)

2. **Outsourcing is not the only option**

   Vertically integrated *Chicago Tribune*

   Franchising *Pizza Hut*

   Licensing *Tiger Woods*

   Cooperatives *Ace Hardware*

   Joint Venture *Sematech*

   Strategic Alliances *Coke and McDonalds*

   Outsourced *Nike*

Franchising

Resources

- Means of raising capital / sharing risk
- Human capital

Incentives

- Owners instead of managers
- Objectives of franchisor and franchisee not perfectly aligned
- Must credibly signal demand to initial franchisees
- Franchisees often slow down and balk at ongoing royalties

Coordination

- Decision-makers closer to the information
- More decision-makers

Joint Ventures

Resources

- Success depends upon complementary resources
- Common reason for failure: parents fail to contribute

Incentives

- Objectives aligned within the joint venture but not with parents
- More likely to fail if parents compete

Coordination

- Standardization and co-location within joint venture
- Remove proprietary concerns within joint venture
- Resulting organizations often smaller
- An additional decision-maker

Bose: JIT Program

Coordination

Standardize (information systems)

Co-locate

No negotiating of prices

Incentives

Owners watch over suppliers' employees

Give suppliers market power

Channel Management

Use contracts to align objectives

Co-location

Standardization

Exclusivity

Contracts

Enforcement

- Input measures (accountants)
- Output measures (sales people)

Complexities

- Multiple tasks
- Group performance
- Uncertainty

Exclusive Distribution

Guarantee not to supply competing retailers

Benefits

Aligns objectives

Facilitates coordination: fewer retailers to contact

Economies of scale

Costs

Risk is less diversified

May lose market coverage

Give retailers some market power

Harder to measure performance

Summary

Channel Design: perform the task yourself

- Are your resources suited to the task?
- Will the firm become too big to coordinate?
- Who is easier to manage: owners or managers?

Channel Management

- Use contracts to align incentives
- Co-location
- Standardization
- Exclusivity