

Chapter 13

Coping with Manufacturers’ Dilemma in the E–Commerce Era: A Relational Model and a Strategic Framework

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ABSTRACT

From a channel conflict perspective, this paper proposes a Relational Model identifying key determinants of manufacturers’ intentions to establish an online direct sales channel (ODSC). The paper also develops a Strategic Framework as a guideline for manufacturers to formulate their Internet channel strategies. Unlike most other studies on channel conflicts that focus on channel management after the manufacturer has already established its ODSC, this study provides a comprehensive strategic analysis of channel conflicts based on a pre-ODSC context, which prevents unnecessary losses from channel conflicts before they occur.

INTRODUCTION

In recent year, most manufacturers have adopted the Internet for business purposes, but such adoption is still limited primarily to the gathering of business information, advertising (Fisher, Craig,

& Bentley, 2007) and product search (Kula & Tatoglu, 2003). Few of them have taken advantage of the Internet’s disimmediation function promised for manufacturers.

What is preventing many manufacturers from selling directly online and pursuing the evidently promising online business opportunities? The explanation may be found in a dilemma that

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many of those manufacturers share: to build an online direct sales channel (ODSC) or to rely on traditional resellers (a general term in this paper referring to wholesalers, distributors, and retailers) to distribute products. Choice of either side of the dilemma seems risky for the manufacturers. If they do not sell their products directly over the Internet, people will go to those who do, and if they do sell their products directly on the Internet, then their distributors may drop them and carry products from manufacturers who do not compete with them (Wilson, 1998).

On one side of the dilemma, manufacturers may benefit from multi-channel distribution strategies in many ways (Webb, 2002): First, multi-channel distribution strategies enable manufacturers to more effectively customize products to meet various customer needs and shopping preferences and thus reach more market segments. Second, a single channel is usually optimal for specific goods but only a multi-channel strategy can maximize the effectiveness of distribution of a manufacturer's whole production line. Third, manufacturers with excess capacity can take advantage of additional distribution outlets to sell their excess goods. The Internet has made multi-channel strategies even more desirable because of its potential to reduce costs, extend market reach, and customize products and services to meet customers' needs.

On the other side of the dilemma, the introduction of a new technology into the distribution channel potentially increases the likelihood of channel conflict (Rosenberg, 1974). The emergence of the Internet and its increasing popularity as a sales channel has made channel conflicts one of the most serious challenges that manufacturers face. When a manufacturer builds its own online direct-sales channel (ODSC) to sell products directly to end customers, it immediately turns itself into its resellers' competitor. The resellers may perceive the ODSC as a potential competitive threat to their profitability and may choose to retaliate by refusing to distribute or by reducing its distribution efforts for the manufacturer's products.

While Internet and e-commerce technologies have accelerated the use of multichannel model among manufacturers (Mukhopadhyay, Yao, & Yue, 2008), recent research has suggested that the existence of the online direct sales channel along with the traditional sales channel frequently causes channel conflicts (Eyuboglu & Kahadayi, 2005; Mukhopadhyay, Yao, & Yue, 2008; Rosenbloom, 2007; Yan & Pei, 2009; Zhou, Zhuang, & Yip, 2007). Although many manufacturers have adopted the relationship marketing philosophy in recent years in hope of creating long-term relationships between its traditional channel and the online direct sales channel (Zhou, Zhuang, & Yip, 2007), there is still a possibility of channel conflicts because the manufacturer and its traditional reseller instinctively seek for their own interests (Gudonavičienė, Alijošienė, & Aukščionis, 2008). As Rosenbloom (2007) suggests, while integrating online direct sales channels with conventional sales channels to create a "seamless" experience for customer is ideal in theory, it is difficult in practice.

Many of the key issues related to channel conflicts remain crucial today (Alberto, 2005; Zhou, Zhuang, & Yip, 2007). Appropriately resolving these issues will have substantial impacts on manufacturers' distribution performance, relationships with business partners, and the satisfaction of consumers' needs (Gudonavičienė, Alijošienė, & Aukščionis, 2008).

Being aware of the importance of these issues, many researchers have conducted research on channel conflicts. However, most of the extant research focus on channel management after the manufacturer has already established its ODSC. Very little has been studied on the factors that affect manufacturers' strategies prior to their establishment of an ODSC. Unfortunately, after a channel conflict occurs, damages to the manufacturer are already done and may never be repaired. Emotions may run high for a long period of time between the manufacturer and the reseller. A long-standing strategic relationship with a distribution partner,

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