



Managing channels of distribution in the age of electronic commerce

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Abstract

The emergence of electronic commerce (e-commerce) has created a new business paradigm, one that presents marketers with noteworthy opportunities and challenges. Perhaps the greatest impact is in the area of channel management. The top issue for many business-to-business (B2B) firms today is channel conflict. In this paper, we investigate the effect of introducing the Internet channel into an already complex, multichannel distribution system from the perspective of the supplier firm. We describe strategies for proactively managing conflict, both externally with channel partners and internally among the subunits responsible for managing the channels. Twelve propositions for research are developed; eight relate directly to the marketing mix and four focus on channel communication and coordination. All of the research propositions offered are mechanisms by which suppliers can influence the level of channel conflict they experience. Dedicated channel management groups, documentation of channel strategies, and superordinate goals are identified as strategies for minimizing unwanted conflict. © 2001 Elsevier Science Inc. All rights reserved.

Keywords: Channel conflict; Distribution strategy; Electronic commerce

1. Introduction

I don't think maturation and e-commerce belong in the same sentence. My picture of e-commerce is that it's on some kind of S-curve development. It's very, very early in the takeoff stage, and consequently, anything that we conclude about either the structure of e-commerce, the practice of e-commerce or the current players in e-commerce is very dangerous to draw a whole lot of long-term conclusions about. (Intel Chairman Andrew Grove, *The Wall Street Journal*, April 17, 2000)

Led first by the Internet pure-play "dot-coms" and followed closely by the Fortune 500, the explosive growth of business-to-business (B2B) electronic commerce (e-commerce) has been well chronicled in the popular press. In its most recent forecast, Forrester Research predicts B2B revenues over the Internet will reach US\$2.7 trillion in 2004, accounting for 17% of all B2B sales [1]. Such a large volume of online transactions would represent a sevenfold increase over the US\$406 billion Forrester expects in 2000.

The emergence of e-commerce has created a new model for doing business that affects all aspects of the marketing mix. A particularly important aspect of this new business paradigm is its impact on marketing channels.

E-commerce presents business marketers with profound opportunities, including reduced costs, access to new market segments, and the ability to provide information worldwide on a continuous basis. However, e-commerce also introduces potentially significant challenges. Channel conflict is perhaps the most serious concern for companies as they add e-commerce. In a recent survey of 50 manufacturers, 66% indicated channel conflict was the biggest issue they faced in their online sales strategy, three times as many as the second most frequent response [2]. Firms are attempting to reconstruct the supply chain and make it more efficient, a process that will undoubtedly cause conflict with many of the supply chain's existing participants [3]. Traditional distribution channels are threatened by online e-commerce [4]. How supplier organizations manage this channel conflict throughout their entire distribution system will be an important factor in their success.

The purpose of this paper is to address an important question for channels research — what impact does the advent of e-commerce have on managing channel conflict in a B2B setting? Emphasis is given to proactive strategies

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managers can utilize to prevent unwanted conflict, and propositions for future empirical research in this area are offered. The next section consists of an introduction to electronic marketing channels in the context of complex distribution systems, followed by a review of the academic channel conflict literature. Strategies for proactively managing channel conflict are presented next, along with research propositions. We conclude with a discussion of managerial implications and suggestions for future research in this area.

2. Electronic channels

E-commerce is defined as the strategic deployment of computer-mediated tools and information technologies to satisfy business objectives [5]. As such, e-commerce offers fundamentally new ways of doing business, as opposed to mere extensions of existing practices. Indeed, the emergence of the “marketplace” — a virtual world of information paralleling the real marketplace of goods and services — enables marketers to manage content, context, and infrastructure in new and different ways, thereby providing novel sources of competitive advantage [6]. Electronic marketing channels use the Internet to make products and services available so that the target market with access to computers or other enabling technologies can shop and complete the transaction for purchase via interactive electronic means [7].

All marketing channel systems must perform three fundamental tasks: the exchange of goods, the exchange of money, and the exchange of information [8]. In terms of the generic functions that are provided, these tasks are referred to as physical distribution or fulfillment, transaction facilitation, and communication, respectively [9]. As an electronic marketing channel, the Internet is quite capable of replacing conventional distribution channels when it comes to communicating information and conducting transactions. However, the Internet is unable to provide for the physical exchange of tangible goods. It is worthwhile to note, though, that the Internet can be used as a complete marketing channel for products that can be digitized and delivered electronically, such as software, music, and reports. When the Internet should be used only as a communication medium, to help people locate the nearest available source for products, or as both a communication medium and sales-distribution channel is an important research question [10].

2.1. Complex distribution systems

One key reason for supplier organizations to be concerned about channel conflict when they introduce an electronic marketing channel is that the use of intermediaries in B2B markets is commonplace [4]. Over the past decade, industrial marketers have adopted increasingly complex channel strategies in response to shifts in consumer shopping behavior, the globalization of markets, and the advent of the Internet. Indeed, the use of multiple channels

of distribution to serve B2B markets has rapidly become the rule rather than the exception [10,11]. The primary motivations for supplier firms establishing more and more complex distribution arrangements are the desire to increase market share and reduce costs [12].

Firms benefit from multichannel distribution strategies in a variety of ways. First, it allows them to better adapt to changing customer needs and shopping patterns. Such adaptive capability has proven useful as they attempt to respond to novel distribution channels, including the Internet. Second, companies with broad product lines can benefit because it is unlikely that a single channel type will be optimal for all products. Third, firms with excess manufacturing capacity can benefit from additional outlets when existing channels are saturated with supply [13]. Finally, additional channels enable the supplier to focus on more precise target markets, thereby improving overall competitiveness.

While using such a complex distribution strategy offers many potential benefits to the supplier organization, it presents some managerial challenges as well. Multiple channels place competing demands on internal company resources such as capital, personnel, products, and technology. Moreover, the various distribution channels may compete with each other for the same customers in the marketplace, increasing the likelihood of intermediary dissatisfaction and customer confusion. In situations where the resulting behavior moves from being goal-centered to opponent-centered, otherwise healthy competition can quickly become unwanted conflict [14], both in the marketplace and within the supplier firm. Clearly, the introduction of an electronic marketing channel by a B2B supplier firm to an already complex distribution system increases the possibility of unwanted conflict.

3. Channel conflict

Channel conflict is not a new phenomenon that was created by the Internet revolution. To the contrary, the conflict construct received considerable attention in channels research in the 1970s and 1980s [10]. In the 1990s, conflict received little attention in the channels literature, in part due to the emphasis of the relationship marketing paradigm on the field. Recently, though, the magnitude and speed with which electronic marketing channels have emerged, along with the trend toward multichannel distribution, have brought channel conflict to the forefront once again.

The foundation for the study of channel conflict lies in the organizational behavior literature [15]. The macrolevel or sociological approach has focused on conflict between groups, departments, divisions, and even entire organizations as units of analysis. Conflict is viewed as being inevitable because of inherent differences in the perceptions and goals of the organizational members. Conflict is also depicted as being functional, provided the very basis of the relationship is not threatened, because constructive conflict might move the organization to higher levels of creativity,

innovation, and competitive energy. The primary causes of conflict are identified as competition over scarce resources, drives for autonomy, and divergence of subunit goals. Lastly, this sociological view of conflict contends that it is of concern to the organization only in so far as it has implications for performance.

3.1. *The traditional view*

The roots of channel conflict lie in the inherent interdependence of channel members on each other [14]. Channel members tend to specialize in certain functions; such specialization induces functional interdependence, which requires a minimum level of coordination in order to accomplish the channel tasks. However, when organizations strive to maximize their autonomy, the establishment of interdependencies produces conflicts of interest. Channel conflict is defined as a situation in which one channel member perceives another channel member(s) to be engaged in behavior that prevents or impedes it from achieving its goals [14].

Previous marketing research has identified three primary causes of conflict among channel members: goal incompatibility, domain dissensus, and differing perceptions of reality [16,17]. Very often, the goals of a given channel member are not compatible with the goals of other channel members. Incompatible goals may result from many different issues, including profit margins, competition from alternative channels, and access to product supply. Conflict in marketing channels can also be caused by differences in the domain definition among channel members. The four critical elements of a channel domain are the population to be served, the territory to be covered, the functions or tasks to be performed, and the technology employed [16]. Differing perceptions of reality, often the result of poor communication among channel members, are also important sources of conflict because they indicate there will be discordant bases of action in response to the same situation. Without good communication within the channel, it becomes very difficult to achieve needed coordination among channel members.

As one would expect, empirical research has demonstrated that as goals become more incompatible, domains more similar, and perceptions of reality more different, the greater the amount of channel conflict [18,19]. Operationally, conflict has been measured empirically by the frequency and intensity of disagreements, weighted by the importance of the issue [20]. Conflict frequency can range from sporadic disputes and occasional disagreements to protracted, bitter relations. The intensity of channel conflicts can range from minor flare-ups that are easily forgotten to major disagreements resulting in terminations or lawsuits. Conflict importance provides a third dimension. Taken together, the combined frequency, intensity, and importance of disagreements provide a general measure of the level of conflict that can be classified as low, medium, or high conflict.

Although channel conflict is usually viewed as being dysfunctional and, therefore, unwanted [18], there are sit-

uations where it can be healthy and desirable. Often referred to as “functional conflict,” there is evidence that it is a result of trust in a channel relationship [21]. Without any conflict, channel members will tend to become passive and lacking in creativity. Conflict motivates channel members to adapt, grow, and seize new opportunities. If your middlemen and salespeople are in harmony, your company may be getting complacent [22]. Indeed, some view channel conflicts as an inevitable cost when a healthy company is trying to extend its market coverage. However, because conflict is opponent-centered behavior, it can degenerate into actions designed to destroy, injure, or thwart another member in a channel relationship [14]. Such pathological conflict should be avoided at all costs. Some researchers have also suggested the possibility of a threshold effect, whereby performance increases along with the amount of channel conflict up to a certain point, after which performance decreases as the level of conflict rises [19,23].

3.2. *A novel perspective*

Until very recently, channel conflict has been analyzed almost exclusively from the viewpoint of two interdependent but independent organizations involved in a dyadic channel relationship. For example, research has focused on the behavioral dynamics between a supplier firm and its distributors. However, motivated by the growth of multi-channel distribution systems and the rapid proliferation of electronic marketing channels, channels researchers have begun to examine conflict from an entirely different perspective [13]. Companies that go to market using complex distribution arrangements typically have distinct groups of people who are organized in subunits corresponding to the various channels used by the firm. Conflict internal to the firm can also take place among the subunits responsible for managing the various channels of distribution.

Multiple channels often place conflicting demands on internal company resources such as capital, personnel, products, and technology. In addition, conflicting objectives among channels can lead to internal conflicts over customers, resulting in customer confusion and dissatisfaction. For example, a company’s sales force, distributor group, telemarketing arm, and Internet channel may have conflicting interests over issues related to budget allocation, revenue goals, pricing, customer assignments, and the timing and nature of advertising and promotional support. Competition from the Internet channel can lead to a backlash from the sales force [8].

While the primary causes of conflict remain the same — goal incompatibility, domain dissensus, and differing perceptions of reality — the context in which they are investigated is different. The level of analysis is within the supplier organization, not between two firms [4]. Moreover, there are several advantages associated with examining channel conflict from this new perspective. First, the theories and frameworks that have been applied to the study of

dyadic channel conflict were developed for the study of relationships within an organization rather than between two organizations. Second, managers should be able to exert much more control over internal channel conflict than dyadic channel conflict because they possess more power and formal authority within their own company than they do over another firm. As a result, managers' actions are much more likely to have their intended impact. Third, instead of reacting to conflict that has already surfaced in the marketplace, managers can be more proactive by manipulating the causes of channel conflict among their own channel groups within their firm in an effort to increase or decrease the amount of external conflict as they wish.

Similar to the discussion above pertaining to functional conflict in a dyadic setting, this internal conflict among the supplier firm's channel groups may have both positive and negative effects on channel system performance. On the positive side, competition for resources may be an efficient allocation mechanism that ensures that scarce channel assets are applied where they are needed most. On the negative side, internal squabbles between the channel groups may lead to an internal focus reducing the customer orientation of channel managers. Internal battles over who owns the customer should not be apparent to the customer [24]. Managing internal channel conflict in such a way that maximizes the performance of the overall channel system is both a very important opportunity and challenge for B2B supplier organizations.

To summarize, conflict theory from the organizational behavior literature has been successfully applied to the study of marketing channels, both in a dyadic setting between two separate organizations and among groups within the supplier firm. These two distinct settings should be viewed as complementary rather than mutually exclusive. Indeed, conflict in either setting is likely to result in conflict in the other. Research has shown that in order to achieve the coordination necessary for an efficient distribution system, effective communication is critical, both externally with channel partners [25] and internally among the supplier's marketing units [26]. In the following section, we describe strategies for managing conflict that can be used by marketers in supplier firms that have incorporated the Internet channel into their already complex distribution systems.

4. Conflict management strategies

To avoid channel conflict, companies have to develop strategies for integrating the new e-commerce channel with their traditional distribution system. The key element in introducing the Internet into the channel mix is understanding what customers in each channel value and whether the current channels are meeting these needs and expectations. B2B marketers must begin with accurate market segmentation and provide channels of distribution that meet their target segments needs in the most convenient manner.

Providing multiple channels is the best way for producers to effectively serve a diversified customer base, and manufacturers need to use the power of a multichannel distribution system in order to be everywhere [27].

Industrial suppliers should use e-commerce to support their distribution network, rather than to displace their existing intermediaries. Channel partners can offer a range of services, many of which cannot be replaced by the electronic channel. Once a company has clearly segmented its customers based on needs and willingness to pay, they can determine which channel(s) are best suited to serve each segment, traditional and/or the lower-cost Internet. Coordinating a firm's channel resources in this fashion, with customer needs as the centerpiece, is called the integrated distribution [28].

Below we describe a number of strategies B2B marketers can use to manage channel conflict. We use the marketing mix variables as an organizing framework to introduce the first eight research propositions, which address specific strategies supplier firms can implement in an effort to minimize unwanted conflict. The final four research propositions address broader issues designed to enable the supplier firm to manipulate the antecedents of channel conflict, goal incompatibility, domain dissensus, and differing perceptions of reality. Specifically, we examine ways to improve communication and coordination, both externally with the firm's channel partners and internally among the subunits that manage the channels.

4.1. Pricing

Manufacturers often fail to realize that their channel partners closely watch everything they do on their website [29]. Indeed, intermediaries express concern over almost anything they see on a manufacturer's site, interpreting it as a move to minimize their role with the customer. As a result, savvy suppliers have now begun to recognize that their channel partners will see and react to everything they put on the Internet. Evidence suggests that price is the single issue over which the most channel conflict is generated [30], and price erosion on the Internet is a concern [8]. As a result, B2B marketers must be especially cautious with their pricing strategy as they add electronic channels. An increasing number of suppliers have come to the conclusion that undercutting your channel partners on price is the lowest blow in online channel etiquette, with many choosing not to offer any discounts on the Internet [2,31]. Thus, our first research proposition:

Proposition 1: Supplier firms will experience lower levels of channel conflict by not pricing products on their website below the resale price of their channel partners.

4.2. Distribution

As we discussed earlier, an important limitation of the Internet channel is its inability to provide one of the most

important distribution functions — physical delivery of tangible goods. For this reason alone, most supplier firms will continue to need channel partners to perform the fulfillment task for orders placed on the Internet. Recognizing this limitation early on, many manufacturers have already begun to actively involve their intermediaries in the fulfillment process for their e-commerce business [3]. Involving channel partners as the logistical engine behind the online sales effort illustrates the evolving role of distributors in new sales model used by Hewlett-Packard [28]. Likewise, Libri, one of Germany's largest online booksellers, redirects its Internet orders to the nearest bookshop [32]. Customers can choose either to pick up the book themselves or have the local bookshop mail it to them. Involving the channel in the sale serves to avoid cannibalization, build trust and cooperation between the firms, and prevent unwanted channel conflict.

Cisco Systems is a role model when it comes to peaceful online distribution. Cisco sells most of its equipment through distributors that manage the inventory of the product, who in turn sell to value-added resellers whose customers are small and midsize businesses. Cisco uses the Internet in a very complimentary way with its traditional channels. In fact, while more than 80% of Cisco's revenue in 1999 was generated online, less than 1% of that amount came from direct-to-consumer sales [2]. This leads to our second research proposition:

Proposition 2: Supplier firms will experience lower levels of channel conflict by diverting fulfillment of orders placed on their website to their channel partners.

4.3. Promotion

From basic marketing, we know that promotion is about communicating information in a persuasive manner. While the Internet channel presents supplier organizations with an excellent opportunity to promote directly to the end customer, there is nothing to prevent suppliers from also promoting their resellers on their website, encouraging online consumers to use the other channels [2]. Some manufacturers, including 3M, GE, IBM, Lexus, and Whirlpool, have been very cautious not to upset their traditional channels, by providing detailed product information along with search engines and links to their dealers, but choosing not to accept orders online [2,31,33,34]. In addition, many B2B firms have recognized the benefit of actively promoting their channel partners on their website, and allowing them to place their own advertisements. 3Com, for example, has a partner page that provides a wealth of information about its numerous partner programs and benefits, and acts as a gateway to various private access partner sites [35]. From this discussion we introduce our next three research propositions:

Proposition 3: Supplier firms will experience lower levels of channel conflict by providing product information on their website without taking orders.

Proposition 4: Supplier firms will experience lower levels of channel conflict by promoting their channel partners on their website.

Proposition 5: Supplier firms will experience lower levels of channel conflict by encouraging their channel partners to advertise on their website.

4.4. Product

B2B marketers can also manage their online product offering in an effort to reduce unwanted channel conflict. Some manufacturers are appeasing their intermediaries by limiting their product offering on the Internet to items not sold by their traditional channels [31]. Others focus on the customer needs of the segments that prefer to purchase via the electronic channel, offering only the products they desire. Some suppliers make use of more creative means to differentiate their online offering from those sold by their channel partners, though. One alternative is to use a unique brand name for products sold on the Internet, even if they are essentially identical to those sold by the established channels [30], which reduces the likelihood of direct comparisons by end customers. Another consideration is the lifecycle stage of the products offered online. When demand is growing rapidly, selling a product on the Internet is less likely to interfere with sales through channel partners; however, in the maturity and decline stages of the lifecycle, offering products via the electronic channel is likely to cannibalize sales through existing channels of distribution [13,36,37]. From these observations, we offer the following three research propositions:

Proposition 6: Supplier firms will experience lower levels of channel conflict by limiting the offering on their website to a subset of their products.

Proposition 7: Supplier firms will experience lower levels of channel conflict by using a unique brand name for products offered on their website.

Proposition 8: Supplier firms will experience lower levels of channel conflict the earlier the products offered on their website are in the demand lifecycle.

4.5. Communication and coordination

Communication and coordination are the mechanisms by which supplier firms can influence the level of channel conflict they experience, both externally with their distribution partners, and internally among the subunits responsible for managing the various channels. By properly coordinating distribution activities in the channels and within the firm, suppliers can manage the causes of channel conflict: goal incompatibility, domain dissensus, and differing perceptions of reality. Moreover, distribution activities cannot be properly coordinated without effective internal and external channel communication strategies.

If the distribution channel is to provide time, place, possession, and form utilities for its customers, marketing strategies and channel functions must be coordinated [16]. How supplier personnel communicate with intermediaries plays a critical role in the channel coordination process [38]. Channel coordination can be viewed as the synchronization or integration of activities and flows by channel members [25]. When supplier personnel attempt to coordinate their relationships with channel partners, behaviors, and outcomes will at times be emphasized in their personal communications. Similarly, the establishment of good communications between the supplier firm's internal marketing units, and the coordination of channel activities among them, is of paramount importance [26,30].

Manufacturers in general need to do a better job of communicating their online strategies to channel partners [39]. Instead of introducing the new Internet channel under a veil of secrecy, suppliers should take the time to clearly explain their e-commerce strategy in advance. Resellers need to understand what segments are being targeted, and how the supplier's online efforts can help them rather than hurt them. Failure to communicate these points will result in an atmosphere that is ripe for channel conflict.

Internal communication of the supplier firm's e-commerce strategy is equally important. Employees must understand the mechanisms and value of the various channel strategies or they may feel they are being blind-sided by management decisions. Another factor that can reduce internal channel conflict is providing employees with training necessary to convert them from the "old way of doing business" to the "new way of doing business" in the Internet age [24].

There are also some organizational approaches for improving channel communication and coordination. Both IBM and Square D have established groups within their companies dedicated to managing channel strategy as their distribution systems have grown [30]. It is useful to note that in neither case does the channel management group have authority over all the channels. In fact, in both cases the channel group has no line authority over the direct channels. Still, in addition to managing the indirect channels, each channel management group has the responsibility of handling internal communications among the channels and for developing the firm's strategic direction with respect to channels. Institutionalizing these groups at a high corporate level and requiring that they serve as a clearinghouse for all channel-related information helped them to establish credibility in a short time period.

The channel management groups perform a wide variety of tasks, including the development and implementation of the firm's overall distribution strategy and policies. The groups are comprised of individuals with a great deal of experience from a wide variety of channel-related backgrounds. Both groups spend a considerable amount of time addressing issues involving pricing and product offering. IBM established a Promotions Review Board, designed to prevent unwanted channel conflict before it occurs. Coordi-

nated by the channel management group, the Board consists of individuals representing all of the channels that meet once a week. Effective internal communication is the driving force behind the Board. By discussing the potential effects of a promotion on all of the channels before it is implemented, coordination can be achieved and conflict avoided.

IBM and SkyTel utilized another effective strategy for improving communication and coordination among their distribution channels [30]. Both firms developed written documents detailing the roles and responsibilities of all their channels. The documents break down each channel in terms of the value-added functions required by the end customers served by a particular channel. For indirect channels, the documents describe how the various functions are allocated between the supplier firm and the other organizations that comprise the channel. Cost-to-serve each customer segment is an important factor for both firms in determining the optimal channel. Properly utilized, these documents clarify certain "gray areas," including lines of demarcation for the channels to follow when pursuing overlapping customer segments. SkyTel deemed the document important enough to include it as part of the initial training given to new employees.

Providing a compensation plan that links the company's channel strategy to individual performance is also a valuable tool for reducing conflict [24]. Superordinate goals encourage employees to direct business to the channel best able to meet customer needs, regardless of whether or not the employee represents that channel. For example, Xerox compensates its salespeople for steering customers to a channel partner who can better meet their needs by providing commissions for leads that result in sales [22]. IBM, SkyTel, Square D, and the hosiery division of Sara Lee use similar arrangements [30]. Characterizations of these policies are overwhelmingly positive, and managers feel they are a constructive means of coordinating behavior in complex distribution systems. Superordinate goals can also be applied externally with the supplier firm's channel partners, most often through the process of joint planning and goal setting [7].

From this discussion about the importance of effective communication and coordination in managing channel conflict, along with the use of superordinate goals, we present the final four research propositions:

Proposition 9: Supplier firms will experience lower levels of internal (external) channel conflict the more effectively they communicate their overall distribution strategy internally (externally).

Proposition 10: Supplier firms will experience lower levels of internal (external) channel conflict the more effectively they coordinate their overall distribution strategy internally (externally).

Proposition 11: Supplier firms will experience greater channel coordination internally (externally) the more effectively they communicate their overall distribution strategy internally (externally).

Proposition 12: Supplier firms will experience lower levels of internal (external) channel conflict the more they make use of superordinate goals internally (externally).

5. Discussion

The top issue for most B2B companies today is channel conflict — how interacting with customers on the Internet affects their reseller relationships [29]. Emotions run high when a channel conflict arises and the relations between the channel partners are damaged [32]. Indeed, the biggest disadvantage of B2B e-commerce is the threat of alienating distributors, resulting in the loss of physical distribution points [33]. However, while channel conflict may be turning into a battleground, the only deeper fear on the part of industrial suppliers is having no Internet strategy at all [2].

In this paper, we have taken a proactive approach toward managing channel conflict. That is, it is more effective to prevent unwanted conflict from occurring in the first place than having to resolve it afterward. We argue that it is generally desirable to reduce or minimize the amount of channel conflict. While this view is consistent with other channels researchers [37], we acknowledge that there are situations where some amount of channel conflict is constructive, especially when it motivates firms to adapt, grow, and seize new opportunities [16]. Moreover, supplier organizations must be willing to tolerate some amount of channel conflict in the name of increased sales and profits. Consider the case of Apple Computer. Despite the risk of alienating its traditional retailers, Apple is taking steps toward opening a chain of company-branded retail stores in addition to selling products direct on the Internet. The motivation for such action lies in the opportunity for Apple to boost sales and profits in an effort to bolster what many see as a weakness in their strategy: insufficient distribution [40].

5.1. Managerial implications

The preceding discussion leads naturally into the area of managerial implications. We know that the Internet is ravaging traditional distribution philosophy, potentially rendering many conventional intermediaries and channels obsolete [41]. However, suppliers would be remiss to underestimate the importance of traditional resellers as they embark upon electronic marketing. Allstate, for example, finds itself hamstrung by the danger of channel conflict as it attempts to weave its 15,000 agents in more than 250 claim offices into its online direct-sales model [42]. While the process may indeed be tricky, it is one that Allstate cannot ignore if it wants to keep pace with Internet insurance pure-plays. Similarly, automobile manufacturers such as General Motors and Ford have encountered considerable resistance in their attempts to buy and operate dealerships, sell cars, and offer services such as financing via the Internet due to

channel conflict. Put simply, they worry that pushing too hard to create a new retailing system will alienate their old retailers, thereby hurting sales [43].

Mattel provides an excellent illustrative example of how marketing managers can implement many of the strategies offered in the form of research propositions in this paper. While some may view the world's largest toymaker as a consumer products company, much of Mattel's marketing program has traditionally been to large retailers, in the B2B arena. In late 2000, Mattel quietly began selling a wide range of toys and kid's apparel over its Barbie.com website. At the same time, it also mailed a first-ever Barbie catalog to 4 million American homes. Although some retailers privately say the site and catalog pose competitive problems, Mattel asserts that the initiative is designed to boost the popularity and awareness of its brands, not to compete with retailers [44]. Mattel has been very thoughtful with its online strategy, though. Prices are deliberately set 15% higher than in retail stores, and certain hot items will not be offered at all on the website. The company is also discussing ways to partner with retailers in the future so that both can profit from the Internet. For example, Mattel has no desire to be in the fulfillment business. Financial analysts seem to like Mattel's strategy, noting that half of the toymaker's revenue comes from five retailers, a potentially dangerous scenario. Mattel's marketing tactics leave it in a good position to take advantage of the opportunities associated with marketing on the Internet. At the same time, Mattel is intelligently and proactively addressing many of the potential challenges associated with channel conflict.

5.2. Future research

Further research in this important area is essential if we are to better understand the relationships between marketing on the Internet, channel conflict, and business success. We need to better understand the effect of Internet-related channel conflict on outcome variables such as performance (sales, profits, market share, etc.) and satisfaction. Perhaps there is an "optimal" level of conflict. The propositions developed in this paper are stated in empirically testable form. We encourage such empirical testing in order to validate and refine this research for marketing managers and academics alike.

6. Conclusion

To summarize, we began by describing the recent explosive growth of B2B e-commerce, followed by a discussion of how it has added even more complexity to traditional distribution systems that were already using multiple channels. Next, we reviewed the marketing literature about channel conflict, making the important point that conflict can occur not only externally between the supplier firm and its channel partners, but also internally between the suppli-

er's subunits responsible for managing all of the channels. We followed with the development of a number of strategies for managing channel conflict. Twelve research propositions were offered. The first eight used the marketing mix as an organizing framework to describe online strategies designed to work in a complementary way with the traditional distribution channels. The last four focused on the critical importance of communication and coordination, both external and internal, for managing channel conflict. Finally, we discussed the managerial implications of this paper and the need for further research in this important area.

In conclusion, despite the uncertainty expressed by Intel Chairman Andrew Grove about e-commerce in the quotation at the beginning of this article, our prior knowledge in the channel management domain remains applicable. What has changed is that the advent of the Internet throughout B2B marketing has made managing channel conflict more important and complex than ever before. We hope our research serves to stimulate thought and inquiry in this exciting area, and that both academics and practitioners find it to be worthy of further study.

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