An executive summary for managers and executive readers can be found at the end of this article

A model for the distribution channels planning process

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Abstract *Research of existing literature reveals some models (sequence of steps) for companies that want to plan distribution channels. None of these models uses strong contributions from transaction cost economics, bringing a possibility to elaborate on a "distribution channels planning model", with these contributions and organizing the steps according to a sequence that would be useful for companies when reviewing the distribution process. This sequence was refined through in-depth interviews with companies. Presents the final version of our model incorporating the results from the interviews.*

1. Introduction

The 4 Ps of marketing

Several companies are unsatisfied with the distribution of their products and services. Among the marketing 4 Ps: (product; place/distribution channels; price; and promotions/communications) marketing channels or distribution channels are still an important source of competitive advantage, since in the other Ps, for instance *products*, the rate of technology transfer between companies all over the world and global competition make new products and attributes available for competitors to imitate. With respect to *prices*, companies can operate in several parts of the world, creating competitive offers. In *communications*, the massive exposure of consumers to advertisements builds a barrier to improve product differentiation through this way. *Distribution* builds stable competitive advantages, since marketing channels have a long-run character and to build them it is necessary to have a consistent structure; and due also to the fact that they are focused on people and relationships (Stern *et al*., 1996; Rosenbloom, 1999; Berman, 1996; Neves, 2000).

Four existing models

This paper offers readers a sequence of steps that was elaborated based on the revision of four existing models available in the literature (Stern *et al*., 1996; Rosenbloom, 1999; Berman, 1996; Kotler, 2000), contributions from supply chains (Gattorna and Walters, 1996; Ziggers *et al.*, 1998; Trienekens and Zuurbier, 1996), and several marketing and business journals. After this

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sequence was elaborated, it was submitted to ten participants in the private sector, mostly food and beverage companies (industries where distribution is critical), in in-depth interviews. Managers evaluated it and suggested contributions, in order to enhance its applicability to real world problems. These contributions were added to the model presented in the sections that follow. So why are these steps different or useful, or what is new about this model and how does it contribute to existing literature? Some answers to these questions are detailed below:

- A sequence of steps was outlined in which some tools from transaction cost economics (TCE), not available from the other planning models, were added to a distribution channels planning model. This sequence of steps is more complete than other models in the literature, because it was elaborated after the careful study of them, combining more parts, adding extra steps, and even adding more analysis to some steps based on contributions from articles and other sources. A comparison can be made with Table I.
- The model adds a step of power analysis, to help in the steps of building contracts, asset specificity analysis, and others that follow.
- It considers as a first step an analysis of the whole chain, which is not suggested in the other distribution planning models, which start by looking only at the channels *per se* (downstream a company's own activities). So this model also includes the company's supply chain.
- TCE and power analysis can add value in helping how to build governance structures through distribution channels. These should address the asset specificity analysis and try to reduce power imbalances bringing lower transaction costs.
- Since the model was evaluated and enhanced by the private sector and also by specialists, its potential users have already indicated that it can be applied.

Model is readily applicable to private sector

In doing so, we believe our model offers new insights to the existing literature and is readily applicable to private sector organizations seeking to design channel strategy. The paper is organized as follows. In section 2, we make a comparison with existing models; section 3 describes the model developed by this article; and section discusses the managerial implications.

2. Comparison with other models and the description of this model

As a starting point, since it is not the purpose of this paper to discuss existing sequences in the literature, Table I shows the main steps of the main sequences found in the literature as noted here.

The main differences between the models are as follows:

- The model of Stern *et al*. (1996) is more detailed than the others in terms of steps and actions in each step, presenting the consumer in the central focus, as a differential. Starting from the consumer, the model progresses in setting the company's distribution system, always trying to put it as near as possible to the consumers' desires. Another model that focuses on the consumer as a starting point is Kotler's (2000), but it is simpler than Stern *et al*.'s (1996) in terms of steps. This was expected because the research of Kotler (2000) is not specific about channels.

Stern *et al.* (1996)	Rosenbloom (1999)	Berman (1996)	Kotler (2000)
Review existing materials and research on channels	The role of distribution in overall objectives and strategies	Determining channel objectives	Analysis of production and services demanded by clients
Understand current distribution system	Role of distribution in marketing mix	Assessing channel width and depth and types of intermediary requirements	Establish objectives and restrictions from the channels
Conduct existing channel workshops/ interviews	Designing marketing channels	Evaluating market, product, company, and intermediary factors that affect channel length	Identify the main channel options
Conduct competitor channel analysis	Selecting channel members	Allocating channel tasks among channel members	Evaluate the main channel options
Assess near term opportunities in existing channels	Managing the channel	Selection of specific channel re-sellers	
Develop a near term plan of attack	Evaluating channel member performance	Revising channel arrangements	

Table I. Some channel planning/design models found in the literature, and the steps proposed

- Rosenbloom (1999) has his model centered on inserting the distribution in the general strategy of the company, presenting, formally, a preceding step about the role of distribution in the objectives and strategies, being the most dedicated model to integrate strategic planning of the company and its distribution channels.
- The model of Berman (1996), despite having fewer steps than the others, is very detailed within the proposals, giving lists of factors to be used in the analysis of each item, models of questionnaires to be applied. In other words, facilitating the companies' work by giving ready-made models to be adapted by them.
- The concepts linked to TCE are not formally treated on the four models analyzed and Rosenbloom (1999) is even more confusing when criticizing an analysis that only considers TCE's variables, as asset specificities, frequency and uncertainties, and declares to be partial in drawing channels of distribution.
- Stern *et al*. (1996) emphasizes that the variables of TCE are important to help in the decision about how companies could work, with a richer analysis of the market forms, mixed and vertical integration; but displaces it to another chapter, moving it from the formal part of the planning process presented in another part of his work. Finally, in the model of Berman (1996), the variables of TCE are not considered.

Some of the steps proposed by these authors were used in the sequence proposed by this paper. The model is organized as shown in Figure 1.

3. Detailing the sequence of steps

The sequence of steps starts with an understanding phase. For new distribution systems, the process will start from zero. An advantage of this sequence is that if the process is related only to the frequent revision of existing channels, just an update of the first five steps is needed.

3.1 Description of the whole chain (supply and distribution)

The purpose of the model is to describe all the agents that perform some function in the chain, from raw material suppliers to final consumers, in

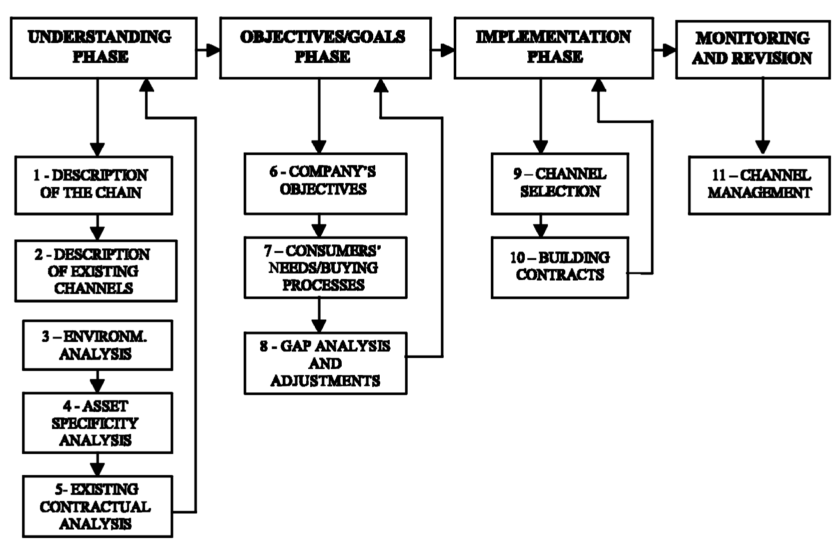

Figure 1. A model for the distribution channels planning process

order to have a general overview of the main industries operating in the chain, and, with this systemic approach, to make an analysis of the other chains that compete with the final product(s). If a company is operating in the poultry business, red meat business, sugar business, orange juice business, milk, or beer, for example, just one system will be described. But for companies operating in more businesses, all the systems (chains) should be described, including the agents that perform negotiation functions (suppliers, farms, industry, wholesalers, retailers and others) at the product flow. Specifically in the food business, with the recent trends of traceability (monitor product from first steps of the chain to the last steps), it is even more important to have this complete picture of the chain. This step will also add more insights to be discussed at the environmental analysis step.

3.2 Description of distribution channels of the industry and of the particular company

Obtaining a more accurate view

The purpose of this step is to describe all the agents that perform functions in the channel (part of the chain) for the industry being analyzed. This provides a more accurate view, understanding the agents and the functions they perform. An analysis of consumption data, industry numbers, main companies and other information should also be addressed at this step. After an industry-level analysis (where all possible distribution channels were described), the channels of the individual company should be described. The latter can be different from the industry channels, since some of the channels possible for the industry may not be in use for a specific company. Sales and financial data should be provided, in order to understand which channels are most important for companies' sales and profits. The flow tables can be used for each channel participant to understand whether they perform the functions, whether they could perform the functions, and possible actions or improvements related to the function. Based on the work of Corey *et al.* (1989), Rosenbloom (1999), Wilson and Vlosky (1997) and Jackson and d'Amico (1989), the authors suggest a three-column table with column headings:

(1) function;

(2) actors; and

(3) alternative solutions.

Our suggestion is to build one table for each of the four flows:

(1) product and services;

(2) communication;

(3) information; and

(4) payments/financial.

The first two are flows in which the direction is from the company to final consumers, and the last two are the opposite. After this table is built, using the detailed functions as starting points for the rows, the actors (distributors) should be inserted and an analysis as to whether or not they perform that function should be made in column two (middle). The third column should be filled with possible changes, or alternative solutions. For instance, if a distributor does not do product transportation and it would be a better solution if he could perform this function, then it should be written at the column "alternative solutions": "try to transfer to distributor the transport function''. And then this is already an action coming from the distribution plan. If the company has several distributors (wholesalers, retailers) it can add one column for each, or possibly, to produce one table for each company.

Detailed distribution functions

The following factors should be considered as detailed distribution functions, and one table for each of the flows could be developed:

- *Product and services flow (from company to final consumers).* Inventory management, product transportation, product modification and after-sales service, customizing a product for the specific needs of clients/ distributors, providing technical service, product maintenance and repair, procedure and handling of returned products, promote product availability, packaging, specific packaging requirements, evaluating new products and others.
- *Communication flow (from company to final consumers).* Sales promotion to final consumers, information about product features, advertising, providing sales force, packaging information, loyalty programs, Web site participation, traceability information and others.
- *Information flow (from consumer to company)*. Sharing knowledge of local market, scanning data (access to computer data), complaints via Web site/service line, order frequency, order formats consideration, arrange information about consumption and others.
- *Payments and financial flows*. Conducting credit checks on final consumers, billing customers, caring for specific customer orders, arrange for credit provisions, price guarantees, financing and others.

This step provides a detailed overview of the chain and the distribution channels for a specific company. When the supply chain is well understood, the next step is the environmental analysis.

3.3 Environmental analysis and impacts on the channel

Uncertainty really matters

Environmental changes are unanticipated changes in circumstances surrounding an exchange. Environmental uncertainties enhance the motivation for firms to seek governance structures that minimize transaction costs (Williamson, 1985). Williamson states that uncertainty really matters when it is associated with a condition of asset specificity. But uncertainty can favor ''flexible'' governance structures, such as loose alliances, to avoid panic lock-in and reap external opportunities more often – even if those structures increase transaction costs.

The purpose of this step is to analyze some of the possible factors that could impact the industry's channels in the future and also the company's channels. The tool to be used here is the traditional ''step'' analysis, evaluating the socio-cultural, economic, technological and political (institutional) factors. Step analysis is well described and used in the literature (Johnson and Scholes, 1997; Mintzberg, 1994; Achrol and Stern, 1988; Neves and Neves, 1999).

Our suggestion is to build one table for each of the four environments (political/legal; economical/natural; socio-cultural; and technological), the four column headings of which are:

(1) drivers;

(2) implications;

(3) probability; and

(4) impact.

After this table is built using the suggested environmental changes as starting points for the rows, the implications of this change should be inserted in the second column, the probability of occurrence (high/medium/low) in the third and the impact for the company in the fourth (ranging, for example, from –5 when it is a big threat, to +5 when the change represents a big opportunity).

Adoption of the Internet by farmers

For example, consider the adoption of the Internet by farmers as a change on the technological environment. The implication of this change is that a direct flow between agricultural supply companies (fertilizers, chemicals, seeds) and the farmers will be possible. As a result, direct sales, ordering, communications will be facilitated. This is highly probable, based on the experience of the company (and external data, like computer use by farmers) and as an impact, it could be positive for a company that does not have a strong position with retailers and negative for companies already well established at the retailer sales point, which is their competitive advantage.

Some insights to facilitate the specific analysis of drivers and implications regarding distribution channels are provided, using factors found in the literature and contributions from personal interviews.

- *Possible impacts of economic/natural environment in the channels*. Income changes, education/professional level, employment, exchange rates, interest rates, economic integration, supplier concentration, buyer concentration, business life cycles, GNP trends, capital and financial availability, inflation, energy availability, natural environment; input constraints (water, air), tourism expenditure and others.
- *Possible impacts of political/legal environment in the channels*. Market access (protectionism), package recycling laws, antitrust policy, economic integration (commercial blocks), labeling requirement, packaging constraints, types of communication constraints, tariffs barriers, taxation policies, employment law, government stability, subsidy policies, product and/or process certification and others.
- *Possible impacts of technological environment in the channels.* New technological solutions, mail sales, phone sales, Internet sales, scanners, computerized stock, just-in-time deliveries, electronic data interchange (EDI), point of sales data (POS data), electronic funds transfer, automated ordering, technological transfer, efficient consumer response (ECR), cellular phones and others.
- *Possible impacts of socio-cultural environment.* Women working, age demographics, race, time-reducing, elderly, individuality, security, convenience, leisure, social mobility, income distribution, attitudes to work, lifestyle changes, family sizes and others.

What actions should the company take if those listed factors happen? A table can be used to obtain an overview of the process, which has the advantage of forcing the company to consider alternative plans to deal with environmental changes. In the left column the major impacts (starting from the ones ranged "5") should be listed, and, in the right column, the action that should be taken by the company, channel or chain as a response to the perceived change.

3.3.1 Power analysis in the channel. Channel power refers to the ability of a channel member to control or influence the marketing strategy of an independent channel member at another level in the channel, possibly making them change their behavior, or perform an activity that they would not normally perform. The main sources are coercive power, reward power, referent power, expertise power, persuasion power, legitimate power and information power (Lusch, 1976; Hunt and Nevin, 1974; El-Ansary and Stern, 1972). Please see the Appendix in order to understand the formal definitions and examples of these power sources.

Better strategic understanding of the business

After the analysis of the external environment, it is necessary to make a power analysis of the channel, the main power sources and other factors. This analysis will produce as an outcome a better strategic understanding of the business, and what the company should expect regarding negotiations, availability of channels, private labels, and other factors affecting its channel strategy.

In this step of the plan, a table should be completed, inserting all sources of power as rows in the first column; the company in the second column and distributors on the following columns. A grade from 0 to 10 can be used in order to see if that source is present, comparatively to the grade given to the company. For example, imagine a small company that supplies to a large and well-known fast food chain. The small company could have a grade 2 in persuasion power, and the fast-food company a grade 9. With this analysis the outcomes are possibilities or actions to deal with these power imbalances, in order to try to reduce the ones not favorable to the company. A table regarding sources of power in the channels was designed by the authors and is presented in the Appendix.

3.4 Asset specificity analysis

Insights into how to organize

This analysis helps a company to build contracts and relationships, as it will provide insights into how to organize and coordinate the transactions in the channel. Anderson (1985); Zylbersztajn and Farina (1999) state that there is a relationship between asset specificity and channel or chain integration. Basic TCE rationale says that with the presence of asset specificity, uncertainty and higher frequency of transactions, firms will look for governance structures that reduce transaction costs.

The most important of these are physical-specific assets, time-specificity, information and knowledge technology, human-specific assets, location (site) specificity and marketing/transaction specificity (for example, specific brands or communication developed for a transaction). Filling in Tables II and III can bring outcomes to help in this analysis.

Time and location are considered separately, since they are not interdependent (Table III). They refer to characteristics of products or locations of the assets involved at the transactions.

The suggestion is again to build one table for each of the six kinds of specificities: physical; time; information and knowledge technology; human, site (location) and marketing/transaction. In the first row, insert all kinds of specificities present, and in the second, who is the owner of the asset (company or distributor), the specificity and possible reallocation costs or alternative uses.

Type of assets, investments	Owner of the asset	Degree of specificity(high/ medium/low)	Reallocation costs/ alternative use (impossible, high, medium, low)
Physical specific investment analysis infrastructure and facilities			
General factory			
Cold storage			
Special storage structure			
Tailored production facility			
Product demonstration facilities			
Specialized warehouses			
Repair and service centers			
Distribution channels investments			
Others			
Information and knowledge technology-specific asset analysis			
EDI/equipment for electronic data exchange investments			
Management process by product category			
Joint logistic planning process			
Joint quality programs			
Traceability programs setting			
New process joint generation			
Stock management process			
Others			
Specific human asset analysis			
General training of distributors			
Joint sales training			
Production process knowledge			
Market knowledge			
Product brand knowledge			
Others (fill in)			
Marketing/transaction-specific investments and asset analysis			
Conjoint brand development			
Joint planning advertising			
Packaging development			
Public relation efforts			
Others (fill in)			

Sources: Author, based on Bello and Lohtia (1995); Klein *et al.* (1990); Kozak and Cohen (1997) and several interviews carried out during PhD research (Neves, 1999)

Table II. Asset specificity analysis: physical, technological, human and marketing investments

Examples of specificities

Some examples of specificities are inserted here:

(1) *Time*:

- Shoe retailers do not want to keep huge amount of stock due to the risks of dated styles, financial costs and others, demanding just-in-time (JIT) delivery systems.
- Tomato production has pronounced temporal specificity, since the product is perishable: it has to be delivered just after harvest.
- Sugar cane, after harvesting, has to be processed within 24 hours, since after that it begins to lose quality.

Type of specificity	Possible presence	Degree of specificity (high/medium/low)
Time specificity analysis: refers to time pressure to do the transaction (flow)		
Shelf life (perishable)		
Frequent/rapid deliveries		
Seasonality of production (inventory needs)		
Seasonality of consumption (inventory needs)		
Time procedures		
Other (fill in)		
Site asset specificity analysis: refers to physical locations		
Proximity needs (transport costs)		
Energy supply		
Water supply		
Disposal of materials		
Strategic position of inventory		
Location of distribution centers		
Location of outlets (point specificity)		
Others (fill in)		

Sources: Author, based on Bello and Lohtia (1995); Klein *et al.* (1990); Kozak and Cohen (1997) and several interviews carried out during PhD research (Neves, 1999)

Table III. Specificity analysis: time (temporal) and locational (site) conditions

- Fast food and convenience stores also have to have JIT supply, due to cost of maintaining stocks.

(2) *Human*:

- Shoe designer, for shoe factories.
- An electrical equipment company has to carry out training with the sales force, due to specificity of equipment sold.
- Special knowledge to stock products.
- A sales force of a company selling products for vegetarians, which has to have experience and training in products and markets. The same applies for irrigation companies, which involve a very technical sale.

(3) *Physical*:

- Machines for beverages, specially designed for the size of the package.
- Machines for meat (roast beef) production specially designed to supply a fast food company.
- Special containers for transporting cellulose pulp.
- Special trucks designed for transporting products.
- Layouts of retailers, or shopping center stores, specific for the brand carried.

(4) *Location*:

- Shoe factory needs to be in a city where special human force is available.

- Beverage production needs to be close to markets since costs of transportation are high.
- Stock facilities held by industries to supply clients, for JIT deliveries, in country of destiny.
- Sugar cane crops cannot be over 30 miles away from the processing unit since transport costs make production economically unfeasible.
- Beer companies need to be close to good quality water sources.

(5) *Information technology*:

- Specific information transfer software designed by equipment company.
- Software for EDI infrastructure.

(6) *Marketing (brands/communications)*:

- Brand developed by several agents – in Brazil, some agents of the red meat chain (from breeders to distributors) are creating a brand called "Red Meat Connection", for extremely high quality beef. This is a specific asset, with investments from all partners.
- Packages specifically developed for one relation, for one client.

With the transactions and asset specificity remarks, elaborated based on the tables above, a summary concerning the specificity problems should be developed with the following three column headings:

(1) high specificity assets;

(2) risks in the specificity factors; and

(3) contractual warranty.

In the second column, insert possible actions to reduce this specificity characteristic (new or alternative uses) if they exist or, if it does not exist, points or actions should be selected to be discriminated on the contract, with the main purpose of trying to reduce the risk of opportunistic attitudes of firms, trying to explore "quasi-rents" coming from asset specificity presence.

The company has to search for governance structures

3.4.1 Transaction costs. Transaction costs can occur before and after the transaction takes place and are a function of the exchange attributes described earlier, in particular asset specificity. High asset specificity and uncertainty normally bring high transaction costs, contributing to inefficiency. These costs are normally not strongly considered in business analysis, but are very important in choosing governance strategies (Hobbs, 1997). The link is that to avoid transaction costs, the company has to search for governance structures (contracts) that try to minimize them. A table with the following three column headings can help:

(1) transaction costs;

(2) impact; and

(3) how to reduce it.

The transaction costs themselves can be separated into two types:

(1) Ex-ante *transaction costs*. Price information search, product selling uncertainty, selection of alternatives, negotiation time, contract writing, search for quality information, search for buyers and sellers.

(2) Ex-post *transaction costs*. Monitoring performance, redesigning contracts, renegotiations, monitoring property rights, monitoring technology copy, monitoring brand use, adaptation, legal disputes, non-delivery risks (supply), risk of losing contacts.

Need of monitoring

Additional analysis that can collaborate in the process is the need of monitoring, as a consequence of factors listed above. A table with the following four column headings is suggested to analyze monitoring activities and to measure performance attributes:

(1) list of activities;

(2) ability to monitor (high/medium/low);

(3) observability of activity (high/medium/low); and

(4) cost of monitoring (high/medium/low).

Which of them should be monitored, what is the ability of the company to monitor, is it possible to monitor, and possibly, what are the costs related to monitoring.

3.5 Existing contractual analysis and benchmarking of distribution practices

It is also important to understand how the relationships are governed in the distribution channels of the products in the industry where the company operates, the coordination forms, general contractual practices, and buying procedures/processes. The outcome helps to decide whether the company is proposing in the next steps coordination forms that are very difficult to realize, and whether they will bring a lot of negotiation and learning costs.

It is also important to understand and evaluate best practices from the main competitors.

3.6 The objectives of the company

Several variables

These should agree with the strategic marketing planning program, if the company has one, or they should at least be consistent with the price, product and communication strategies. The objectives (goals) should be set in relation to several variables, all related to each kind of channel (in section 2), including: volume ($), profit, sales margins, inventory turnover, market share, customer satisfaction, sales expenses, return on investment in channels, inventory expense, overall customer service level, volume (units) by product type, volume ($) per salesperson, volume ($) per quota, volume ($) by product type, profit by product type and others. In terms of behavior-based measures, the most important measures to be considered are service department, warranty claims processing, building/facilities, salesforce incentive plans, coverage of trade area, product knowledge/salesperson, selling skills/salespeople, dealership financial plan, dealership business plan, advertising and promotion program, number of customer complaints, buyer credit management, sales forecast-accuracy, sales call total, calls current customer, calls noncustomers (new customers for the company), number of product demonstrations and others. At this step, the company will produce several tables, forecasts, and other kinds of goalsetting tools. Some useful insights are found in Berman (1996); Stern *et al.* (1996), Rosenbloom (1999), Gattorna and Walters (1996).

3.7 The consumer's objectives, needs and buying process

The desirable distribution system

This step relates to marketing research with final consumers and intermediaries to gain insights about the desirable distribution system from the consumer's point of view. The high cost of marketing research means that the kind of research that should be done depends on each company and their objectives. Yet, it is very important to build customer-driven distribution systems (Stern *et al.*, 1996). According to Gattorna and Walters (1996), several methods are available to measure consumer satisfaction. First, in a design stage, it is important to establish the service and product expectations held by consumers. In this stage, a qualitative phase to generate a list of relevant service and product attributes based upon customer experience is suggested. This list will be used for the design of a questionnaire to be used in the subsequent quantitative phase in order to measure preferences. All the functions and lists used in section 3.2 can be used here to facilitate the understanding of consumer needs. Marketing research books (Malhotra, 1996; Hair *et al.*, 1995; Aaker and Day, 1982) provide sufficient information and techniques. The buying process of clients and consumers also must be considered and analyzed (Kotler, 2000; Neves *et al.*, 2000, Siguaw *et al*., 1998).

3.8 Gap analysis and quick adjustments

The company has its own ideas about what it wants as a distribution channel and about consumers' desires. In this step all these should be considered in order to make the best and feasible strategic decision for the company. All the goals should be confronted with market (consumer) restrictions and company restrictions. Quick adjustments refers to a step described in Stern *et al.* (1996) in which companies could get some insights from all the steps conducted so far and implement them immediately in existing channels, if these changes are clearly advantageous.

3.9 Selection of channels and negotiation

The company can select the channel structure

Once the objective is set, the company can select the channel structure and channel members, if it has the flexibility to do so. This depends on the availability of agents in the channel, the kind of relationship that will be built and several other factors analyzed in the preceding steps. For the negotiation process, several techniques are available, and a framework to build successful negotiations can be found in the work by Lynch (1993) and Martinelli and Almeida (1997).

3.10 Building contracts and relationships

This step involves the design of written or other types of contracts (e.g. oral agreements) with the partners in the channels, or selling in market transactions or other forms, depending on the suggested coordination forms from the previous steps. Other aspects include contractual safeguards against opportunism in the channel, means of enforcement, adaptations to changed circumstances, building exit barriers, incentive design and monitoring (Boyle *et al.*,1992; Brousseau, 1993; Frazier and Summers, 1984).

Some factors of the institutional (legal) environment are important in distribution contracts (or strategies) (see Table IV). An analysis of the specific institutional environment of the market (country) should also be carried out, to verify whether the most common distribution tactics to be used are feasible in that particular market. In this step it is interesting for the team to consult specialists (lawyers) who can contribute with their knowledge and expertise.

Issues	Action	Can bring	Possibility
Exclusive dealing	Customers sell only manufacturer's products or at least no products in direct competition	Ready-available market to the seller. Limits buyer choice	
Tying agreements	A buyer must purchase one good to secure another (in case of two products)	Limit competition by forcing wholesalers and retailers to purchase a large selection of a manufacturer's product mix	
Full-line forcing	Forced to order, inventory, and display each type of product produced by a manufacturer that is applicable to its trade area		
Resale restrictions	Manufacturer restricting authorized distributors from selling its products to unauthorized consumers. A territorial restriction either prevents or discourages from selling outside a particular area, while a customer restriction prohibits from selling to specific customers or classes of customers	Territorial and customer restrictions reduce intra-brand competition	
Reciprocity	The practice of buying goods and services from your major customers; in turn, these customers then purchase goods and services from the company	Reciprocity severely limits the competition among noncustomers	
Refusal to deal	Involves a manufacturer or wholesaler refusing to sell goods to selected intermediaries. For example, a manufacturer can refuse to sell goods to a retailer that does not meet the manufacturer's sales quota. A seller can select its own distributors or dealers according to its own criteria and judgement	Legal issues: whether the refusal can be characterized as a conspiracy between firms that excludes other firms from being able to buy from that channel member	
Vertical or horizontal integration	Relates to the legality of a firm acquiring channel members at different stages of the channel of distribution (vertical integration) or at the same stage of the channel (horizontal integration)	Courts are biased toward internal expansion by growth versus external expansion by merger or acquisition	

(*continued*)

Table IV. Issues, actions and consequences in channels regarding institutional issues

Issues	Action	Can bring	Possibility
Price discrimination	Refers to price differences charged to competing channel members at the same level in a channel of distribution. In general, prices charged to competing channel members must be the same unless there are cost differences in selling and manufacturing goods to each channel member, a channel member meets another seller's lower price, or when conditions change (such as technological obsolescence). In addition, promotional allowances or services cannot be given unless they are offered to all competing customers on proportionately equal terms	Price discrimination legislation severely restricts the ability of channel members to charge different prices to competing channel members unless the channel members are able to cost-justify these differences	
Resale price maintenance	Manufacturers to set final retail selling prices, seeking to force dealers to sell products at specified prices, attempt to terminate dealers because of their failure to adhere to suggested prices, and ask dealers to report discounting dealers to them	Generally, companies do not have the right to impose resale price maintenance on their customers	
Gray market	Goods that are distributed through unauthorized channels of distribution. While gray market distribution generally refers to foreign goods purchased abroad that were not intended for the domestic market, it also includes goods that were transshipped from authorized dealers to unauthorized dealers	Goods compete for market share with those imported through authorized channels. Infuriate authorized importers and retailers who pay higher prices and are forced to contribute to cooperative advertising programs	
Taxation of mail	Congress to tax mail-order sales due to different state taxes	Adds bureaucracy to the process	
Unit pricing	Channel members are required to post not only the total price of an item, but also the price per standard unit of measure	This allows consumers to compare prices when package sizes differ	
Bait advertising	Involves the promotion of a product at an unusually low price. When a consumer seeks to purchase the advertised good, it is either unavailable or is disparaged by sales personnel	Channel members to increase customer inquiries or store traffic cannot use bait advertising	

Source: A résumé by the author from Berman (1996), and adding new aspects from interviews

Table IV.

Possible sources of conflict

When building contracts, participants must consider the possible conflict sources, establish ways to minimize these sources, and plan actions to be taken in case conflicts arise. According to Berman (1996), conflicts are created when there are role incongruities, perceptual differences, decision domain disagreements, expectation differences, goal incompatibilities, communication difficulties and resource scarcities. The author suggests several methods of conflict resolution: sensitivity training, shared tasks, joint goal setting, channel-wide committees and conciliation.

If the company chooses a franchise format, it can find models of contracts in marketing channels books referenced above. If the company decides to enter a strategic alliance (joint-venture) or other kind of relationship, Lynch (1993), Gattorna and Walters (1996) and the extensive literature on alliances and networks can be consulted.

3.11 Channels management

The last step of the process is the channel management. The literature on channel management is vast and it suggests several techniques and management skills. Some aspects relating to building successful partnerships and trust, which are of fundamental importance, will be highlighted here. The suggestion is to use, in management, references and tools of relationship marketing, commitment and trust theories to help channels management (Morgan and Hunt, 1994). The physical process and logistics should also be strongly considered. Motivation of the members is an important task that the company should address, and Rosenbloom (1999) provides a list of common motivation techniques that could be used by the company.

There is extensive literature on trust and trust development in transactions, which are useful at this step. A good starting point is the research carried out by Doney and Cannon (1997), which stresses several contributions of the literature. Kozak and Cohen (1997), Ganesan (1994), Sonnenberg (1992) offer a list of statements for companies to use to achieve the level of trust and commitment with suppliers, which can be adapted in this case to distributors.

Relationship becomes more balanced

According to Anderson and Weitz (1992), a channel member's trust in a manufacturer increases as the manufacturer's reputation increases in its dealings with channel members; as the manufacturer offers more in the way of sales support; as the manufacturer's and channel member's goals become more congruent; as the cultural similarity between the manufacturer and channel member becomes greater; as the relationship becomes more long-standing; as the communication level in the relationship increases and as the power in the relationship becomes more balanced. Also drawbacks of commitments (strong ties) must be considered. There can be lower incentives to search for excellence in presence of inflexibility brought by committed relationships.

Gattorna and Walters (1996) state that the monitoring stage should continue to research consumer satisfaction. The frequency of this research is related to the time that it would take to utilize and implement the findings.

4. Managerial implications

The main managerial implication of this article is that it offers a *distribution channels planning process* in order to assist companies seeking to review or build new distribution channels. This model was built based on extensive literature research, a review of four existing models and contributions from several private sector agents dealing with distribution channels on a daily basis.

Source of competitive advantage

Confidentiality in distribution channels is of fundamental importance

The process described in this paper can be carried out frequently to effectively aid companies to address and build competitive advantage. The first time the model is completed, the process will be time and money consuming, especially for companies that are starting from zero. However, once the process is completed, the follow-up analyses will be less resource demanding, because data are more organized and easily available, the knowledge of the planning process is known by the company and further decisions will focus on what is new in the business environment.

Not all companies will complete all the steps presented here; some of the channels will not be available (retailers, for instance), and for a company with several products, the analysis will be more complex, but extremely important due to the fact that distribution channels are a source of competitive advantage.

In addition to providing a detailed step-by-step model, we design a series of lists that can be used to help choices among governance forms, to analyze the external environment in marketing channels, to better understand the distribution functions that must be performed, review contracts and other channel management functions.

Finally, the main contribution is related to the possibility of companies to rethink marketing channels, and the suggestions of future studies encompass the testing of this model and of these particular tables, suggestion of new steps and new criteria of analysis, adding more contributions to the sequence proposed here.

Currently, the model is being applied at three companies operating in the Brazilian market with positive results on firm performance, in The Netherlands and in South Africa. One limitation for researchers to deal with in future studies will be to show empirical results after testing the model since confidentiality in distribution channels is of fundamental importance for the companies being studied.

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Appendix

Power	What do they refer to	Some examples/ channels	Problems
Coercive power (use is negative) (economic)	Threat approach – due to the capacity of one chain member to punish another. It is based on the magnitude of the punishment and the credibility of the message (threatened member perceives higher costs in not agreeing)	Discontinuing sales Refusing to deal Threatening to do vertical integration Full line forcing Add another distributor to area Allowing bypasses in channels Sell against manufacturer's brand Threat of using gray markets Threat of using direct sales or electronic sales	Legal problems if the use is continuous Stimulate associations in the other levels for countervailing power More conflicts in the chain/channel Reduces information exchange incentives Risk of losing a partner and fewer incentives to build relationship marketing
Reward power (use is positive) (economic)	Possible rewards to members contribute to power and for them to work as established	Sales force compensation Price discounts due to performance Offering goods in short supply	Difficult to distinguish between this and coercion depending on the way it was used It can be limited to the geographic area or amount of rewards Diminishing returns, since agents get used to the rewards and want more
Referent power (use is positive) (non-economic)	Image or brands carried contributes to its power There is a desire to be identified with this member of the channel	Strong brand National or global presence Store loyalty Private label loyalty	Loses image and trust in cases of wrong attitudes

(*continued*)

Table AI. Sources of power, what do they refer to, some examples and problems of using

Power	What do they refer to	Some examples/ channels	Problems
Expertise power (use is positive) (non-economic)	Use of the knowledge in operation systems, market knowledge, marketing knowledge and other	High economies of scale Cost structure of business Training skills Site location knowledge	Loses trust in cases of wrong suggestions and actions relating to market, marketing and others
Persuasion power (use is neutral) (non-economic)	Rational appeals based on size, financial position, knowledge and concentration. Refers to the role as leader	Large discounts Shelf space Market share Centralized purchasing Slotting allowances	Ethical and legal problems
Legitimate power (use is positive or negative) (economic)	Guaranteed by contract. There is the knowledge in the chain that power exists	Using franchising and all other contract forms	All problems relating to uncompleted contracts
Information power (non-economic)	Data on costs, sales and prices used to influence negotiations	All sources of information that can bring asymmetry and advantage Example: scanned data	Not sustainable strategy Ethical problems and difficulties in building strong relationships

Sources: Neves (1999), based in Berman (1996); Lusch (1976); Hunt and Nevin (1974); El Ansary and Stern (1972), Pelton *et al*. (1997); French and Raven (1959); Etgar (1978), Gaski (1984) and several interviews

Table AI.

■

This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article* in toto *to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present

Executive summary and implications for managers and executives

Distribution channels can be an important source of competitive advantage and a number of models have been designed for companies to use in their planning of these. However, many companies still report dissatisfaction with their distribution arrangements and this led the authors to elaborate an alternative sequence of steps, based on existing models but using elements of transaction cost economics. Managers from ten private sector companies were subsequently invited to evaluate the sequence and their suggestions were incorporated into the final model.

A step-by-step approach to distribution planning

The first step in planning a distribution channel is to describe the company's distribution chain and channels. For companies with multiple products, each individual product distribution chain will require analysis. An industry evaluation should follow with a description of the industry distribution chain (which may differ from an individual company's chain). Information on the different chain players and their functions, and possible changes that could be made, i.e. alternative solutions, will provide important information relating to the impact of distribution on sales and profits.

At each step of the way, the model provides for formal documentation and evaluation of the information gathered.

The authors suggest documenting four distinct distribution flows:

(1) product and services to final consumers;

(2) communication to final consumers;

(3) feedback from consumers;

(4) payment and financial.

Alternative solutions should be incorporated where these might prove of benefit to the company.

An environmental analysis, assessing the political/legal, economic/natural, socio-cultural and technological environment, should then follow to explore the possible impact of change (e.g. introduction of the Internet, variations in interest rates, imposition of recycling laws etc.), which affect distribution and might not always be anticipated. Such analysis will help companies focus on the action to be taken if certain scenarios materialize.

Further analysis aids organization and coordination of transactions

It is also important to evaluate the influence that each individual channel member could have on a channel member at another level. Such influence or power can be wielded in various forms including those of coercion, reward, persuasion or information. Such analysis will help the company in forecasting future developments.

Assets/areas of investment also require analysis, aiding assessment of levels of specificity and, where there are problems, the potential for alternative uses or reallocation, which would reduce specificity. The authors propose a table for each of six distinct specificities: physical, time, information and knowledge technology, human, site, and marketing/transaction. JIT, for example would come under the heading "time"; a designer would be listed as a "human" specificity, special containers are "physical" specificities, *factory location or distance from raw material supplies would come under "site", and so on.*

Transaction costs and their impact need to be considered so that contracts can be agreed that minimize these. Existing contracts also need to be reassessed as do distribution practices including purchasing processes. Benchmarking against major competitors is a useful exercise.

Reviewing objectives

A review of corporate objectives should ensure that these and the company's strategic marketing planning program correspond and the authors list a number of variables which should be taken into account related to individual distribution chain channels, including volume of sales, profit, market share, customer satisfaction, etc. At the same time, consumers' requirements of the distribution system also need to be taken into account.

Finally, the authors recommend gap analysis, and adjustments where advantageous, prior to selection of channel structure and members and design of contracts. Channel management constitutes the final step in the process and study of the literature on relationship marketing, commitment and trust theories is recommended.

The authors believe that this step-by-step approach will serve not only companies wishing to review existing channels but also those planning to build new distribution chains. They accept that the model proposed will initially be time and money consuming but point out that it will provide the outline for structured follow-up analyses that will ultimately prove rapid and cost-effective. Perhaps the main purpose of the model is to encourage companies to think again, and more deeply, about their distribution chains with a view to improving performance.

(A précis of the article "A model for the distribution channels planning process". Supplied by Mmarketing Consultants for MCB University Press.)