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EDITION

# Marketing Channel Strategy

EIGHTH EDITION

Robert W. Palmatier • Louis W. Stern • Adel I. El-Ansary

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# **Marketing Channel Strategy**

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Eighth Edition

**Global Edition**

# **Marketing Channel Strategy**

**Robert W. Palmatier**

*University of Washington's Foster School of Business*

**Louis W. Stern**

*Northwestern University's Kellogg School of Management*

**Adel I. El-Ansary**

*University of North Florida's Coggin College of Business*

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*This book is dedicated to my wife Kimberley and  
my daughter Alexandra, with much love and thanks.*

*Robert W. Palmatier*

*To the love of my life, Rhona, with whom life has been  
exciting, challenging, surprising, and, above all, loving.*

*Louis W. Stern*

*To my family, the guiding lights of my life, wife Stephana,  
sons Waleed and Tarik, stepdaughters Johanna and Stephanie,  
and grandchildren Noor, Boody, Haya, and Isabelle.*

*Adel I. El-Ansary*

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# PREFACE

## NEW TO THIS EDITION

The primary goal for this Eighth Edition, as reflected in the change in the title—from Marketing Channels to Marketing Channel Strategy—has been to create a comprehensive, research-based, action-oriented guide for practicing managers and managers-in-training with an interest in how to adopt and apply real-world channel strategies. This edition of the book is structured to provide background knowledge and process steps for understanding, designing, and implementing high-performing channel strategies.

Other significant changes to this edition include the following:

- A new channel strategy framework, introduced in Chapter 1, defines the structure of the rest of this book, providing a structured approach that guides managers through the steps necessary for evaluating an existing marketing channel strategy or for developing and implementing a new one. A new figure offers a visual representation of this approach (see Figure 1-3).
- To provide a foundation for developing channel strategies, three newly formulated chapters each support a specific stand-alone analysis that is critical for designing an effective channel strategy:
  - End-user analysis in Chapter 2
  - Channel analysis and audits in Chapter 3
  - Make-or-buy analysis in Chapter 4
- A completely revised Chapter 5, on designing channel structures and strategies, integrates material from multiple chapters in the previous edition together with new material, to walk readers through three key channel design decisions. The revised chapter also offers a new perspective on the eight factors that influence the intensity versus selectivity trade-off and its effects on channel strategy.
- Chapter 9 is completely new. It focuses on the emerging channel structures and strategies that result from dramatic changes in the business environment, such as the shift from products to services, the globalization of firms and industries, and increases in e-commerce. These changes are causing new channel systems to emerge, with the potential of disrupting many tradition channel institutions.
- Chapter 12, now titled “Managing Channel Relationships,” offers an increased emphasis on the role of strong relationships in successful channel management. Recent academic research added to this chapter cites the key influence of relationship velocity on future channel performance and the detrimental effect of perceived unfairness in channels.
- Noting the increasing importance of information and knowledge sharing for channel success, we have integrated information-sharing notions and applications throughout the book as a key channel function. Thus, information sharing appears within the efficiency templates in Chapter 3, demonstrated with new examples related to CDW and building materials.
- Some of the most dramatic changes in retail structures and strategies for the top 250 global retailers, due to globalization and consolidation, are outlined in

Chapter 6. The fundamental shift to e-commerce in many product categories is also highlighted throughout the book (e.g., music, books), along with the necessary shifts in strategy.

Overall, *Marketing Channel Strategy* is designed for an international audience of managers and managers-in-training. The focus is firmly on marketing channel strategy, that is, the set of activities focused on designing and managing a marketing channel to enhance the firm's sustainable competitive advantage and financial performance. More simply, companies and processes come together to bring products and services from their point of origin to their point of consumption. Through marketing channels, the originator of the products or services gains access to markets and end-users. Channel structures and strategies thus are critical to any firm's long-term success.

The book features examples taken from around the world and from a range of industries and markets. However, the ideas and processes generalize to virtually any context and channel situations. Sidebars appear in every chapter to highlight key channel issues and strategies and provide concrete examples of the theories, processes, and ideas presented in the text.

Each chapter is also designed to stand on its own. The chapters are modular, so they can be combined with other material and used in various classes for which channels play an important role (e.g., service marketing, marketing strategy, sales management, business-to-business marketing). The content of each chapter reflects leading academic research and practice in distinct disciplines (e.g., marketing, strategy, economics, sociology, political science).

Beyond this modular design, the four major parts of this book reflect some overriding themes. Part I consists of just one chapter, which introduces the basic ideas and concepts underlying channel strategy. To help channel managers design a strategy and then manage it over time, Chapter 1 addresses some central channel questions:

- Why are marketing channels important?
- What is a marketing channel strategy?
- Who participates in a marketing channel?
- Why do marketing channels exist?
- What are the key functions performed by marketing channels?

The answers suggest that a marketing channel strategy entails three stages: (1) analyzing and designing, (2) benchmarking, and (3) implementation or management. Parts II–IV address each of these stages in turn.

In particular, Part II, *Designing Channel Strategies*, comprises four chapters that describe how to align the needs of upstream and downstream members of the channel to enable all the parties to work together to meet target end-users' demands, at minimum cost. We start with a detailed discussion of how to employ an end-user analysis to segment markets, in accordance with end-users' needs, and then select certain segment(s) to target (Chapter 2). In Chapter 3, we outline methods for evaluating existing channels by auditing their efficiency and potential service or cost gaps. These two analysis steps lead into the task of determining whether to perform channel functions in-house or outsourced, so Chapter 4 describes the make-or-buy channel analysis. Finally, we summarize the design phase, as it appears with regard to three

design questions: the degree of channel intensity, the mix of channel types, and the use of dual distribution (Chapter 5).

With Part III, Channel Structure and Strategies, we provide the means for channel managers to understand some of the most common channel structures and strategies: retailing (Chapter 6), wholesaling (Chapter 7), and franchising (Chapter 8). With such an understanding, managers can identify best practices to integrate into their new or revised channel systems, as well as compare their own channel structure and strategy with previously developed channel systems. This section thus provides lessons learned by previous channel managers, helps today's readers avoid the same common mistakes, and allows them to take advantage of known channel efficiencies. Finally, Chapter 9 offers guidelines to help managers address and design creative, emerging channel structures and strategies, in accordance with constantly changing business environments.

Finally, Part IV, Implementing Channel Strategies, focuses on the five factors that lead to optimal channel management and help ensure ongoing channel success. Specifically, channel managers need to identify and work with the source of each channel member's power and dependence (Chapter 10), as well as recognize and avoid potential channel conflict (Chapter 11), so that they can build and maintain good working relationships among channel partners (Chapter 12). The last two chapters detail how to manage channel policies and legalities (Chapter 13) and logistics (Chapter 14), and thus maintain the effectiveness and efficiency of the channel system.

The framework presented in this book is thus useful for creating a new channel strategy in a previously untapped market, as well as for critically analyzing and refining a preexisting channel strategy. Supporting materials for this textbook are available to adopting instructors through our instructors' resource center (IRC) online at [www.pearsonhighered.com](http://www.pearsonhighered.com).

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**xxiv** Acknowledgments

this edition of *Marketing Channel Strategy*, extends the life of the brand and ensures that future generations of students will be informed of the importance of the role of channels in marketing and society.

Finally, we are indebted to the vast number of authors whose work we cite throughout this text. Without their efforts, we could not have written this book.

***Robert W. Palmatier***  
*Seattle, Washington*

***Louis W. Stern***  
*Evanston, Illinois*

***Adel I. El-Ansary***  
*Jacksonville, Florida*

## ABOUT THE AUTHORS

Robert W. Palmatier is Professor of Marketing, and he holds the John C. Narver Chair of Business Administration at the University of Washington's Foster School of Business. He earned his bachelor's and master's degrees in Electrical Engineering from Georgia Institute of Technology, as well as an MBA from Georgia State University and his doctoral degree from the University of Missouri. He did a one year post doctoral study at Northwestern University's Kellogg School of Management. Prior to entering academia, Professor Palmatier held various industry positions, including President and Chief Operating Officer of C&K Components and European General Manager and Sales & Marketing Manager at Tyco-Raychem Corporation. He also served as a U.S. Navy Lieutenant onboard nuclear submarines.

Professor Palmatier's research interests focus on relationship marketing, channels, and marketing strategy. His research has appeared in *Journal of Marketing*, *Journal of Marketing Research*, *Marketing Science*, *Journal of Retailing*, *Journal of Consumer Psychology*, *Journal of Academy of Marketing Science*, *Marketing Letters*, *International Journal of Research in Marketing*, and *Industrial Marketing Management*. He has also published a monograph entitled *Relationship Marketing* and chapters in various texts, including *Channel Relationships*, *Relationship Marketing*, *Anti-Relationship Marketing: Understanding Relationship Destroying Behaviors*, and *Understanding the Relational Ecosystem in a Connected World*. His research has also been featured in *The New York Times Magazine*, *Electrical Wholesaling*, *Agency Sales*, and *The Representor*, as well as on NPR and MSNBC.

In addition to serving as an area editor for *Journal of Marketing*, Professor Palmatier sits on the editorial review boards for *Journal of the Academy of Marketing Science*, *Journal of Retailing*, and *Journal of Business-to-Business Marketing*. His publications have received multiple awards, including the Harold H. Maynard, Louis W. Stern, and the American Marketing Association Best Services Article awards. He also received the Varadarajan Award for Early Contribution to Marketing Strategy Research. He teaches marketing strategy in the doctoral, EMBA, and MBA programs at the University of Washington. He has received numerous teaching awards including the Robert M. Bowen EMBA Excellence in Teaching Awards, MBA Professor of the Year Award, and PhD Student Mentoring Awards.

Among the numerous industry and governmental committees on which Professor Palmatier has served, he chaired proposal selection committees for the National Research Council (NRC), National Academy of Sciences (NAS), and the Wright Centers of Innovation, which awarded grants of \$20 million for the development of a new Wright Center of Innovation based on joint academic-industry proposals. He has served on NASA's Computing, Information, and Communications Advisory Group, with the AMES Research Center. This advisory group assesses the current state of technology development within academia, governmental agencies, and industry related to NASA's information technology activities and space exploration requirements; recommends future investment areas; and outlines a sustainable process to ensure

optimal investment strategies and technology portfolios for NASA's Space Exploration Enterprise. He has also consulted for numerous firms including Microsoft, Emerson, Telstra, Fifth Third Bank, Littelfuse, Cisco, Wells Fargo, Premera, and Manufacturers' Representative Educational Research Foundation.

Professor Palmatier lives in Seattle, Washington, with his wife Kimberley and daughter Alexandra.

Louis W. Stern is the John D. Gray Distinguished Professor Emeritus of Marketing at the Kellogg School of Management of Northwestern University. Professor Stern joined the Northwestern faculty in 1973. Prior to that, he was Professor of Marketing at the Ohio State University. He was appointed to the Ohio State faculty in 1963 after having spent two years at the industrial research firm Arthur D. Little, Inc., Cambridge, Massachusetts. From January 1965 until June 1966, he served as a principal economist for the National Commission on Food Marketing in Washington, D.C., and during the 1969–1970 academic year, he was a visiting associate professor of business administration at the University of California, Berkeley. From 1977 to 1980, he served as chairman of the Department of Marketing at Northwestern, and from 1983 to 1985, he was Executive Director of the Marketing Science Institute, Cambridge, Massachusetts. During the 1984–1985 academic year, he was the Thomas Henry Carroll Ford Foundation Visiting Professor at Harvard Business School. From 1998 to 2001, concurrent with his position at Northwestern, he was appointed a visiting scholar at the Haas School of Business at the University of California, Berkeley. From 2004 to 2006, he was designated the Dorinda and Mark Winkelman Distinguished Scholar at The Wharton School of the University of Pennsylvania, a Senior Fellow of the Wharton School, and codirector of Wharton's Jay H. Baker Retailing Initiative, positions he held in addition to the John D. Gray professorship at Kellogg.

Professor Stern's research efforts have focused on issues related to designing and managing marketing channels and on antitrust issues. His articles have appeared in a wide variety of marketing, legal, and behavioral science journals. Among the books he has coauthored are *Marketing Channels* (Prentice-Hall, 7th Ed., 2006), *Management in Marketing Channels* (Prentice-Hall, 1989), and *Legal Aspects of Marketing Strategy: Antitrust and Consumer Protection Issues* (Prentice-Hall, 1984). His article "Distribution Channels as Political Economics: A Framework for Comparative Analysis" (with Torger Reve) was named the best article on marketing theory to appear in the *Journal of Marketing* during 1980. In 1986, he received the Paul D. Converse Award from the American Marketing Association for "outstanding contribution to theory and science in marketing." In 1989, he was named "Marketing Educator of the Year" by Sales and Marketing Executives-International, and in 1990, he received the same honor from the Sales & Marketing Executives of Chicago. In 1992, he was voted "Outstanding Professor of the Year" by the students at Kellogg. He has received six times the "Outstanding Professor Award for Electives" from Kellogg's Executive Masters Program. In 1994, he was selected as the recipient of the American Marketing Association/Irwin Distinguished Marketing Educator Award, which is designed to be "the highest honor a marketing educator can receive." Also in 1994, he was named as one of the 12 best teachers in U.S. business schools by *Business Week* magazine. In 1999, his Kellogg classroom was purchased and named in his honor by his former students, friends, clients, and family. And, in June 1999, he was the first recipient of Kellogg's newly created Special Lifetime Achievement Award for Teaching Excellence.

Professor Stern has participated in distinguished lecturer/visitor series at numerous universities. He has taught at the Hernstein Institute in Vienna and at the Norwegian School of Economics and Business Administration in Bergen, and has been a faculty associate at the Management Centre Europe in Brussels. Professor Stern has served on the editorial boards of *the Journal of Marketing*, *the Journal of Marketing Research*, and *Marketing Letters*. He was on the Board of Directors of the Council of Better Business Bureaus, Inc., from 1978 to 1983. He was a member of the Board of Trustees of the Williston Northampton School in Easthampton, Massachusetts. He is a member of the Board of Directors of the Academy for Urban School Leadership, a non-profit organization dedicated to improving student achievement in Chicago's chronically failing schools. In addition, he is a member of the Executive Directors Council of the Marketing Science Institute.

Among the numerous business firms for which he has consulted are IBM, Ford, Hewlett-Packard, S.C. Johnson, Brunswick, Roche Laboratories, Steelcase, ExxonMobil, Xerox, Boise Cascade, Johnson & Johnson, and Motorola. He has also served as a consultant to the Federal Trade Commission and as an academic trustee of the Marketing Science Institute. Professor Stern is a member of the American Marketing Association.

Adel I. El-Ansary is the Donna L. Harper Professor of Marketing at the Coggin College of Business, University of North Florida, and Distinguished Fellow of the Academy of Marketing Science. He received the State of Florida University System Professional Excellence Award in 1999 and was named Prime Osborne, III Distinguished Professor in 2001. Prior to joining the faculty at the University of North Florida as the First Holder of the Paper and Plastics Educational Research Foundation Eminent Scholar Chair in Wholesaling, he served as professor and chairman of Business Administration at the George Washington University, Washington, D.C.

El-Ansary is a Fulbright scholar. He is coauthor of the leading text-reference book on *Marketing Channels*, first<sup>t</sup> through eighth<sup>h</sup> edition, Prentice-Hall, 1977–2015 and *E-Marketing*, third and fourth editions, Prentice-Hall, 2003 and 2006. He is a contributor to the *Encyclopedia of Marketing*, *Encyclopedia of Economics*, *American Marketing Association Marketing Encyclopedia*, and *The Logistics Handbook*. Also, he has contributed over 35 papers and articles to books and conference proceedings.

El-Ansary's research and writing contributed 18 key articles published in major journal including the *Journal of Marketing*, *Journal of Marketing Research*, *Journal of Marketing Channels*, *Journal of Retailing*, *Journal of the Academy of Marketing Science*, *Journal of Relationship Marketing*, *Journal of Macro Marketing*, *European Business Review*, *Journal of Personal Selling and Sales Management*, and *International Marketing Review*.

El-Ansary's scholarly interests are diverse but revolve around marketing systems reform to improve distribution effectiveness, efficiency, and equity with particular reference to food distribution in developing countries. He served on a sub-Presidential Mission for President Reagan's Caribbean Initiatives on improving food distribution in Central America. His teaching interest includes Marketing Channels, Marketing Strategy, Marketing on the Internet, and Global Branding Strategy and Management.

El-Ansary was on leave from the University of North Florida 1995–1996 to serve as Chief of Party of International Business and Technical consultants, Inc. in Cairo, Egypt. He was in charge of all aspects of project management for the monitoring and evaluation of the Privatization Program of the Government of Egypt funded through

technical assistance provided by the U.S. Agency for International Development (U.S. AID). El-Ansary served as team leader and project coordinator, implemented, or participated in, over 20 government and international organization contracts and assignments including U.S. AID, the World Bank, and the Governments of Egypt, Saudi Arabia, Tunisia, Kuwait, and Qatar. He served on Presidents' Nixon and Ford national Advisory Council for the U.S. Small Business Administration.

El-Ansary served on the Global Council of the American Marketing Association. He is the founding chairman of the Special Interest Group in Wholesale Distribution and served as cochairman of the Relationship Marketing Interest Group of the Academic Council of the American Marketing Association. He is chartered member of the Academy of Marketing Science since its foundation in 1972 and was elected member of its Board of Governors, 1994–1998.

# **Marketing Channel Strategy**