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AN INVESTIGATION OF DISTRIBUTION CHANNEL DECISION  
POLICIES OF UNITED STATES MANUFACTURERS

DISSERTATION

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This study is designed to examine distribution channel selection and evaluation policies of small, medium, and large United States manufacturers. Significance of various factors considered in the selection and evaluation procedures is ascertained. Also, the avenues of communication utilized to obtain distribution information are examined. Finally, the study explores the relationship between firm size and channel structure.

Chapter I presents an introduction to channels of distribution as well as an explanation of the study, methodology, hypotheses, limitations, and objectives. Chapter II delineates the theoretical explanations of marketing channels in an attempt to provide an understanding of the complexities involved in selecting and maintaining appropriate channels. Chapter III examines the quantitative and qualitative factors advanced by academicians for the selection and evaluation of distribution channels. Chapter IV presents facts compiled from questionnaires returned by 627 manufacturers. Chapter V advances conclusions and recommendations.

Based on an analysis of the findings, certain conclusions are presented. Contrary to previous findings, firm size does not significantly influence distribution channels utilized by manufacturers. The nature of the merchandise, however, does influence channel structure. Industrial goods manufacturers primarily utilize direct distribution channels while consumer goods manufacturers rely on middlemen.

In addition, channel selection decisions are normally made by one person, the president, in small firms. Selection authority in large firms, however, is delegated to several executives or a committee. The findings also indicate the channel selection factors considered most significant by consumer goods manufacturers are the relevant market to which the product is intended and the size of the relevant market. The most significant factor for industrial goods manufacturers is the technical nature of the product. In addition to general channel selection factors, the most significant factors for selection of individual outlets are financial stability and reputation of middlemen. The most infrequently considered factor is whether the outlet is utilized by competing firms.

Most manufacturers do not have regular channel evaluation policies. Large firms, however, are more likely to regularly evaluate distribution channels than small manufacturers. The most frequently considered factors for channel evaluation are promptness of the middleman in paying bills and profit evaluation.

Finally, the most frequently utilized methods of receiving information on channel effectiveness are sales reports, conversations with customers, and information filtering to the manufacturer by way of salesmen. They are more significant to large firms than small manufacturers.

Based on an examination of the findings and a review of the marketing literature, certain recommendations are advanced. First, manufacturers should develop regular channel evaluation procedures. Second, additional research should be conducted to develop practical quantitative applications to the channel selection problem. Third, the extent to which channel selection and evaluation factors are considered by manufacturers should be presented in marketing literature. Fourth, manufacturers should utilize all available avenues of communication for receiving channel information. Fifth, small manufacturers should place more emphasis on joint decision authority for the selection of distribution channels. Finally, additional research should be conducted on all distribution levels to determine the roles played by channel members in the selection and evaluation of distribution channels.

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## CHAPTER I

### INTRODUCTION

One of the most perplexing problems facing marketers is selection of the appropriate channels of distribution. This is a result of the complexity of the nation's business structure as well as its volatile and dynamic nature. When business was in its infancy involving a primitive direct selling relationship between buyer and seller, the buyer obtained some item necessary for his personal existence and the seller gave up an item he had in abundance or no longer needed. As civilizations became more complex and demand intensified, however, the necessity for a multiplicity of institutions emerged. There was a need for facilities to collect and store the output of numerous producers until it was demanded, divide the output among customers, and make it available in the quantity and at the time demanded. The result was a complex decision-making procedure involving the selection of (1) the most efficient channel structure, (2) the optimum number of intermediaries, and (3) the optimum combination of facilitating agencies.

#### Definition of Channels of Distribution

Devising a generally acceptable definition for distribution channels is no small task. Numerous definitions have been formulated by various authors. The primary reason for

definitional disagreements rests with the nature of the channel. A distribution channel is a highly dynamic phenomenon that often requires the efforts of numerous entities working within a social, political, and economic environment. Therefore, the areas of disagreement have traditionally concerned the number and types of institutions that should be included in the channel, and whether a channel is a social, economic, or political device.

#### Traditional Definitions

A variety of distribution channel definitions advanced since the 1950s conceptualize the channel as a structure or route. According to Revzan, a channel is "a pathway taken by goods as they flow from the point of production to points of intermediate and final use."<sup>1</sup> Two general criticisms of Revzan's definition, in particular, and his traditional ideas, in general, are that it fails to acknowledge (1) the channel for services and (2) the role of institutions in the channel.<sup>2</sup> Whether these criticisms are justified depends upon one's interpretation of the definition. Of course Revzan does stress the physical movement of goods, but he also acknowledges and develops extensively the role of institutions and the channel for services in the discussion.

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<sup>1</sup>David Revzan, "Marketing Organization Through the Channel," Wholesaling in Marketing Organization (New York, 1961), p. 108.

<sup>2</sup>C. Glenn Walters, Marketing Channels (New York, 1974), p. 4.

Another definition indicative of the traditional school and advanced by Bucklin states that "a channel of distribution shall be considered to comprise a set of institutions which perform all the activities utilized to move a product and its title from production to consumption."<sup>3</sup> Finally, the American Marketing Association defines a channel as "the structure of intra-company organization units and extra-company agents and dealers, wholesale and retail, through which a commodity, product, or service is marketed."<sup>4</sup>

#### Contemporary Definitions

During the 1970s, several authors have departed from traditional channel definitions and have developed new definitions that reflect the systems approach and that conceptualize channels as social systems. For example, Michman says that "marketing channels are an integral part of a complex system that have evolved from cultural and social forces in order to facilitate exchange and consumption transactions, and are governed by legal, economic, social, and political constraints."<sup>5</sup> Although Michman's definition does recognize the channel as a social system, the definition does not lend itself to further evaluation of the channel structure and operation. The number

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<sup>3</sup>Louis P. Bucklin, A Theory of Distribution Channel Structure (Berkeley, 1966), p. 5.

<sup>4</sup>Ronald Michman, Marketing Channels (Columbus, 1974), p. 2.

<sup>5</sup>Ibid., pp. 2-3.

of institutions meeting Michman's criteria are so numerous that effective identification and evaluation of the institutions is difficult.

Another recent but more functional definition was developed by Walters who envisions the channel as "a team of merchant and/or agent business institutions that functions to create and distribute assortments of products."<sup>6</sup> Walters combines the systems approach with the structural idea of Revzan and Bucklin. Implicit in "a team" is the interrelationship of various entities organized to work together toward a common goal. Walters also recognizes the structural aspects of the channel as well as its function--to create and distribute products.

In addition to formulating a more accurate definition, recent writers have been concerned with a theoretical explanation of channel structure. Although the details of the more popular channel theories are discussed in Chapter II, the purpose of the emerging body of theory is to provide a better understanding of the actual nature of channels of distribution.

In theory, channels of distribution do not simply include a system of manufacturers, agents, brokers, wholesalers, retailers, and ultimate consumers effecting the movement of products from the manufacturer to the consumer. But distribution channels include a complex of financial institutions,

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<sup>6</sup>Walters, op. cit., p. 5.

transportation and storage companies, advertising agencies, and other agencies that help facilitate the movement of the products and services.

According to Walters, two criteria can be used to determine if an institution should be included in the channel of distribution. First, the institution must be in business to make a profit. Second, the institution must create marketing utility.<sup>7</sup>

Based on these criteria, the supplementary institutions should be included in the channel. Transportation companies move merchandise from the producer to institutions patronized by consumers. Storage companies make the product available at the time it is demanded. Financial institutions and advertising agencies also are instrumental in helping the middleman and consumer make the final purchase by extending credit and by informing them of the products' existence.

For purposes of this study, however, such supplementary institutions will be excluded. Although these institutions are a vital part of distribution channels, their inclusion make an examination of channel decision policies impossible. There would be far too many channel alternatives to accurately examine.

#### A Revised Definition

For the purposes of this study, the following explanation and definition of marketing channels has been developed.

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<sup>7</sup>Ibid., p. 12.



Intrinsic to the term channel is a passage through which something moves or passes. Therefore, when referring to the marketing of goods and services, the term channel connotes the passageway taken by goods as they flow from the place of production to the point of ultimate use. The distribution channel includes not only the producer and ultimate consumer but all agencies that effect the transfer of title to the product. Agencies that are important in implementing the transfer of title include retailers, wholesalers, agents, and brokers. Such firms as financial institutions, public warehouses, transportation companies, and advertising agencies will not be formally included in the channel because they are not directly involved in implementing the actual transfer of title.

In addition, a different channel emerges when the form of a product is changed by another manufacturer other than the one initiating the flow. For example, if an automobile is traced back to its raw materials several channels emerge: the channel for the finished car, the steel that was used to make the car, the coke that was used to make the steel, et cetera. When painting, polishing, and assembling the automobile are performed by one company, however, regardless of the geographical locations of plants where the activities occur, the sequence of activities is considered to be performed within a simple channel.

So for purposes of this study the channel of distribution is to be viewed as an aggregate of interrelated business

organizations that are instrumental in implementing the transfer of title to products from the manufacturer to the ultimate consumer.

### Alternative Channels for Consumer and Industrial Goods

Based upon the above definition, Figures 1 and 2 illustrate the general alternatives for consumer and industrial goods.

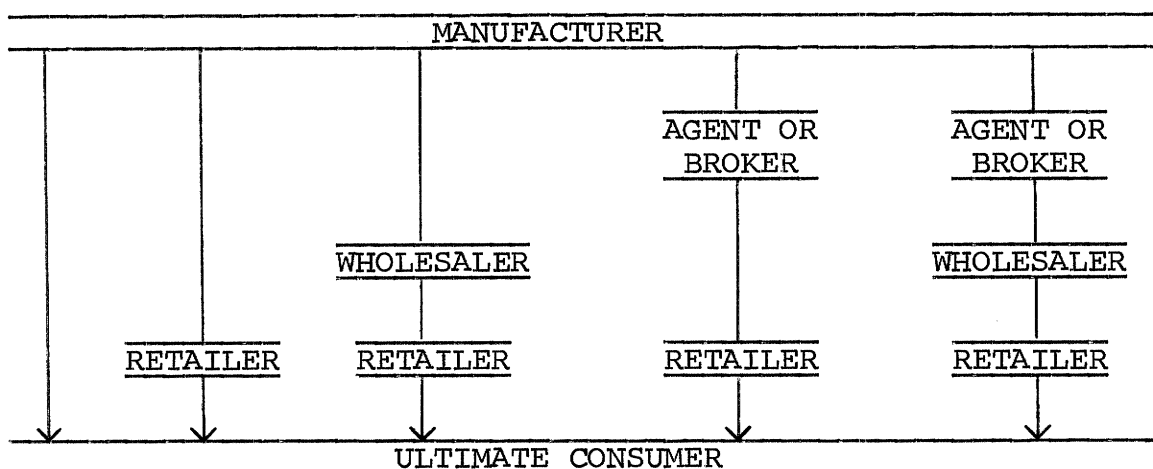


Fig. 1--Marketing channels for consumer goods

As illustrated in Figure 1, consumer goods manufacturers can (1) move the product directly to the ultimate consumer utilizing their own sales force, (2) sell to a retailer who subsequently sells to the ultimate consumer, (3) transfer the product to a wholesaler who sells to a retailer who sells to the ultimate consumer, (4) utilize an agent or broker who effects the transfer of title to the merchandise from the manufacturer to the retailer, or (5) use an agent or broker to contact the wholesaler who subsequently sells to a retailer who finally transacts with the ultimate consumer.

Figure 2 presents the alternative marketing channels for industrial goods. The industrial goods manufacturer can (1) sell directly to the industrial user, (2) sell through

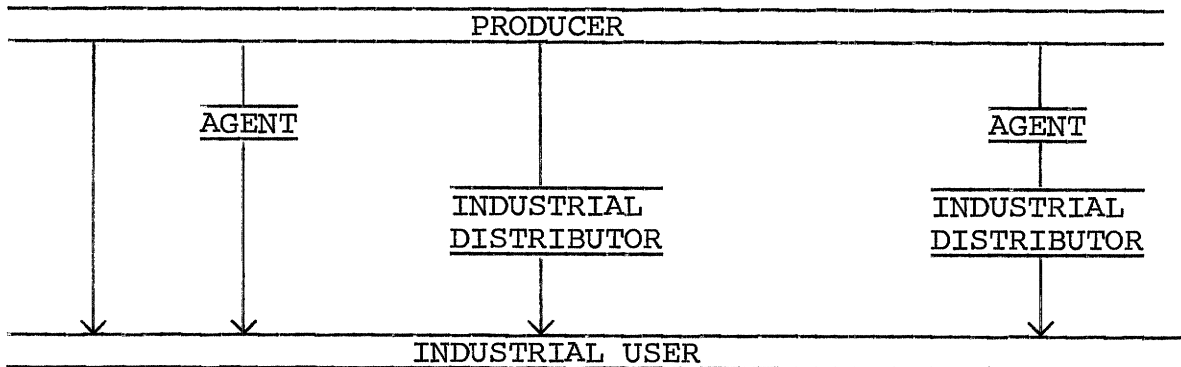


Fig. 2--Marketing channels for industrial goods

an agent, (3) use an industrial distributor to transact with the industrial user, or (4) use an agent to sell to the industrial distributor who finally sells to the user.

The problem for the manufacturer is determining which channels best fit his particular needs in terms of profit, sales, cost, or service. This can be a relatively simple decision for some manufacturers that are forced to use a particular channel because it is the only channel available or that are financially weak and must obtain the services of a middleman. Under the above conditions, the wholesalers and retailers may play a greater role in channel selection than the manufacturer. However, for many manufacturers, the channel selection process requires an intensive examination of numerous, interrelated factors. Some of the factors that can be considered are the

size of the market, the cost of freight and handling, the unit value of the product, and the size and weight of the product. The result is a comprehensive analysis of the cost of transacting to sell and physically moving the product as well as the revenue potential of each channel alternative. The company should select that channel which will maximize profit.

The channel selection problem becomes even more mammoth when one considers the selection of each outlet. The manufacturer must decide whether to distribute through an exclusive dealer, several selected dealers, or through all available dealers. Selection of individual outlets becomes somewhat overwhelming when one considers the number of middlemen in the United States. Table I presents the number of wholesale

TABLE I  
WHOLESALE TRADE BY TYPE OF OPERATION\*

| Type of Operation                            | Number of Establishments | Sales (millions of dollars) |
|--|--------------------------|-----------------------------|
| All types of operations, total               | 311,464                  | 459,475                     |
| Merchant wholesalers                         | 212,993                  | 206,055                     |
| Manufacturer's sales branches, sales offices | 30,679                   | 157,096                     |
| Petroleum bulk stations                      | 30,229                   | 24,821                      |
| Merchandise agents, brokers                  | 26,462                   | 61,347                      |
| Assemblers of farm products                  | 11,101                   | 10,155                      |

\*Source: U.S. Census of Business, Wholesale Trade, United States Summary, 1967.

middlemen. In 1967, there were 311,646 wholesale establishments generating \$460 billion in sales. Table I also illustrates that approximately 213,000 of the total wholesale operations were merchant wholesalers, 31,000 were manufacturers sales branches, 30,000 were petroleum bulk stations, 26,000 were merchandise agents and brokers, and 11,000 were assemblers of farm products.

In addition, Table II indicates there are in excess of 1.5 million retail firms with over 1.7 million outlets. These

TABLE II  
RETAIL FIRM SIZE BY KIND OF BUSINESS\*

| Kind of Business                                      | Number of Firms | Number of establishments | Sales (\$1,000) |
|---|-----------------|--------------------------|-----------------|
| Retail trade, total                                   | 1,577,302       | 1,763,324                | 310,214,393     |
| Building materials, hardware, and farm equip. dealers | 77,317          | 86,373                   | 17,200,170      |
| General merchandise                                   | 46,860          | 67,307                   | 43,537,419      |
| Food stores   | 254,469         | 294,243                  | 70,251,348      |
| Automotive dealers                                    | 97,617          | 105,500                  | 55,631,323      |
| Gasoline serv. stations                               | 196,364         | 216,059                  | 22,709,373      |
| Apparel and accessory                                 | 85,813          | 110,164                  | 16,672,205      |
| Furniture, home furnishings and equip. stores         | 88,229          | 98,826                   | 13,823,839      |
| Eating and drinking places                            | 328,413         | 347,890                  | 23,842,568      |
| Drug stores and proprietary stores                    | 46,532          | 53,722                   | 10,930,256      |
| Misc. retail stores                                   | 266,330         | 288,772                  | 27,274,464      |
| Nonstore retailers                                    | 89,756          | 94,468                   | 7,622,946       |

\*Source: U.S. Census of Business, Retail Trade, United States Summary, 1967.

retail firms realized a \$310 billion sales volume in 1967. Table II also illustrates that 77,000 of the retail companies were building materials firms, 47,000 were general merchandise firms, 254,000 were food stores, 98,000 were automotive dealers, 196,000 were gasoline service stations, 86,000 were furniture stores, 328,000 were eating and drinking places, 47,000 were drug stores and proprietary stores, 266,000 were miscellaneous retail stores, and 90,000 were nonstore retailers.

When the total number of retailers and wholesalers is combined with the number of facilitating agencies such as transportation companies, storage companies, and financial institutions, the vastness of the distribution channel becomes even more evident. The firm must utilize these middlemen and agencies to achieve the firm's overall corporate objective of profit maximization. Achievement of this objective entails consideration of the channel's impact upon operating costs, corporate image, channel relationships, and decisions pertaining to inventory, physical distribution, and production.

#### Study Objectives

This study is designed to accomplish the following objectives:

1. Examine the quantitative and qualitative techniques advanced by academicians for the selection of channels of distribution for consumer and industrial goods.
2. Determine what factors are considered and what

techniques are employed by manufacturing firms in the actual selection of channels of distribution.

3. Determine the relative significance manufacturers attribute to factors considered in selecting distribution channels.

4. Examine the factors considered in the selection of individual outlets within the channel of distribution.

5. Determine the significance manufacturers attribute to factors considered in selecting individual outlets.

6. Examine the factors considered by manufacturers in the evaluation of existing channels of distribution.

7. Determine the significance manufacturers place on factors considered when evaluating the effectiveness of existing channels of distribution.

8. Determine the methods (avenues of communication) used by manufacturers to obtain necessary information for channel evaluation.

9. Examine the relationship between company size and distribution channels employed.

#### Justification for the Study

Channel selection and evaluation has received only a cursory scrutinization by academicians and practitioners. The limited concern for these areas is evidenced by the small amount of information available through secondary sources.

Distribution channels have a profound impact on the firm's entire marketing mix. If the channel selection task is taken too lightly and results in the selection of the wrong channel, the costs could be disastrous (especially to a small firm with limited capital). Therefore, it is necessary for the firm to consider all qualitative as well as quantitative variables related to the selection problem. This study attempts to provide a list of these selection factors and points out the areas that have been neglected by manufacturers.

In addition to providing guidelines for the manufacturer to utilize in channel selection, the study provides primary information that can be used to restructure traditional treatment of selection procedures in marketing literature. The same information concerning channel selection has traditionally appeared in marketing texts stating the academicians' idealistic conception of what should be done. However, empirical proof concerning the significance manufacturers place on the academicians' theories has been scarce.

Methods for evaluating the efficiency of existing channels have essentially been ignored by academicians. Recent textbooks, for example, that deal with marketing channels only briefly mention the necessity of evaluating channels once they are established. Does this lack of concern indicate that manufacturers ignore their distribution channels after they are selected or are marketing authors unaware of evaluation



methods? This study attempted to answer the first question and resolve the second.

Another area the study investigates is the methods used by manufacturers to collect data necessary for channel evaluation. According to several manufacturers, the avenues of communication between the manufacturer and channel members are oftentimes closed. Wholesalers and retailers are sometimes unwilling to provide the manufacturers with necessary sales and inventory data as well as information concerning the characteristics of the market for the manufacturers' products. In order to determine how efficient the channel is functioning and where potential problems and opportunities exist, however, it would seem necessary to utilize all potential methods of bridging this communication gap.

#### Methodology

Both primary and secondary data were utilized in this study. Secondary data were gathered from books and periodicals dealing with channel selection and evaluation techniques. This information was presented to provide insight into the theoretical explanations of channel selection and evaluation techniques that have been advanced by academicians. These theoretical explanations also serve as a basis for examining the results obtained from the primary research.

A systematic sample of manufacturing firms was selected from Thomas's Register of American Manufacturers. This

particular directory was chosen because it provides a comprehensive listing of approximately 75,000 manufacturing firms. From this universe of manufacturers a sample size was determined by the formula

$$n = \frac{pqN}{N \left[ \frac{AE}{Z} \right]^2 + pq}$$

In this formula "n" is equal to the sample size, "p" represents the percentage expected in the sample, "q" is equal to (1 - p), "AE" refers to the allowable error or desired accuracy between the sample percentage and the universe percentage, "Z" is equal to the level of confidence desired, and "N" equals the universe size. For purposes of this study, AE and Z were established to be 5 percent and 99 percent, respectively. Since p and q are unknown, they were arbitrarily set at .50 each.

Applying the formula, a sample size of 658 respondents was required. A set of 1,798 questionnaires was mailed. In a majority of the cases, questionnaires were simply mailed to the president. However, some names of major executives were obtained from Standard and Poor's, Dun and Bradstreet, and Thomas's Register, in which case the questionnaires were mailed

personally to either the president or the vice-president of marketing.

A follow-up mailing three weeks later yielded a return of 724 or approximately 40 percent of the questionnaires mailed. Ninety-seven or approximately 13 percent of the questionnaires received were not usable since they did not provide information on channel selection and evaluation policies. Therefore, there were 627 usable questionnaires. Of these responses, 203 were from small firms, 234 were from medium-sized firms, 190 were from large firms, 240 were from consumer goods manufacturers, and 387 were from industrial goods manufacturers.

There are several reasons for the nonusable questionnaires. First, 21 or approximately 22 percent of the respondents indicated they are too small to be concerned with channel decisions. Second, 19 or 16 percent of the manufacturers of custom or highly sophisticated products felt the study was not applicable to their businesses. They tended to be locked into a direct channel of distribution. Third, 16 of the respondents indicated they are "job shops." In other words, they manufacture products from the customers' specifications. The result is a reverse distribution channel from the customer to the manufacturer with the customer being the primary decision-maker. Therefore, the job shop manufacturers are not concerned with channel decisions. Fourth, 8 respondents simply do not have time to complete the questionnaire. Furthermore, 3 manufacturers

are unwilling to give information because it is considered confidential. Also, 2 respondents make channel decisions based upon their intuition. Therefore, they are unable to provide insight into their channel selection and evaluation procedures. Finally, 28 respondents did not indicate any reason for the lack of information. They simply completed the identification section of the questionnaire.

#### Analysis of the Data

Each question concerning the significance manufacturers attribute to factors considered in selecting channels of distribution, selecting individual middlemen, and evaluating channels of distribution required the subjects to respond by indicating the degree of significance: (1) Definitely Significant, (2) Somewhat Significant, (3) Indifferent or No Opinion, (4) Somewhat Insignificant, or (5) Definitely Insignificant. The total number and percent of responses for each factor were computed.

In addition, the manufacturing firms were categorized into "small," "medium," and "large" classifications depending upon their total assets. Manufacturing firms with total assets less than \$100,000 were placed in the "small" category. Firms with total assets greater than or equal to \$100,000 but less than \$1,000,000 were classified as "medium." Manufacturers with total assets greater than or equal to \$1,000,000 were considered "large." A comparison of each group's response to each question was analyzed and tabulated.

The firms were also classified as consumer goods or industrial goods manufacturers. A firm's classification depended upon its primary business. If more than 50 percent of a firm's revenue is a result of consumer goods sales, the firm was classified as a consumer goods manufacturer. On the other hand, if more than 50 percent of the firm's revenue is a result of industrial goods sales, the firm was classified as an industrial goods manufacturer. Subsequently, a comparison of each group's (consumer and industrial groups) response to each factor was made in order to determine the differences in their channel selection and evaluation procedures.

Finally, there was a question by question examination of comments made by manufacturers concerning their particular channel policies. These open-ended responses were analyzed and discussed in order to provide additional insight into channels of distribution.

### Hypotheses

Based upon a knowledge of channel theories and a personal examination of channel structures, the following suppositions have been advanced:

1. The size of the manufacturing firm (small, medium, and large) influences the degree of significance attributed the channel selection and evaluation factors. Large manufacturers are more concerned with channel selection factors than small or medium companies.

2. Large firms use a direct channel of distribution more frequently than small and medium firms.

3. Industrial goods firms use a direct channel of distribution more frequently than consumer goods manufacturers.

4. The large manufacturer determines within its own organization which channel of distribution should be used to distribute its products. In the case of small and medium-sized manufacturers, however, the wholesaler and retailer will play a significant role in channel selection.

5. A group of several executives selects appropriate channels in large firms. However, the channel selection is made by one person in small and medium-sized companies.

6. The results of the study will show that the factor related to the relevant market is the most significant consideration for selecting an optimum channel of distribution.

7. The most important factors considered by manufacturers of all sizes for selecting individual outlets (wholesalers and retailers) are their credit status and financial stability.

8. Most manufacturers do not have regular channel evaluation procedures.

9. A sales report is the most widely used method of receiving information for evaluating distribution channels.

### Limitations

There are two limitations to this research:

1. Because of financial constraints, information was obtained by mail. There are several limitations inherent in this type of procedure: (a) unless the respondents have a particular interest in the subject, a strong response is difficult to obtain; (b) if questions are ambiguous to the respondent, wrong answers may result; and (c) in-depth information on channel policies cannot be obtained by mail.
2. The questionnaire cannot be designed to eliminate all respondent bias. Manufacturers will possibly indicate that the channel selection and evaluation factors are utilized by their firm more than they are in actuality.

### Related Studies

Although most authors acknowledge the importance of selection and evaluation, the subject has received only a minimum of attention from researchers. Most authors simply repeat that which has been established as procedures that should be followed by manufacturers. Actual procedures as well as problems that are confronted tend to be ignored. There have also been some attempts to formulate quantitative models to help managers make better channel decisions. These models are based upon linear programming, Bayesian statistics, game theory, and simulation but are not readily applicable to most business situations.

The only study relating directly to channel selection and evaluation was conducted in 1965 and presented by the National Industrial Conference Board. The study, entitled Selecting and Evaluating Distributors, discusses the criteria used by 200 U.S. and Canadian manufacturers in selecting and evaluating distributors and dealers. The study also discusses techniques used to sell distributors on the idea of carrying a line of merchandise and factors influencing the evaluation of present resellers. Finally, the study represents a compilation of case studies, comments from business executives, and excerpts from policy manuals.<sup>8</sup>

From the study, Pegram found that the most significant factors considered by manufacturers for selecting individual outlets are (1) credit and financial position of the distributor, (2) distributor sales strength, (3) distributor product lines already stocked, (4) distributor reputation, (5) market coverage, (6) sales performance, (7) inventory and warehousing, and (8) management ability. Also, Pegram mentioned that the most frequently mentioned factors for evaluating existing outlets are (1) a comparison of the distributor's current sales with past sales, (2) a comparison of performance of various outlets, (3) a comparison of the outlets sales with a predetermined quota, (4) the distributor's ability to manage its inventory, (5) the distributor's sales ability, (6) the

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<sup>8</sup>Roger M. Pegram, "Selecting and Evaluating Distributors," Business Policy Study No. 116, National Industrial Conference Board (1965), pp. 1-2.



outlet's attitude and cooperation, and (7) the outlet's growth potential.<sup>9</sup>

In 1963, Weigand attempted to relate firm size and distribution channels used. Specifically, Weigand found that small and medium-sized firms use manufacturer's agents more frequently than large firms. Because of the larger breadth of products carried by the large firm, it is not concerned with economic functions performed by the middleman.<sup>10</sup>

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<sup>9</sup>Ibid.

<sup>10</sup>Robert E. Weigand, "The Marketing Organization, Channels, and Firm Size," Journal of Business, XXXVI (April, 1963), 234-235.

## CHAPTER II

### THEORIES OF CHANNELS OF DISTRIBUTION

Before one can understand the complexity of the channel selection and evaluation processes, he must conceptualize the channel environment within which the decisions are made. In essence, the channel environment consists of numerous manufacturers, retailers, wholesalers, agents, consumers, and service organizations comprising a complex system that functions to achieve the objectives of all participating entities. A complete explanation of this system is not currently available in marketing literature. It is the purpose of Chapter II, however, to present the theoretical explanations of marketing channels in an attempt to provide an understanding of the complexities involved in selecting and maintaining appropriate channels.

#### Flow Concept

One channel theory that epitomizes the complexity of marketing channels and, at the same time, depicts marketing as a system of interrelated functions is the flow concept.<sup>1</sup> Rather than simply being treated as a forward flowing pathway through which title moves, the channel is envisioned as a

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<sup>1</sup>Richard S. Vaile, E. T. Grether, and Reavis Cox, Marketing in the American Economy (New York, 1952), pp. 113-133.

multiplicity of facilitating functions being performed by numerous agencies. The flows that Vaile, Grether, and Cox identify include the physical movement of goods, the flow of title, the flow of payment, the flow of risk, the flow of credit, the negotiation of terms, the flow of promotion, and the flow of marketing information.

As indicated in Figure 3, the flow of various marketing functions can be seen as moving in both a forward and backward direction. The flow of ownership, possession, and promotion

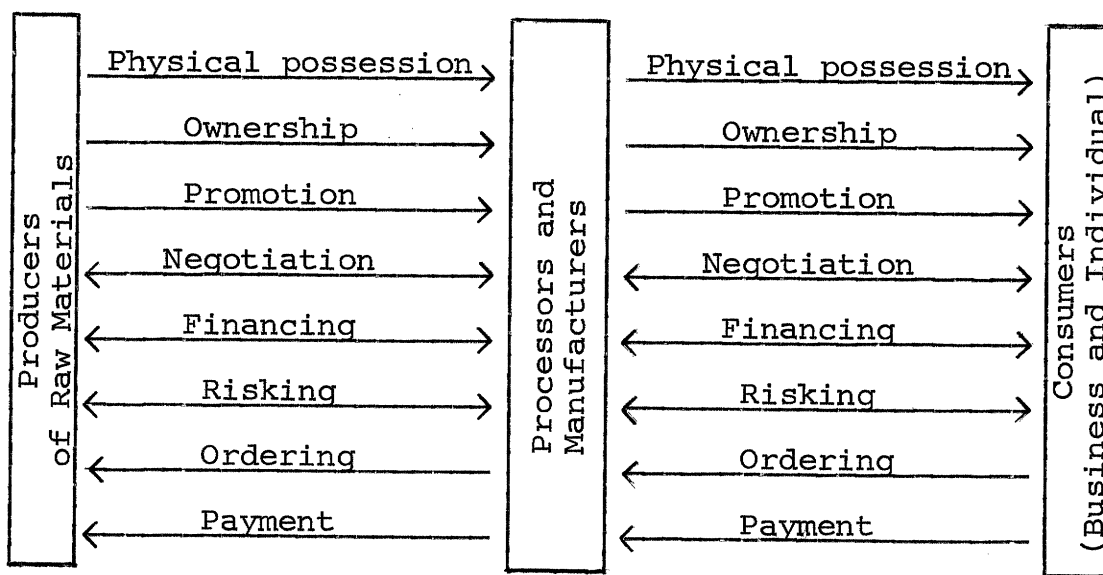


Fig. 3--Flow concept

proceed from the seller to the buyer or in a forward direction. In other words, transformations that are effected by these functions cause the product to move closer to the point of ultimate consumption. The flows of ordering and payment are reverse flows. The activities are initiated by a channel

member who occupies a position closer to the ultimate consumer than the recipient of the payment or order. Finally, the activities of negotiation, financing, and risk taking can be assumed by any channel member, thus implying that the flow related to these activities can move in either direction.

### Theory of Separation

In an attempt to explain the complexities of the market relationships, McInnes conceptualizes marketing as "any activity which actualizes the potential market relationship between the makers and users of economic goods." In other words, in modern society where manufacturers do not also use their output, a separation develops between producers and consumers. It is the function of marketing to close this gap by bringing these two entities into contact and subsequently turns a potential market into reality.<sup>2</sup>

In an attempt to further explain marketing from this broad perspective, McInnes delineates the causes as well as the marketers' response to this separation. The causes include separation of space, time, perception, ownership, and values. Marketing responds by attempting to bridge these gaps that exist between the buyer and seller. This process is referred to as actualization.

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<sup>2</sup>William McInnes, "A Conceptual Approach to Marketing," Theory in Marketing: Second Series, edited by Reavis Cox, Wroe Alderson, and Stanley Shapiro (Homewood, Illinois, 1964), pp. 56-57.

Physical or geographical distance is possibly the most obvious reason for a separation of producer and consumer. Marketing, of course, responds to this gap by moving the product from the manufacturing facility to the ultimate consumer. This movement may be accomplished by manufacturers who physically move goods and sell them to the ultimate consumer, the middlemen who accumulate the production of numerous manufacturers, divide goods among customers, and transport it to the place of ultimate consumption, or the consumer who goes to the manufacturer or middleman and purchases the product.

Directly related to the geographical separation is a time lapse. Since the buyer and seller are physically separated in the marketplace, it takes time to transport goods from the producer to the ultimate user. Marketing responds to the time gap by creating time utility or placing the goods in the hands of a consumer at the moment he demands them. Creation of time utility involves three marketing functions: storage (maintaining an inventory of goods until they are demanded by the consumer), financing the merchandise while it is in the channel, and risk management (costs of uncertainty).

A third gap mentioned by McInnes is the separation of information and persuasion. Buyers are not fully aware of all resource alternatives and suppliers are not familiar with all potential buyers. Perceptual actualization deals with providing information to the consumer and, at the same time, persuading him to purchase the product. Although perception actualization

is normally the function of the producer, in periods of shortage when demarketing is not unusual, it may shift to the consumer.

Another gap that exists until title is transferred is separation of ownership. The gap is closed by the process of negotiation which subsequently leads to such activities as drawing up contracts and keeping records.

A final gap that is directly related to the separation of ownership is the separation of values placed upon the product by the producer and consumer. This separation refers to the buyer's and seller's differing objectives in terms of what they are willing to sacrifice in order to finalize a sale. If the consumer's ability and willingness to pay and the producer's ability and willingness to offer differ widely, the gap widens. Valuation actualization serves to bridge this gap. This bridge normally involves pricing policies such as discounts, odd pricing, and guarantees against price declines that serve to align seller's bids and buyer's offers.<sup>3</sup>

The theory of separation implies that distribution channels will emerge in order to perform functions that close the gaps that exist between buyers and sellers. Also, the channel's existence will ultimately depend upon its ability to accomplish that objective. If another institution can perform the facilitating function more efficiently, the channel will experience a realignment.

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<sup>3</sup>Ibid., pp. 57-93.

### Theory of Transactions and Transvections

Alderson and Martin envision the channel of distribution as a system of interrelated transactions and transformations originating with the extraction or cultivation of raw materials and terminating with the sale of a finished product. The entire sequence of negotiations, exchanges, and transformations are referred to as a transvection.<sup>4</sup> When endeavoring to analyze channel alternatives, the marketer can utilize this basic transvection concept to determine the optimum sequence of activities as well as the efficiency of each activity.

### Theory of Transactions

In developing the theory of transactions, Alderson and Martin originated the "Law of Exchange" which delineates the three conditions under which exchange can take place: (1) when an element (x) of an assortment (A<sub>1</sub>) is different from an element (y) of another assortment (A<sub>2</sub>); (2) the potency of assortment A<sub>1</sub> is increased by dropping x and adding y; (3) the potency of assortment A<sub>2</sub> is increased by adding x and dropping y.<sup>5</sup> Optimality will occur when each decision maker prefers the selected course of action over any available alternative.

The idea of optimality is the basis upon which the theory of transaction is extended to explain the existence of middlemen.

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<sup>4</sup>Wroe Alderson and Miles W. Martin, "Toward a Formal Theory of Transactions and Transvections," Journal of Marketing Research, II (May, 1965), 117-127.

<sup>5</sup>Ibid., p. 121.

If a producer and consumer both prefer to deal with an intermediary rather than with each other, then the former channel alternative is referred to as optimal and the middleman is justified. This can be extended to include any combination of intermediaries in an attempt to determine the best available alternative.

After the optimum number of intermediaries are determined, it is necessary to consider the extent of negotiating that should take place. According to Alderson and Martin, the decision maker has two choices: (1) negotiate each transaction separately or (2) negotiate a rule under which all the transactions of a given type can be routinized. If the cost of negotiating a rule plus the cost of negotiating the routinized transactions while the rule is in effect is less than the cost of negotiating each transaction, one should routinize.

### Theory of Transvections

As was mentioned above, a transvection refers to all activities from the sale of raw materials to the sale of the finished product that are necessary to place the product into the hands of the consumer. There is a transvection for every product that is sold to an ultimate consumer.

In an attempt to develop the theory of transvection, Alderson and Martin applied the idea of sorting which refers to the regrouping of goods at various stages of the distribution process (i.e., sorting out, accumulation, allocation, and



assorting).<sup>6</sup> The results of this sorting process are transformations which include both changes in a product's physical form as well as its location in time and space. Therefore, a transvection will include an alternating sequence of sorts and transformations, i.e., STSTS...TS, where S is a sort and T is a transformation.

The ultimate objective in developing a transvection is to determine the least cost alternative. According to Alderson, "a transvection has the optimal number of steps if costs cannot be decreased, either by increasing or decreasing the number of steps."<sup>7</sup> Testing of this situation can be accomplished by simply determining the cost of the network with one more and one less sort.

#### The Depot Theory of Distribution

Aspinwall's thesis is that "goods tend to move toward the point of final consumption at a rate established by the ultimate consumer."<sup>8</sup> In the past, merchants would attempt to anticipate the consumers' buying patterns and stock goods in advance of their needs. Subsequently, merchants would charge higher prices to cover the risk incurred by maintaining heavy inventories; hence, the realization of fortuitous merchandising profits. In modern times, though, merchandising profits from

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<sup>6</sup>Ibid., p. 123.

<sup>7</sup>Ibid., p. 124.

<sup>8</sup>Leo Aspinwall, "The Depot Theory of Distribution," Managerial Marketing: Perspectives and Viewpoints, edited by William Lazer and Eugene J. Kelley (Homewood, Illinois, 1962), p. 652.

speculation are unusual because of the competitive pressures. The result is a constant flow of merchandise facilitated by the storage and handling activities of intermediary institutions (depots).<sup>9</sup>

The implications of the depot theory are profound for any modern marketing organization. First, one must visualize the marketing problem from a systems approach. In other words, the interrelation of all activities and the resulting costs must be analyzed. For example, even though it may be less expensive to ship merchandise by train, the resulting delays and inventory costs may justify the use of faster but more expensive air freight.

In addition, the thesis of the depot theory implies the widespread use of vertical integration and the slow abandonment of full service wholesalers. For example, by employing backward integration the retailer can utilize its own warehouses that perform all depot activities at the lowest possible cost.

A third implication of the depot theory is the widespread use of sophisticated computer-based information systems. By utilizing this technology the members of the channel of distribution can have sales and inventory information as well as data on consumer behavioral changes instantaneously. As a result, it is not necessary to speculate what future sales will be. There is a constant communication of information between the manufacturing facilities and sales areas resulting in automatic

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<sup>9</sup>Ibid., pp. 652-659.

adjustment of production schedules. The result, of course, is a minimization of inventory risks.

A final implication of the depot theory is the development and implementation of mechanized production and warehousing techniques as well as the use of mathematical techniques to determine optimum stocking locations. As Aspinwall points out, large, bulky items would be located close to the final order assembly to reduce handling costs while smaller items would flow to stocking areas on automatic conveyer systems.

It is important that the preceding techniques be employed by organizations in order to keep depot costs at a minimum. If these costs plus the costs of manufacturing and retailing exceed consumer benefits, the flow of the item ceases. As a result, production stops and the manufacturer is left with distress merchandise that must be sold at a loss.

#### The Sorting Concept

One idea that is particularly useful for justifying the existence of channel intermediaries is the sorting concept.<sup>10</sup> Alderson envisioned four processes intrinsic to this idea. The first form of sorting is "sorting out" which involves breaking a heterogeneous supply into homogenous lots (via grading or inspection). The second aspect of this process is "accumulation" or the concentration of similar products into

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<sup>10</sup>Wroe Alderson, "Factors Governing the Development of Marketing Channels," Marketing Channels for Manufactured Products, edited by R. M. Clewett (Homewood, Illinois, 1954), pp. 5-16.

a large homogenous supply. The third aspect, "allocation" or breaking bulk, consists of dividing a total homogenous supply into smaller lots. Finally, "assorting" involves building individual supplies into a combination of varied but often related products. Large department stores engage in this activity by placing women's handbags, cosmetics, jewelry, and shoes close to the ladies clothing department.

It is well established in marketing theory that when a need arises a product or institution will emerge to fulfill that need. Alderson was aware of this in his ideas on sorting theory. Middlemen emerge to bridge the time, geographical, and technological gaps that exist in a highly specialized, bureaucratic society. For example, manufacturers develop potentially profitable products simply because they can be produced and distributed through existing production and marketing structures. The retailer, on the other hand, accumulates products that complement each other and represent the best assortment from the perspective of the consumer and his behavioral patterns. Therefore, the manufacturer is concerned with the "technology of production" while the retailer is concerned with the "technology of use." Alderson refers to this phenomenon as "discrepancy of assortments." Institutions in the channel engage in various sorting activities to bridge the gap. The result, of course, is greater efficiency in production and distribution.

### Postponement and Speculation

An idea developed by Alderson that is directly related to sorting is the "principle of postponement."<sup>11</sup> Alderson recognized that in an environment of uncertainty it is necessary to postpone differentiation of a product (changes in form, identity, and inventory location) until the latest possible point in time. The results are savings due to (1) the reduction of risk associated with uncertainty in demand and consumer attitudes and preferences and (2) the reduction of costs by shipping in large, undifferentiated lots.

As Bucklin points out, the concept of postponement is an idealistic conceptualization of one firm's method of operation.<sup>12</sup> For example, the manufacturer would like to sell his entire output as soon as it comes off the assembly line and avoid risks of carrying inventories. The middleman postpones by only buying merchandise that has already been sold. Finally, the ultimate consumer postpones by only purchasing merchandise that is ready for immediate physical possession or consumption.

It becomes obvious that when the channel is visualized as a complex system of interacting business firms with conflicting objectives, the concept of postponement loses its applicability.

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<sup>11</sup>Wroe Alderson, Marketing Behavior and Executive Action (Homewood, Illinois, 1957), pp. 423-427.

<sup>12</sup>Louis P. Bucklin, "Postponement, Speculation, and the Structure of Distribution Channels," Journal of Marketing Research, II (February, 1965), 27.

For example, a manufacturer cannot simultaneously limit sales to customer orders and have merchandise available on the shelves for immediate consumption. Some channel member must assume the risks and uncertainty of ownership at various stages in the channel.

In an attempt to modify the theory of postponement and, at the same time, provide a more realistic conceptualization of channel structure, Bucklin developed the combined principle of postponement-speculation. The idea of speculation holds that "changes in form, and the movement of goods to forward inventories should be made at the earliest possible time in the marketing flow in order to reduce costs of the marketing system."<sup>13</sup> The result is the reduction in costs by (1) realizing economies of large scale, (2) taking advantage of quantity discounts, (3) reducing the number of sorts, (4) alleviating uncertainty, and (5) reducing stockouts. By combining speculation and postponement, a resultant principle emerges which states that "a speculative inventory will appear at each point in a distribution channel whenever its costs are less than the net savings to both buyer and seller from postponement."<sup>14</sup>

Based upon the role of time and its relationship to distance in distribution, Bucklin developed six hypotheses related to the principle of postponement-speculation:

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<sup>13</sup>Ibid., p. 27.

<sup>14</sup>Ibid., p. 28.

1. The shorter the delivery time, the greater the probability the channel will include an intermediate, speculative inventory.
2. The shorter the delivery time, the closer any speculative stock will be to the consumer.
3. The shorter the distance between a customer and a speculative stock, the greater the probability of a second such inventory in the channel.
4. Products which are heavy, bulky, and inexpensive are likely to flow through channels with more intermediate, speculative inventories than products with the opposite characteristics.
5. Products which consumers find expensive to store on their premises, but whose use is both urgent and difficult to forecast, have a greater probability of passing through an intermediate, speculative inventory than products with the opposite characteristics.
6. The greater the inelasticity of customer and/or producer cost with respect to changes in delivery time, the greater the stability of the most efficient channel type over time.<sup>15</sup>

#### Characteristics of Goods and Parallel Systems Theory

In an attempt to formulate a theory that notes the reasons for the development of various channel structures as well as the dynamic nature of marketing channels, Aspinwall devised the "Characteristics of Goods and Parallel Systems Theory."<sup>16</sup> In departing from the traditional classification of goods (convenience, shopping, and specialty), Aspinwall devised a continuum along which all goods are arrayed. Their position on the continuum depends upon their marketing characteristics which are defined as "distinguishing qualities of a good relative

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<sup>15</sup>Ibid., p. 30.

<sup>16</sup>Leo Aspinwall, "The Characteristics of Goods and Parallel Systems Theory," Managerial Marketing: Perspectives and Viewpoints, edited by William Lazar and Eugene J. Kelley (Homewood, Illinois, 1962), pp. 633-652.

to its stable performance in a market and its relationship to the consumers for whom it has want satisfying capacity."<sup>17</sup> Based on this definition, Aspinwall selected five characteristics:

1. Replacement rate at which goods are purchased and consumed.
2. Gross margin necessary for a good to move from the point of production to the point of ultimate consumption. It is based on the amount of money a consumer is willing to expend to obtain a product or service.
3. Adjustment. Adjustment refers to the services demanded by consumers such as the demand for multiple packaging.
4. Time of consumption.
5. Searching time required to find the product. Not only does this characteristic refer to time but it also refers to effort expended.

Values can be assigned to each of the above characteristics for all products. If replacement rate is assigned a high value, then gross margin, adjustment, time of consumption, and searching time will reach low values. In other words, there is a direct relationship between the latter four characteristics and an inverse relationship between them and replacement rate. This is illustrated in Table III.

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<sup>17</sup>Ibid., p. 637.



TABLE III  
CHARACTERISTICS OF GOODS

| Characteristics     | Color Classification |              |              |
|---------------------|----------------------|--------------|--------------|
|                     | Red Goods            | Orange Goods | Yellow Goods |
| Replacement rate    | High                 | Medium       | Low          |
| Gross margin        | Low                  | Medium       | High         |
| Adjustment          | Low                  | Medium       | High         |
| Time of consumption | Low                  | Medium       | High         |
| Searching time      | Low                  | Medium       | High         |

All products are unique and thus have different total values. Therefore, they must be arrayed along a continuum. Aspinwall uses the color spectrum of red, orange, and yellow and the various shades of each as they slowly blend together to represent this continuum. The arraying process is illustrated in Figure 4. A product with a high total value will be located in the yellow section on the right side of the scale and a product with a low total value will be on the left end of the scale (red goods).

When a product is introduced, it normally falls into the yellow classification. However, as it becomes more widely known and accepted, the replacement rate increases and it moves toward the red classification. As channel costs increase, though, the gross margin will tend to decrease. In an effort to reverse this trend, the organization may change the product by adding a new package or new style resulting in a movement of the new product back into the yellow class.

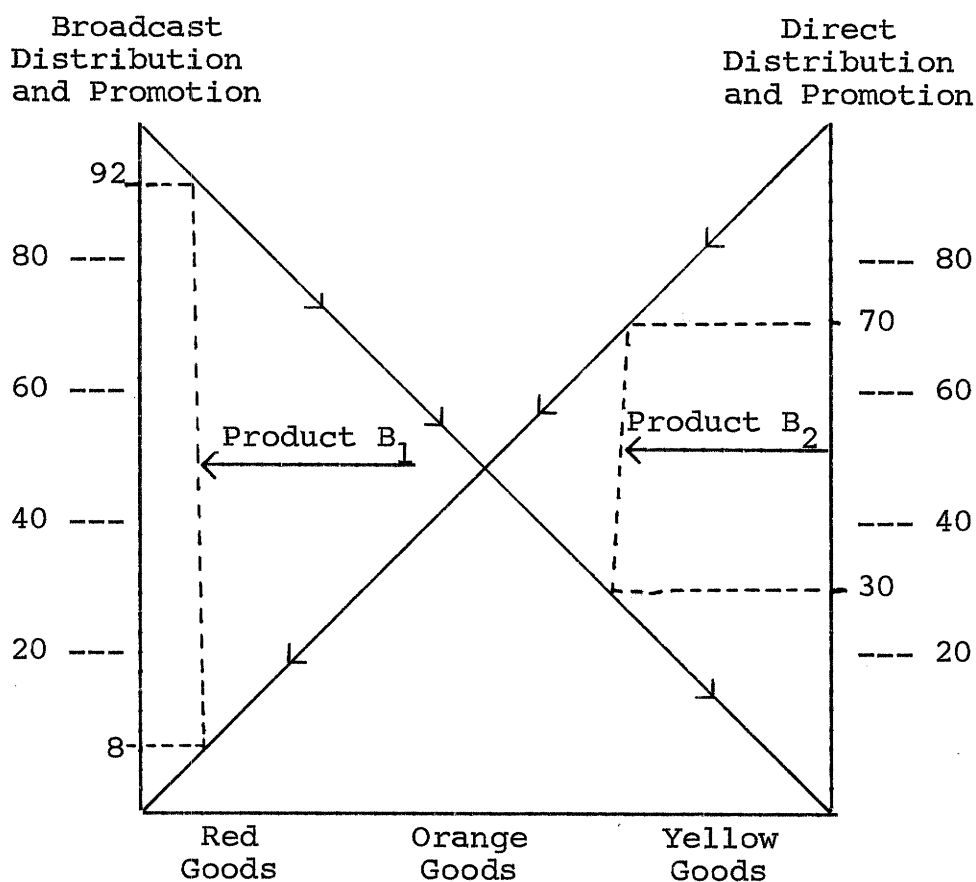


Fig. 4--Parallel systems theory

Another important aspect of Aspinwall's theory is the parallel relationship between the goods and the way they are promoted and distributed. Red goods normally have a long channel of distribution and are promoted through broadcast media, while yellow goods have a short channel and are promoted by direct selling. As shown in Figure 4, product B<sub>1</sub> would experience about 92 percent broadcast and about 8 percent direct promotion and distribution. The product designated B<sub>2</sub> would experience 70 percent direct and 30 percent broadcast promotion and distribution.

CHAPTER III  
DISTRIBUTION CHANNEL SELECTION AND  
EVALUATION FACTORS

Chapter I presented channels of distribution as an aggregate of interrelated business organizations that are instrumental in implementing the transfer of title to products from the manufacturer to the ultimate consumer. The basic objective of distribution channels is, therefore, to provide the most optimal structure for transferring ownership from the manufacturer to the consumer or user. Selecting and maintaining the best channel structure is sometimes the result of a thorough scrutinization of numerous, interrelated factors. These quantitative and qualitative factors advanced by academicians for the selection and evaluation of channels of distribution are examined in Chapter III. The factors will serve as a basis for the subsequent investigation of actual channel selection and evaluation policies of United States manufacturers.

Channel Selection Criteria

One set of relevant factors can be classified as qualitative or subjective since their value depends primarily upon the arbitrary evaluation of the decision maker. In other

words, their value cannot be measured precisely. Two decision makers may examine the same factors and arrive at two completely different explanations of their significance. The most widely considered qualitative factors include product characteristics, market characteristics, company capabilities, middleman considerations, traditional practices, profit potential, and legal considerations.

### Product Characteristics

Intrinsic to most products are certain characteristics that influence the channel structure that should be used. According to most authors, channels will vary depending upon the breadth of the product line, and the individual product's weight and size, technical nature, perishability, unit value, and stage in the life cycle.

When a firm only carries one or a few products, it may not be economically feasible to sell through a short channel of distribution. If several related products are manufactured, it may justify the use of one's own sales force in contacting the retailer directly. On the other hand, many wholesalers will not handle a manufacturer's merchandise unless he has several lines. In that case, the manufacturer may be forced to use a short channel even though it is not the optimum decision.

Because of the cost of handling large and heavy items, physical movement is normally direct from the manufacturer to

the retailer or industrial user. Middlemen that take title, such as drop shippers, are sometimes used but physical handling is held to a minimum.

Products that are highly technical and require a specialized knowledge are usually sold direct to customers by the manufacturer's salesmen. Since most wholesale middlemen handle the products of dozens of manufacturers and service numerous types of customers, a complete working knowledge of highly technical products is impractical. Therefore, salesmen who are specifically trained to explain the product to customers are employed.

Because of the perishability of some products, short channels of distribution are utilized. Obviously, such merchandise must be moved from the point of production to the consumer as quickly as possible. The only middlemen used are (1) those with special facilities such as cold storage and (2) those which can help speed the distribution process such as brokers.

Products with high unit value are usually distributed through a short channel for several reasons. First, expensive merchandise generally provides more revenue and margin per order. Also, because of the high profit potential, maximum selling efforts are desirable. This type of representation can most likely be realized by manufacturer-trained sales representatives.

Finally, according to Aspinwall, a product is normally introduced by direct distribution and personal selling efforts. However, as it becomes more well known and accepted, a long channel and broadcast promotion is used. As channel costs increase, though, the firm may change the product by adding a new package or style which causes a movement toward utilization of shorter channels.<sup>1</sup>

#### Market Characteristics

Characteristics of the market are considered by most authors as the most important group of channel selection criteria. The channel utilized will vary depending upon the relevant market, number of customers, geographical concentration of customers, customer desires, and customer buying practices.

Whether the manufacturer sells to ultimate consumers or industrial users significantly affects the appropriate channel structure. Normally, manufacturers of consumer goods employ longer channels of distribution than manufacturers of industrial goods. Also, the segment of the consumer and industrial market desired by the manufacturer will affect the channel decision. For example, a product designed to appeal to the upper class may be sold direct to the consumer or through an exclusive store, while a product intended for the middle class may be distributed intensively utilizing wholesale middlemen.

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<sup>1</sup>Aspinwall, "The Characteristics of Goods and Parallel Systems Theory," op. cit., pp. 645-651.

Normally, a small number of customers and a geographically concentrated market indicate a short channel of distribution. If a firm has only a few customers, it can probably service the customers with a company employed force. Also, densely concentrated areas will sometimes justify the establishment of branch offices and direct selling. Areas with customers widely dispersed can be more efficiently serviced by wholesalers.

Customers have definite desires related to the nature of the product, service requirements, credit extension, packaging, delivery, sales aid, et cetera. In order to be successful, the firm must fulfill the ultimate needs of its relevant market. The appropriate channel will, therefore, normally include outlets that have policies consistent with the demands of the manufacturer's customers.

A final market-related characteristic influencing channel selection policy is customer buying practices. For example, if the consumer is willing to only expend a minimum of shopping effort and is willing to accept substitute brands, the channel will probably be long and intensive. There are four factors related to buying practices which affect the channel used: (1) importance of making an immediate purchase, (2) size of the purchase, (3) frequency of the purchase, and (4) degree to which the purchase is planned.<sup>2</sup>

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<sup>2</sup>Edwin H. Lewis, Marketing Channels: Structure and Strategy (New York, 1968), p. 116.

### Company Capabilities

Another significant factor in channel selection is the size and strength of the manufacturer. Some of the characteristics of a firm directly related to its size are its financial strength, desire for channel control, managerial ability, and ability to provide reseller support. It has been hypothesized by some authors that firms possessing the above characteristics usually have shorter channels of distribution. In fact, Weigand found that there was a substantial decrease in the use of agent middlemen as organization size increased.<sup>3</sup>

For some channel decisions, financial resources are undoubtedly the most important. A new corporation or independent entrepreneur entering an industry is oftentimes forced into a particular channel structure because of financial problems. Unless a firm possesses adequate capital, it is virtually impossible to adequately staff and maintain a sales force.

In addition, the analysis of financial capability can be envisioned as a rational factor for channel selection. According to Lambert, alternative channels of distribution should be analyzed in terms of their contribution to corporate profit or total return on invested capital.<sup>4</sup> He says that this profitability figure can be determined by comparing "the anticipated

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<sup>3</sup>Weigand, op. cit.

<sup>4</sup>Eugene W. Lambert, Jr., "Financial Considerations in Choosing a Marketing Channel," Business Topics, XIV, No. 1 (Winter, 1966), 17-25.



earnings on capital to be used in performing the marketing functions and the firm's cost of capital."<sup>5</sup> Also, the return on capital used by marketing should be compared to the return that could be realized by utilizing it in manufacturing (opportunity cost). If the firm cannot earn more than the cost of capital and the opportunity cost, it should use a long channel of distribution.

Another factor that is directly tied to financial considerations is the desire of the manufacturer to control the channel of distribution. As Lambert points out, a financially weak firm is unable to control the channel because of the large outlay of capital required. On the other hand, organizations with a substantial supply of capital can assume the middleman functions and gain complete control.<sup>6</sup> The impetus for such an action is the manufacturer's belief that he can perform the intermediary activities more efficiently than the middleman.

Channel selection decisions are also affected by the managerial expertise of the marketing staff. Many small firms lack the knowledge and experience to adequately perform the middleman's functions. In such an instance, it is best to relinquish the responsibility to someone trained in such activity.

A channel decision is often contingent upon the capability of the manufacturer to provide the middleman with promotional allowances, merchandising aid, sales support, and managerial

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<sup>5</sup>Ibid., p. 25.

<sup>6</sup>Ibid.

assistance. If he is unable or unwilling to provide such reseller support to middlemen, he may be forced to sell through a direct channel of distribution.

#### Middleman Consideration

Ultimately, the channel decision may rest with the availability and cooperation of the middleman. For many manufacturers an analysis of the above factors indicates a need for a middleman. However, oftentimes the available middleman is carrying competing products or is simply unwilling to carry the manufacturer's merchandise. The manufacturer's product may not generate an adequate profit for the middleman, or there may be a conflict in the business policies and philosophies of the two parties. For example, the manufacturer may demand a tying contact arrangement with its dealers. In order to obtain the retailer's low price, high quality product, the dealer must also purchase two units of its three high price, low quality products. The dealer may not find such an arrangement economically feasible and may refrain from handling any of the product lines.

Another factor influencing the channel decision is the willingness of the middleman to provide services demanded by the manufacturer. The manufacturer may demand that the wholesaler maintain a large inventory close to the market in order to maximize customer satisfaction. He may also need continuous, aggressive selling and promotional support. However, the total

cost of providing such a service may not be adequately covered by the percentage received. The result is performance of the middleman's functions by the manufacturer or the utilization of one's own sales force to supplement the wholesaler's efforts.

### Traditional Practices

Some companies may select a particular channel simply because it has traditionally been used for the distribution of competing products. A new company or firm entering a new market with which it is unfamiliar can simply utilize the expertise of competing firms by emulating their channel patterns. This may be a logical solution for some companies if the traditional channel is available, since most consumers expect to find certain products at the traditional outlets, i.e., groceries at supermarkets and toiletries at drug stores.

However, the firm should also stay abreast of new consumer buying habits and utilize nontraditional channels when appropriate, i.e., clothing through drug stores and nonfood items through supermarkets. With the change toward one-stop shopping and mass merchandising, there has been a proliferation of non-traditional channel alternatives.

### Profit Potential

One of the most crucial and difficult tasks in channel decision-making is determining the profit that can be realized by using alternative channels of distribution. This, of course,

is accomplished by estimating the expected sales volume and subtracting the total channel cost. A direct channel can oftentimes produce a sizable sales volume but is counteracted by additional expenses for salesmen, training programs, sales managers, regional managers, and offices. On the other hand, long channels are usually more economical but may not produce a reasonable sales volume.<sup>7</sup>

Obviously, the primary problems with profit evaluation are estimating sales volume and determining which costs should be allocated to the channel of distribution. For example, if a high sales volume can be achieved by utilizing a short channel, the fixed manufacturing costs may be spread over more units. The result would be a lower cost per unit manufactured. If the reduction in manufacturing costs is reduced more than the additional costs of selling direct, the channel may be feasible. Therefore, it becomes obvious that both direct and indirect channel costs must be identified and analyzed.

#### Legal Considerations

There have been no laws passed that directly restrict freedom in selecting one's own customers. In fact, Section 2(a) of the Robinson-Patman Act, which amended Section 2 of the Clayton Act, provides that:

Nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade.

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<sup>7</sup>Lambert, op. cit.

The above quote is indicative of the objective of antitrust legislation: the perpetuation of the free enterprise system and the competitive process as well as the protection of the two primary elements of free enterprise--free market, and free price.

Although freedom in selecting one's own customers has not been regulated, legislation has been passed to regulate activities that involve (1) restraints of trade (e.g., collusion with other firms) and (2) deceptive acts and practices. The area of antitrust that affects channel decision-making policies of manufacturers is restraint of trade such as the collusive division of markets. Many firms believe that if they can restrict competition, they are in a good position to increase their share of the market and subsequently increase profits. The anti-competitive distribution activities practiced by manufacturers and scrutinized by the Federal Government are exclusive dealing contracts, tying contracts, requirements contracts, reciprocity, and vertical integration.

Exclusive dealing contracts.--Exclusive dealing contracts can involve situations where (1) the seller agrees to sell through only one agency, (2) the agency reciprocates by agreeing to sell the product of only one manufacturer, and (3) the manufacturer agrees to sell through only one agency in a geographical territory. Exclusive arrangements have advantages for both the buyer and the seller. On the one hand, the contract gives the

seller a readily available market for his merchandise. Second, the seller's distribution, inventory, promotion, and production costs are reduced because of the certainty surrounding the demand for his product. Finally, if the seller obtains an agreement from the agency to refrain from selling competing products, all dealer efforts will be toward the seller's product.

The buyer also benefits from the exclusive agency arrangement. First, if the buyer has to invest in salesmen, parts, service, and facilities, he does not want other agencies reaping the benefits of this effort. Second, the buyer is assured of receiving adequate supply. Third, if the seller obtains agreements from all agencies to sell only in their assigned territory, the agencies do not have to worry about competition among themselves. Finally, by agreeing to sell only one product, inventories of other products are eliminated, thus reducing total inventory costs.

The legality of the exclusive agreements and the advantages resulting from the arrangements are dealt with in Section 3 of the Clayton Act, Section 1 of the Sherman Act, and Section 5 of the Federal Trade Commission Act. The relevant part of Section 3 of the Clayton Act says that:

It shall be unlawful for any person engaged in commerce to lease or make a sale or contract for sale of goods on the condition that the lessee or purchaser shall not deal in the goods of a competitor of the lessor or seller where the effect may be to substantially lessen competition or tend to create a monopoly.

Section 1 of the Sherman Act declares that "every contract, combination, or conspiracy, in restraint of trade, is declared to be illegal." Although less specific, the Sherman Act has been used frequently in cases where exclusive agencies restrained competition among business firms. Finally, Section 5 of the Federal Trade Commission Act attacks "unfair methods of competition."

A landmark case which delineated the legality of exclusive contracts was the Standard Oil of California case in 1948.<sup>8</sup> Standard Oil required that its dealers carry only Standard's tires, oil, gasoline, and accessories. The court found that the agreement which confined the dealers to only Standard's products was an unreasonable restraint of trade, in violation of the Sherman Act. Also, the exclusive agreement resulted in a substantial lessening of competition, in violation of Section 3 of the Clayton Act. The rationale for the decision was that the dealers are independent contractors and the contract kept the dealers from carrying competitive products and denied the manufacturers of competing products access to these independent dealers. The results of this case would indicate that exclusive agreements must be "one-way." In other words, the seller can agree to sell exclusively through only specified dealers, but the dealer does not have to agree to buy from only one seller. Otherwise, they may be subject to scrutiny by the courts.

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<sup>8</sup>U. S. v. Standard Oil Company of California et al, 337 U. S. 293, 314 (1949).

There are two fairly recent cases that indicate the legality of exclusive agreements. One of these cases involved the White Motor Company who required that its dealers sell White's products (trucks) only in specified geographical areas.<sup>9</sup> The District Court found that the activity was a per se violation of the Sherman Act because, in essence, they were vertically dividing the market among the dealers. The Supreme Court received the case and distinguished between vertical and horizontal agreements to divide markets. A vertical agreement is one in which the manufacturer gives dealers exclusive right to sell in a specified territory. A horizontal agreement involves the dealers getting together and dividing the market among themselves. Although horizontal agreements are illegal per se, the court found that too little is known about the economic effects of vertical agreements to make "a summary judgment." Therefore, the result of the case was to condemn exclusive territorial arrangements only if they restrained competition substantially.

Another recent case that is helpful in explaining the legal aspects of exclusive agency agreements is the U. S. v. Arnold, Schwinn & Co.<sup>10</sup> Schwinn manufactures bicycle parts and accessories, then distributes the finished product by three methods: (1) through distributors, (2) directly to retailers on consignment, and (3) directly to retail dealers.

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<sup>9</sup>The White Motor Company v. U. S., 83 Sup. Ct. 696 (1963).

<sup>10</sup>U. S. v. Arnold, Schwinn & Company, 388 U. S. 365 (1967).



Schwinn assigns specific territories to each of its distributors and instructs them to sell only to franchised accounts. Also, the franchised accounts must be in the distributor's territory. The Supreme Court found that requiring the distributors to sell only to franchised dealers was a per se illegal restraint of trade and in violation of Section 1 of the Sherman Act.

Tying contracts.--A tying contract is a situation in which the seller agrees to sell a strong product, the tying product, only if the buyer agrees to buy the seller's weaker product, the tied product. The tying arrangement normally arises because a seller has a particularly attractive (i.e., high quality, low price) product that the buyer must have in order to compete with other dealers. The arrangement is contingent upon the dealer's agreement to also purchase the weaker product (i.e., low quality, high price). This is referred to as "full line forcing." The tying arrangement also arises because a seller has patented equipment that is needed by the buyer. Therefore, the seller ties the patented equipment to other unpatented products offered by the seller (tie-in arrangements). Tying arrangements can be subject to prosecution under Section 3 of the Clayton Act, Sections 1 and 3 of the Sherman Act, and Section 5 of the Federal Trade Commission Act.

International Salt Company was found guilty of violating Section 3 of the Clayton Act and the Sherman Act by leasing patented salt machines (Lixators and Saltomats) on the condition

that the lessees would purchase all salt from International Salt.<sup>11</sup> The contract prevented the lessee from purchasing salt in the open market at a lower price. The result of the case was to make agreements tying unpatented materials to a patented product illegal per se.<sup>12</sup>

A similar case was brought against the American Can Company in the early 1950s.<sup>13</sup> American Can Company leased its patented can closing equipment to canners only if they were willing to buy their cans from American Can. This type of arrangement restricts competition between American Can and any other canner for the business of the lessee of the equipment. Therefore, it was found to be in violation of the Sherman and Clayton Acts.

Another aspect of tying contracts is a situation where the seller does not have a patent, but stipulates that the dealer must buy the seller's full line if it buys any of its products (full line forcing). For example, in order to purchase any of J. I. Case Company's equipment, the buyer had to agree to purchase its entire line. The court found that the practice was legal. It contended that since the agreement did not prohibit the buyers from purchasing equipment from other manufacturers of similar products it was not illegal.<sup>14</sup>

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<sup>11</sup>International Salt Company, Inc. v. U. S., 332 U. S. 392, 396 (1947).

<sup>12</sup>For further discussion, see Donald F. Turner, "The Validity of Tying Arrangements under the Antitrust Laws," Harvard Law Review, LXXII, No. 1 (November, 1958), 50-75.

<sup>13</sup>U. S. v. American Can Company et al, 87 F. Supp. 18 (1949).

<sup>14</sup>U. S. v. J. I. Case Company, 101 F. Supp. 856 (1951).

Requirements contracts.--Another arrangement directly related to exclusive dealing is the requirements contract. The agreement maintains that the buyer must buy or lease all or a part of his requirements from one seller for a specified period of time. Oftentimes it is difficult to differentiate a tying contract and a requirements contract. In fact, the American Can case is often referred to as an example of a requirements agreement because the buyers were required to buy all of their cans from American on a long-term contract. However, since the purchase of the cans was tied to the purchase of canning equipment, it is generally considered a tying arrangement.

The primary advantage of the requirements contract is that the buyer is assured of a continuous source of supply. For the seller, it means that he does not have to compete with other sellers for the business of the buyer with whom he has the contract. Also, the seller can plan future sales more effectively which, of course, facilitates production planning.

Any requirements contract may violate the Sherman Act, Section 3 of the Clayton Act, or Section 5 of the Federal Trade Commission Act. They are not illegal per se, but may be considered illegal if they restrain trade, or substantially lessen competition. Therefore, it is necessary to apply the "rule of reason" to each case.<sup>15</sup> In other words, whether or not a contract is an unreasonable restraint of trade depends upon

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<sup>15</sup>Standard Oil of New Jersey et al v. U. S., 221 U. S. 1 (1911).

economic implications of the activity. According to Howard, each case must be considered on its own merits in order to determine if it is unreasonable.<sup>16</sup>

Two cases illustrate the thinking of the courts concerning requirements contracts. In the first case, Linde Air Products Company was found guilty of violating Section 3 of the Clayton Act.<sup>17</sup> For approximately eleven years, Linde Air Products held and licensed a patent for the Unionmelt Welding Process. In addition, Linde sold the rods used in the process to the licensees. If the licensee agreed to purchase their entire requirements from Linde, they received a half-cent per pound discount. The court found that the discount coupled with the requirements contract lessened competition substantially.

Another case which illustrates a situation where requirements contracts are legal involves an electric utility company and a supplier of bituminous coal.<sup>18</sup> The mining company entered into a twenty-year contract to supply the electric company with approximately one million tons of coal annually for twenty years. Shortly after Tampa Electric developed the burners to utilize the coal as fuel, the mining company advised them that the

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<sup>16</sup>Marshall C. Howard, Legal Aspects of Marketing (New York, 1964), p. 6.

<sup>17</sup>U. S. v. Linde Air Products Company, 83 F. Supp. 978 (1949).

<sup>18</sup>Tampa Electric Company v. Nashville Coal Company, 365 U. S. 320 (1961).

contract violated the antitrust laws and would not be performed. Subsequently, Tampa Electric sued the mining company contending that the contract was valid. The Supreme Court found that the lessening of competition in the relevant market was insubstantial since the maximum volume of coal product involved was only .77 percent of the total amount of coal produced and marketed in the relevant market.

The result of the Tampa Electric case was to reemphasize that an exclusive dealing contract (including requirements contracts) is illegal only "if it forecloses competition in a substantial share of the market." Whether or not competition is reduced depends upon (1) the relative strength of the parties, (2) the ratio of commerce covered by the contract to the total volume in the relevant market, and (3) the effect of the contract on competition.<sup>19</sup>

Horizontal merger.--Horizontal mergers involve the integration of two or more firms selling the same product, operating on the same level of distribution (e.g., merging of two steel companies). The primary impetus for the horizontal integration of several firms is the economies realized from large-scale operations and the subsequent increase in net profits. The firms will oftentimes have more managerial talent, more capital for expansion and growth, better control methods, and lower selling costs as a result of the merger.

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<sup>19</sup>Ibid.

Although the advantages of horizontal integration or mergers are impressive, the activity can always be subject to antitrust action. The primary act dealing with mergers (horizontal as well as vertical) is Section 7 of the Clayton Act as amended by the Celler-Kefauver Amendment of 1950. In 1914, the Clayton Act was passed to condemn the acquisition of stock of another company when competition was substantially lessened. If a firm wanted to circumvent the possible legal consequences of mergers, it would simply acquire the assets of a firm instead of the stock. Therefore, in 1950 this loophole was overcome by the Celler-Kefauver Amendment which provided for the successful prosecution of any firm acquiring the stock or assets of another corporation "where the effect of such acquisition may be to substantially lessen competition, or tend to create a monopoly."

Precedence has shown that one of the primary considerations of the courts in cases concerning horizontal mergers is the size and strength of the merged companies. For example, Bethlehem Steel, the second largest steel manufacturer, acquired the assets of Youngston Sheet and Tube Company, the sixth largest steel company.<sup>20</sup> The court found that the merger would substantially lessen competition and tend to create a monopoly. Although the primary rationale for the decision was the lessening of competition between the two companies and the elimination

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<sup>20</sup>U. S. v. Bethlehem Steel, 168 F. Supp. 576, 618-619 (1958).

of an independent source of supply for steel consumers, the merger also presented "a threat of setting into motion a chain reaction of further mergers by other less powerful companies in the steel industry."<sup>21</sup>

Vertical merger.--Vertical mergers involve the integration of two or more firms selling the same products, operating on different levels of distribution, e.g., integration of a shoe manufacturer and a shoe retailer. Vertical integration is advantageous to the manufacturer because it gives him a readily available outlet without realizing the expense and time of developing new outlets. However, the result of such a merger is the elimination of competition for the merged firm's business. If the injury to competition is substantial, then it may be subject to scrutiny by the courts. Vertical mergers can be in violation of Section 7 of the Clayton Act as amended by the Celler-Kefauver Amendment, the Sherman Act, or the Federal Trade Commission Act.

A landmark case which involved aspects of both horizontal and vertical mergers was the Brown Shoe Company Case.<sup>22</sup> The merger involved the Brown Shoe Company, the fourth largest shoe manufacturer and owner of 1,230 retail outlets, and the G. R. Kinney Company, the largest independent chain of family

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<sup>21</sup>Ibid.

<sup>22</sup>Brown Shoe Company, Inc. v. U. S., 370 U. S. 294 (1962).

shoes with over 350 outlets. Also, Kinney manufactures approximately 20 percent of the shoes it sells through its retail outlets. Brown did not sell any shoes through the Kinney chain before the merger. However, the president of Brown Shoe Company testified that as Kinney moved into shopping centers and higher income areas, it would probably trade up, thus giving Brown an opportunity to sell higher-price shoes through Kinney outlets. Consistent with this testimony, after five years from the effective date of the merger Brown had become the largest outside supplier of Kinney's shoes, supplying 7.9 percent of all Kinney's needs. Therefore, the merger was found to be in violation of the Clayton Act because of (1) the subsequent lessening of competition for Kinney's business, (2) the trend toward widespread vertical integration in the shoe industry, and (3) the elimination of competition between Brown and Kinney.

Conglomerate merger.--A conglomerate merger involves two or more firms selling different products, operating on the same or different levels of distribution. This type of acquisition gives the acquiring firm the opportunity to diversify into different areas. From a cursory examination, it would seem that the conglomerate merger has no effect upon competition. However, the courts have found that under some circumstances it can substantially lessen competition and violate Section 7 of the Clayton Act.



In the Procter and Gamble case, the Federal Trade Commission ruled that the merger between Procter and Gamble and Clorox "may substantially lessen competition or tend to create a monopoly in the household liquid bleach industry."<sup>23</sup> The decision was based upon the following factors. First, Procter and Gamble was larger and financially more powerful than any firm in the bleach industry, thus giving Clorox a competitive advantage. The Commission noted that because of Procter and Gamble's size it could provide widespread advertising and sales promotions and obtain prime shelf position in grocery stores. This type of promotional activity would eventually force smaller firms out of business or motivate them to merge with a corporate giant. Second, the merger would cause additional concentration in the bleach industry and intensify the barriers to entry. Third, the merger eliminated Procter and Gamble as a potential competitor of Clorox. Fourth, Procter and Gamble may be able to use Clorox as a loss leader, tying product, or cross-coupon offering, in an attempt to gain position in other markets. Finally, the Federal Trade Commission said that "there does reach a point at which product differentiation . . . loses its informative aspect and merely entrenches market leaders. . . . In short, the kind of 'efficiency' and 'economy' produced by this merger is precisely the

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<sup>23</sup>Procter and Gamble Company, Federal Trade Commission Docket 6901.

kind that . . . hurts, not helps, a competitive economy and burdens, not benefits, the consuming public."<sup>24</sup>

The Federal Trade Commission made a similar ruling in the acquisition of the S.O.S. Company (the largest producer of household steel wool) by General Foods.<sup>25</sup> The Commission contended that (1) the merger increased barriers to entry into the market; (2) the nature of the market was changed from one consisting of two equal-sized companies and several smaller firms to a market with a dominant conglomerate; (3) the presence of the dominant food producer and its advertising resources would eliminate any incentive on the part of the other steel wool producers to compete. Furthermore, they contended that S.O.S.'s market share increased from 51 percent to 56 percent after five years, while its closest competitor declined from 47.5 percent to 41 percent.

Reciprocity.--Reciprocity involves a situation where buyer A agrees to buy from buyer B only if buyer B agrees to reciprocate by purchasing from Buyer A. In other words, "if you will buy from me, I will buy from you." According to Moyer, there are several advantages of using reciprocity.<sup>26</sup> First, because

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<sup>24</sup>Ibid.

<sup>25</sup>General Foods, Federal Trade Commission Docket 8600.

<sup>26</sup>Reed Moyer, "Reciprocity: Retrospect and Prospect," Journal of Marketing, XXXIV, No. 4 (October, 1970), 52.

of the minimum of selling effort required, it reduces selling costs. Second, costs of searching for sources of supply and outlets through which one can dispose of merchandise are reduced.

Although reciprocity is a widely accepted method of conducting business, it is not immune from examination by the courts. As with other forms of exclusive agreements, reciprocity can be attacked under Section 7 of the Clayton Act, the Sherman Act, or the Federal Trade Commission Act by the Anti-trust Division of the Department of Justice or the Federal Trade Commission.

In the early 1960s, General Motors was accused in criminal court as well as civil court of utilizing their size and related bargaining power to exert pressure on railroads to engage in a reciprocal agreement.<sup>27</sup> General Motors formed a subsidiary company which manufactured locomotives. Because of the volume of business General Motors transacted with the railroads, they could force the railroads to purchase their locomotives by threatening to ship through other railroads if competing locomotives were purchased. As a result of the conspiracy, General Motors captured 84 percent of the locomotive business. The courts found the activity in violation of the Clayton and Sherman Acts and sought divestiture of the locomotive division by General Motors.

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<sup>27</sup>U. S. v. General Motors Corporation, Criminal Action 61-CR-365 (April 12, 1961); U. S. v. General Motors Corporation, Civil Action 63C80 (January 14, 1963).

### Quantitative Tools for Channel Selection

Traditionally, there has been a tendency to give primary consideration to qualitative factors for channel selection. Authors encourage marketing managers to thoroughly examine factors related to the product, market, and their company. The result of such an emphasis is insufficient attention to other, possibly more effective, quantitative techniques.

The reasons for the neglect of these newer decision-making tools are (1) the lack of familiarity with the techniques and (2) the unawareness of the potential cost savings. As marketers become more familiar with the application of the techniques and understand their potential benefits, there should be a trend toward developing quantitative formulations that can be applied to marketing situations. The techniques that have received some attention and will probably be developed further are game theory, Bayesian Decision Theory, and simulation.

Game theory.--The theory of games was conceived by Von Neumann in the 1920s and further developed into a publication by himself and Morgenstern in 1944.<sup>28</sup> As indicated by the name, game theory relates to conflict between several people, groups, organizations, or states of nature. The rules of the game require that each party attempt to choose its best strategy

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<sup>28</sup>John von Neumann and Oskar Morgenstern, The Theory of Games and Economic Behavior (Princeton, 1944).

in terms of profit maximization or cost minimization. The ultimate objective of the game for each player is to win by selecting the best possible combination of strategies.

In addition to the rule requiring each player to choose the best possible strategy, there are several additional guidelines:

1. Zero-sum or non-zero-sum. The zero-sum, non-zero-sum classification refers to the results of payment. Zero-sum games refer to the situation where the total money gained and lost equals zero. In other words, what one person wins, the other loses.<sup>29</sup> A much more complex formulation is the non-zero-sum game. It is played by two or more persons, and the sum of the players' gains and losses in the game is not zero.

2. Amount of information. Usually, the game assumes that the players have complete information concerning the alternative strategies and their payoff. However, in some non-zero-sum game formulations, the players may not have all necessary information.

3. Number of players. Although the game is more simply formulated with two persons, there is no limit to the number of players ( $P_i = 1, 2, \dots, n$ ).

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<sup>29</sup>If  $P_i$  (where  $i = 1, 2, \dots, n$ ) players play a game and after each play  $P_i$  pays the amount  $p_i$  (where  $p_i$  is negative if  $P_i$  receives payment) and if the sum of the payments ( $\sum_{i=1}^n p_i = 0$ ) then the game is zero-sum.

4. Number of moves. The game may be limited to a definite number of moves. However, it normally assumes an infinite number of moves.

As with many of the quantitative formulations, there are certain assumptions about the players that place serious limitations on the concept. First, all players are rational. Player one wants to maximize gains and player two minimizes losses. Obviously, there may be cases when it is more expedient to suffer a loss (i.e., for income tax purposes). Second, it is assumed that neither player makes a mistake. There are very few situations where no one makes mistakes. Finally, there is no collusion between the players. An examination of the antitrust suits condemning price fixing and division of markets definitely invalidates this assumption.

For purposes of illustration, a simplified problem has been selected. The purposes of this illustration are to (1) introduce the general method of computing a simplified game and (2) show that the channel selection problem can be framed within a game model.

Assume a manufacturer has to decide whether it should maintain a speculative stock close to the point of ultimate consumption. The manufacturer can (1) invest in warehousing facilities and hire and train a sales force in order to hold a speculative stock close to the point of ultimate consumption, (2) sell through a wholesaler who maintains a limited inventory, or (3) sell only on order directly to the retailer. The results

of the decision will depend, to a great extent, upon the subsequent economic conditions (prosperity, recession, or stability). It is assumed that prosperity will be accompanied by an increase in demand and a decrease in inventory costs. On the other hand, recession will be characterized by a decrease in demand and an increase in inventory costs. Finally, stable economic conditions will result in no significant changes in demand or costs.

It is possible for the firm to determine the approximate percentage return on invested capital from the three channel alternatives. For example, Table IV illustrates the return for each channel alternative and each economic condition. The

TABLE IV  
GAME MATRIX FOR CHANNEL DECISION-MAKING

|                           | Economic Condition |           |           |
|---------------------------|--------------------|-----------|-----------|
|                           | Prosperity         | Recession | Stability |
| Hire own sales force      | 11%                | 4%        | 9%        |
| Sell through wholesaler   | 9%                 | 7%        | 7%        |
| Sell on order to consumer | 8%                 | 10%       | 6%        |

objective of the game is to determine the firm's optimum channel decision in terms of maximizing return on investment based upon the potential economic conditions.

Bayesian Decision Theory.--One of the most realistic quantitative formulations of the channel selection process involves Bayesian Decision Theory. It is naive to assume that an optimum channel alternative can be chosen with complete certainty. Rather, the costs and profit potentials of various channels are based upon subjective probabilities that certain events will take place. Bayesian Statistics can be used to (1) evaluate past information in order to develop estimates of the probability of various occurrences, (2) evaluate the influence of additional information on prior probabilities, and (3) examine the seriousness, in terms of dollar loss, of making wrong decisions.

A major decision that has confronted many manufacturers in the past decade is whether they should keep their present wholesaler or perform the function with company-owned personnel. There are several reasons for this decision: (1) the wholesaler is not giving the manufacturer the amount and quality of attention he demands; (2) there are not enough wholesalers to provide adequate service; (3) the manufacturer can perform the wholesale function more efficiently and economically; (4) many wholesalers sell not only manufacturer's brands but also competing private brands.

Any manufacturer that has the management expertise and financial ability should definitely evaluate the two alternatives and utilize the channel structure that maximizes profit. The problem arises in formulating a set of criteria that can be



used to determine which channel is most efficient. Bayesian Decision-Making has been advanced as an alternative method of quantitatively evaluating this channel selection problem. Although subjective criteria must be utilized to arrive at a final decision, the Bayesian formulation can reduce uncertainty and give the decision maker another evaluation tool.<sup>30</sup>

Simulation.--Probably the most widely accepted and utilized technique for evaluating marketing problems quantitatively is simulation. The primary reason for its acceptance is its realism. Simulation involves the development of a model that represents an aspect of the organization or business system. Hopefully, the model accurately represents the sequence of activities performed. If it is accurate, the decision maker can estimate the potential effects of system changes before they are actually implemented. The simulation procedure entails the following five steps:<sup>31</sup>

1. Determine the activities to be performed through time.
2. Develop a model of the process being analyzed. A model of a firm's distribution structure would include a flow diagram of the various activities performed and a computer program that simulates these activities.

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<sup>30</sup>Wroe Alderson and Paul Green, "Bayesian Decision Theory in Channel Selection," Planning and Problem Solving in Marketing (Homewood, Illinois, 1964), pp. 311-317.

<sup>31</sup>Joe L. Welch and Jack M. Starling, "An Introduction to Materials Management Simulation Model Building," Journal of Purchasing, X, No. 2 (May, 1974), 49-50.

3. Validate the model by costing the distribution activities based upon the firm's previous operating experiences. The simulation results then may be compared to what the firm has experienced in terms of total distribution expense.

4. Once the cost of the existing distribution system is determined and the model is validated by use of these costs, management should proceed to determine the cost of alternative systems. This process is accomplished by inserting in the model the estimated cost of performing a particular activity in an alternative manner and tracing the impact of the change on the costs of performing the other activities. For example, a faster mode of transportation may be substituted for a slower mode of transportation, despite the high cost involved. But the time in transit can be a significant factor with respect to the costs of inventory investment, warehousing, inventory control, and order processing.

5. This "trade-off" process, as described in step four, is continued until management is satisfied that the optimal combination of distribution activities has been determined based on total cost and desired level of customer service.

#### Selection of Individual Outlets

Once a general channel structure is selected, the most profitable combination of individual outlets must be chosen. Success in selecting such a combination can be critical to the

firm's overall success. Middlemen are essentially an extension of the manufacturer and, as such, are responsible for representing the image of the company to the public. If the middleman is unable or unwilling to adequately represent the company, the results can be disastrous.

In order to avoid potential problems with middlemen, it would seem logical for the manufacturer to develop some criteria for evaluating middlemen. Retailers or wholesalers that meet the desired criteria should be evaluated further to ascertain their suitability. There are numerous factors that can be used as guides for the evaluative process.

#### Product Lines Carried

One determining factor for selection of outlets is whether or not the outlet carries a competing line. Oftentimes a wholesaler will refuse to carry a product which competes with a product it already sells. Also, the manufacturer may not wish to deal with such a wholesaler because of the possible lack of representation of the firm's product line.

A manufacturer may also be reluctant to sell through retailers who carry product lines that are not consistent with the manufacturer's image. For example, a manufacturer of high quality and high priced merchandise would probably be unwilling to sell through an outlet with a relatively low image.

### Credit Status

According to Pegram, the most important consideration for selecting outlets is the financial ability or credit status of the middleman.<sup>32</sup> Obviously, excessive accounts receivable can be irritating as well as unprofitable.

### Middleman's Business Philosophy

In order to develop a mutually rewarding working relationship, it is necessary to develop some cooperation between the manufacturer and dealers concerning promotional ideas, pricing policies, and merchandising methods. If the manufacturer is aggressive and continuously experimenting with new merchandising methods and the dealer is conservative and unwilling to utilize the ideas, tension can develop and the marketing program can suffer.

### Middleman's Reputation

One way to identify potential outlets is to maintain a record of middlemen who have been recommended or have developed a well-known reputation. In fact, it may be a good idea to contact manufacturers of non-competing products and ascertain the strengths and weaknesses of the middlemen. Oftentimes potential problems can be uncovered and anticipated in advance by this procedure.

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<sup>32</sup>Roger Pegram, "Selecting and Evaluating Distributors," Business Policy Study No. 116, National Industrial Conference Board (1965), p. 25.

### Availability of Middlemen

Desired outlets may not be available for several reasons. First, they may be carrying a competing product. Second, the product may not give the outlet the desired profit. Finally, the product may be new and its success uncertain. Because of the low profit margin of many middlemen, unsuccessful and low margin items cannot be tolerated.

### Potential Costs and Sales Volume

It may also be desirable to select the combination of middlemen that generate the largest demand for the manufacturer's product at the lowest cost. For a manufacturer of expensive specialty goods this may be accomplished by selling through one exclusive dealer. However, for a convenience goods manufacturer it is usually better to sell through as many dealers as possible.

### Competitors' Distribution Outlets

It may be helpful to examine the outlets utilized by competing brands. This involves the "if its good enough for him, it's good enough for me" philosophy. However, as was mentioned above, outlets carrying competing products may be unwilling to add a new line.

### Management and Sales Ability

One crucial factor in the selection of outlets is the ability of the middleman's management team. The success of a

manufacturer's product is contingent upon the success of the wholesalers and retailers through which it sells. If the middleman's management is of low quality, the result could be the loss of immediate sales as well as long-run damage to the manufacturer's image.

In addition to considering the management ability of the middleman, the manufacturer should examine the strength of the sales group. Since the sales force directly represents the product to the retailer or consumer, it is one of the most important determinants of the product's success. Although this may not be as controllable or important at the retail level, it is a vital consideration at the wholesale level.

#### Services Provided by the Middleman

For some products it is still necessary to provide delivery, sales, and credit services. This is especially true for expensive, bulky, or technical products. For products of this nature it may be necessary to evaluate potential middlemen on the basis of services they are willing to render.

#### Relevant Market

Without a doubt the market to which the middleman sells must be consistent with the market desired by the manufacturer. A manufacturer of high fashion merchandise would not be willing to sell through a store catering primarily to lower-middle and upper-lower social class groups. A consideration of this factor is basic to the marketing concept, and any firm that espouses

this ideology must anticipate its relevant market and sell through those outlets that are in direct contact with that market.

In addition, the outlets must be located in such a way that the desired geographical market is covered. If the product is a specialty good, one outlet in a market area may be sufficient. However, for convenience or shopping goods it may be necessary to find locations throughout the city.

#### Channel Evaluation Criteria

After the initial selection process is completed, it becomes mandatory to regularly appraise the effectiveness of the established channels of distribution. As with the other elements of the marketing mix, distribution channels are affected by numerous environmental changes. For example, new retail institutions may emerge creating additional channel alternatives. The costs of distributing through a particular channel may increase to a point making it a suboptimum alternative. In addition, wholesale outlets may be unwilling to continuously provide the type of service demanded by the manufacturer. Therefore, the manufacturer should constantly be aware of the changing nature of the social, political, economic, and competitive environments and their effect upon channel effectiveness.

Although most scholars would probably agree that evaluation of distribution channels is critical, the extent to which

U. S. manufacturers engage in such activity is uncertain. Also, there is little information regarding the nature of evaluative procedures utilized by manufacturers. Most authors simply propound the theoretical methodologies developed and advanced by academicians and ignore the actual procedures. The following discussion delineates the essence of the channel theorists' explanation of channel evaluation.

#### Quantitative Factors

A quantitative evaluation of channels of distribution involves the examination of three areas: comparative sales analysis, marketing costs, and profit evaluation. The results of the evaluation is a channel profit estimate for each alternative channel of distribution. Based solely upon this evaluation, it would seem reasonable that the channel generating the maximum profit would be the feasible alternative.

Comparative sales analysis.--As mentioned by Revzan, comparative sales analysis involves determining the sales realized by channel members as well as comparing these sales with some predetermined sales objective.<sup>33</sup> An examination of this data can provide valuable insight into the effectiveness of the channel. Not only does it indicate total sales but the data may also show sales in various regions or territories, sales by product, sales by customer type, and sales trends.

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<sup>33</sup>David A. Revzan, "Evaluation of Channel Effectiveness," Wholesaling in Marketing Organization (New York, 1961), pp. 151-155.



A comparative sales analysis providing the above data gives management an idea of how well middlemen, in general, and salesmen, in particular, are handling various products and customers. If performance is below expected levels, the manager can take corrective action or engage in intensive study to arrive at the reasons for the problem.<sup>34</sup>

Marketing costs.--Although a comparative sales analysis provides insight into channel member performance, its usefulness is limited without an accompanying cost analysis. Low sales are not always an indicator of poor performance. Also, high sales are not necessarily an indication of excellence. But sales volume generated is usually a result of the objectives of the firm as well as the incentives utilized to drive the sales force toward the stated objectives. For example, if the firm rewards its salesmen for sales generated rather than profit, it will surely get increased sales regardless of the costs.

Therefore, it is necessary to carefully scrutinize all costs related to the channel function and compare these costs to sales obtained. These costs should be categorized and allocated to sales territories or individual salesmen. For example, travel, entertainment, compensation, and other direct costs would be totally allocated to the respective salesman or territory. This is a relatively simple procedure and provides data for control of the sales process in particular territories.

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<sup>34</sup>Bruce Mallen and Stephen Silver, "Modern Marketing and the Accountant," Cost and Management (February, 1964), 75-85.

However, other expenses which are indirectly related to the territory such as marketing research, sales promotion, and administrative expenses are incurred by all territories. The problem arises in determining how to allocate these costs. Some individuals have suggested that the costs be allocated equally among all territories. Others believe that the expense should be distributed in direct proportion to the volume of business generated by the territories. However, neither method adequately represents the actual costs incurred. Obviously, a territory obtaining twice the sales volume does not necessarily incur twice the expense.

Profit evaluation.---The result of a sales and cost analysis is a net profit or loss estimate for the particular territory or salesman. This provides management with information that can serve as a basis for (1) reallocation of salesmen, (2) increased attention to potentially profitable territories and abandonment of unprofitable areas, (3) rearrangement of territorial boundaries, (4) additional emphasis on neglected lines, and (5) evaluation of customer groups.<sup>35</sup>

It is not unusual for a territory to become increasingly important through time. This may result from aggressive selling or the movement of population or business into the area. Therefore, it oftentimes becomes necessary to decrease the size of the territory or increase the size of the sales force in order

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<sup>35</sup>J. B. Heckert and R. B. Miner, Distribution Costs (New York, 1940), p. 74.

to give it adequate representation. In addition, if the firm is currently utilizing a wholesaler or agent, it may be advisable to develop its own sales force. On the other hand, a territory may cease to contribute profits to the firm. Under these circumstances, it may become expedient to eliminate personal selling effort and rely on telephone and mail order selling.

Sales volume and cost analysis can also provide management with information on the contribution to profit of its product lines. Although a line may be contributing to volume, it may not be profitable. This may indicate the need for (1) a change in the product, (2) an additional channel for low margin items (possibly through a distributor), (3) the elimination of the line, or (4) a change in pricing policies.

Finally, the profit analysis may indicate the profitability of each customer category. The firm may find that it costs more to sell directly to a small customer than his contribution to revenue. If this is discovered, the manufacturer has several alternatives. First, he can rearrange his pricing structure to favor quantity purchases. This would hopefully increase order sizes to a point above break-even. Second, the manufacturer can establish a minimum order size. Third, he may utilize telephone, mail order selling, or a wholesaler for small orders. Finally, the solution may involve the elimination of small-order buyers. However, this should be a last resort alternative. The firm might become a large-order account within time and

contribute significantly to the manufacturer's profit. Therefore, the manufacturer should examine the account closely, determine why its order size is low, and what can be done to remedy the situation.

#### Qualitative Factors

Another group of criteria that can be employed by management for evaluating current distribution channels are qualitative factors. This includes customer complaints, promptness in paying bills, and treatment of competing lines. Although it is difficult to assign a numerical score to each factor, an excessively negative or positive subjective evaluation could provide valuable insight into the channel's effectiveness.

Customers are usually quite honest in their evaluation of suppliers. A manufacturer who consistently receives negative feedback from customers concerning middleman activities should definitely examine the complaint and the middleman's activities. If the complaint is a result of malpractice on the part of the middleman, corrective action should result. However, if it is a result of poor channel selection, the manufacturer should consider feasible alternatives. For example, the product may be technically sophisticated and require specialized sales skill. Oftentimes the middleman's salesmen handle numerous products and are not adequately knowledgeable to effectively sell the ones requiring specialized skill. Therefore, it may be better to utilize one's own sales staff.

Another factor requiring control is promptness in paying bills. If firms neglect this activity, cash flow problems can definitely result. Therefore, devices such as cash discounts should be used to simulate each payment. If payment remains slow, consideration of alternative outlets or channels may be in order.

Finally, the manufacturer should be aware of the middleman's treatment of competing lines. If the middleman is giving primary attention to competing lines at the expense of the manufacturer's line, it may be expedient to change middlemen or sell direct. However, the manufacturer should also determine why the middleman is providing insufficient service. This may indicate the need for product, pricing, or promotional changes.

## CHAPTER IV

### PRESENTATION OF PRIMARY DATA RELATED TO DISTRIBUTION CHANNEL SELECTION AND EVALUATION POLICIES OF UNITED STATES MANUFACTURERS

Based on responses to the questionnaire on selection and evaluation of channels of distribution, the following information has been gathered. The data are divided into the following sections: (1) channel structure and firm size, (2) channel decision authority, (3) factors considered in distribution channel selection, (4) factors considered in selecting individual outlets, (5) factors considered in evaluating distribution channels, and (6) communication methods for receiving evaluative data.

#### Channel Structure and Firm Size

Table V presents the channel structure of all responding manufacturers. There are 187 firms (30 percent) using more than a single distribution channel. The most frequently utilized distribution channel for consumer goods manufacturers is from the manufacturer through one or more retailers. The other primary channel for manufacturers of goods intended for the consumer market is through wholesalers and retailers.

On the other hand, manufacturers of products intended for the industrial market use more direct channels of distribution.

TABLE V  
 FREQUENCY OF DISTRIBUTION CHANNELS USED  
 BY MANUFACTURING FIRMS

| Channel of Distribution                       | Frequency | Percent |
|---|-----------|---------|
| Consumer goods:                               |           |         |
| Direct to consumer using company salesmen     | 67        | 27.92   |
| Through retailers to the consumer             | 130       | 54.17   |
| Through wholesalers and retailers to consumer | 113       | 47.08   |
| Through agents and retailers                  | 19        | 7.92    |
| Through agents, wholesalers, and retailers    | 16        | 6.25    |
| Industrial goods:                             |           |         |
| Direct using company salesmen                 | 284       | 73.39   |
| Through industrial distributors               | 143       | 36.95   |
| Through agents                                | 77        | 19.90   |
| Through agents and distributors               | 29        | 7.49    |

In fact, 284 firms sell direct to the industrial user and 143 use only an industrial distributor.

Table VI illustrates the relationship between the structure used and the firm size. There is very little difference between the channel structures of large, medium, and small firms.

TABLE VI  
CHANNEL STRUCTURE AND FIRM SIZE

| Channel of Distribution                    | Small Firms |       | Medium Firms |       | Large Firms |       |
|--|-------------|-------|--------------|-------|-------------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     |
| Consumer goods mfrs.                       |             |       |              |       |             |       |
| Direct using company salesmen              | 31          | 15.27 | 25           | 10.68 | 11          | 5.79  |
| Through retailers                          | 47          | 23.15 | 45           | 19.23 | 38          | 20.00 |
| Through wholesalers and retailers          | 37          | 18.23 | 48           | 20.51 | 28          | 14.74 |
| Through agents and retailers               | 10          | 4.93  | 5            | 2.14  | 4           | 2.11  |
| Through agents, wholesalers, and retailers | 2           | 0.99  | 7            | 2.99  | 7           | 3.68  |
| Industrial goods mfrs.                     |             |       |              |       |             |       |
| Direct using company salesmen              | 85          | 41.87 | 106          | 45.30 | 93          | 48.95 |
| Through industrial distributors            | 43          | 21.18 | 46           | 19.66 | 54          | 28.42 |
| Through agents                             | 20          | 9.85  | 33           | 14.10 | 24          | 12.63 |
| Through agents and distributors            | 7           | 3.45  | 12           | 5.13  | 10          | 5.26  |

Twenty-one small manufacturers use a direct channel while only twenty-five medium-sized companies and eleven small firms utilize such a channel structure. Large and medium-sized industrial goods manufacturers, however, sell direct to users more frequently than small industrial firms.



## Channel Decision Authority

Table VII presents the responses of small, medium, and large manufacturers to the question dealing with the individuals responsible for selecting the appropriate channel of distribution. One person is given autonomous decision making

TABLE VII

CHANNEL DECISION AUTHORITY IN SMALL, MEDIUM,  
AND LARGE MANUFACTURING FIRMS

| Decision Authority                                      | Small Firms |       | Med. Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|------------|-------|-------------|-------|-------|-------|
|   | No.         | %     | No.        | %     | No.         | %     | No.   | %     |
| Decision made by one person                             | 113         | 55.67 | 99         | 42.31 | 50          | 26.32 | 262   | 41.79 |
| Decision made through interaction of several executives | 62          | 30.54 | 105        | 44.87 | 110         | 57.89 | 277   | 44.18 |
| The company has no control over the decision            | 26          | 12.81 | 28         | 11.97 | 29          | 15.26 | 83    | 13.24 |
| No response   | 2           | .98   | 2          | .85   | 1           | .53   | 5     | .79   |

authority in only 26 percent of the large firms, while autonomous decision making is characteristic of 56 percent of the small firms and 42 percent of the medium-sized manufacturers. Of the large firms surveyed, 58 percent indicated that channel selection decisions are made through interaction of several executives. But joint channel decision making is characteristic of only 45 percent of the medium firms and 31 percent of the small firms.

Table VIII provides a delineation of the executives responsible for channel selection in those firms characterized by autonomous decision making. Again, the bureaucratic structure of the large firm is reflected in the statistics. Responsibility is taken from the president and distributed to the lower echelons of the organization. Small and medium firms give primary responsibility for channel selection to the president.

TABLE VIII

PERSON RESPONSIBLE FOR CHANNEL SELECTION IN LARGE,  
MEDIUM, AND SMALL FIRMS CHARACTERIZED BY  
AUTONOMOUS DECISION AUTHORITY

| Executive            | Frequency   |              |             |
|----------------------|-------------|--------------|-------------|
|                      | Small Firms | Medium Firms | Large Firms |
| President            | 76          | 68           | 15          |
| Marketing Executive  | 11          | 5            | 14          |
| Vice President Sales | 2           | 3            | 9           |
| Sales Manager        | 12          | 7            | 5           |
| General Manager      | 8           | 11           | 6           |
| Other*               | 4           | 5            | 1           |
| Total                | 113         | 99           | 50          |

\*Other individuals responsible for channel selection decisions are the chairman of the board, treasurer, board of directors, vice president of operations, director of distribution, plant manager, and salesman.

In addition, Table IX shows responses to the question dealing with channel decision authority by reorganizing the companies into consumer and industrial goods manufacturers. Fifty-one percent of the consumer goods firms and 40 percent of the industrial goods firms engage in joint decision making. Also, 44 percent of the industrial goods firms are characterized by autonomous channel decision authority while one person makes the decision in only 39 percent of the consumer goods manufacturers.

TABLE IX

CHANNEL DECISION AUTHORITY IN CONSUMER GOODS  
AND INDUSTRIAL GOODS FIRMS

| Decision Maker                    | Consumer Goods |       | Industrial Goods |       |
|-----------------------------------|----------------|-------|------------------|-------|
|                                   | Freq.          | %     | Freq.            | %     |
| Decision made by one person       | 93             | 38.75 | 169              | 43.67 |
| Decision made through interaction | 123            | 51.25 | 154              | 39.79 |
| The company has no control        | 23             | 9.58  | 60               | 15.50 |
| No response                       | 1              | 0.42  | 4                | 1.04  |

Table X presents responses to a question concerning joint decision making. The respondents were asked to indicate which individuals within the organization are involved in the channel selection decision. The responses are consistent among the

three firm categories. The president, marketing executive, and sales manager are, in most circumstances, the individuals who interact to select the channel of distribution. In large firms,

TABLE X

PERSON RESPONSIBLE FOR CHANNEL SELECTION IN LARGE, MEDIUM  
AND SMALL MANUFACTURING FIRMS CHARACTERIZED BY  
JOINT DECISION AUTHORITY

| Executive             | Frequency   |              |             |       |
|-----------------------|-------------|--------------|-------------|-------|
|                       | Small Firms | Medium Firms | Large Firms | Total |
| President             | 52          | 91           | 81          | 224   |
| Sales Manager         | 50          | 80           | 77          | 207   |
| Marketing Executive   | 35          | 60           | 82          | 177   |
| Comptroller           | 8           | 9            | 6           | 23    |
| Production Executive  | 14          | 16           | 10          | 40    |
| Chairman of the Board | 5           | 4            | 9           | 18    |
| General Manager       | 3           | 3            | 18          | 24    |
| Other*                | 3           | 7            | 12          | 22    |

\*Other individuals involved in the joint decision include the trade relations manager, marketing policy group, executive committee, department manager, product manager, executive vice president, regional manager, district manager, technical director, and board of directors.

however, there seems to be a diversity of combinations utilizing approximately sixteen executives. Also, in one of the largest firms in the United States a marketing policy group and an executive committee are employed to select the appropriate channel of distribution.

Some organizations have no control over selection of distribution channels. As indicated in Table VII, approximately 13 percent of the small firms, 12 percent of the medium firms, and 15 percent of the large firms have no control over channel selection. There are several common reasons given for not having control over channel selection. Thirty firms indicated the customer determines the channel of distribution. The firms influenced by the customer are normally manufacturers of custom products who produce to customer specifications. Second, twenty-six firms indicated the channel is an industry standard. In other words, all firms in the industry conform to one channel of distribution. In addition, eleven firms indicated the nature of their product dictates channel policy, one firm mentioned that state laws dictate channel policy, and seven firms are simply not interested in channel selection procedures.

#### Factors Considered in Distribution Channel Selection

As illustrated in Table XI, 591 respondents consider certain factors as important in selecting channels of distribution.

TABLE XI

NUMBER OF SMALL, MEDIUM, AND LARGE MANUFACTURING  
FIRMS CONSIDERING FACTORS AS IMPORTANT IN  
SELECTING DISTRIBUTION CHANNELS

| Answer | Small Firms | Medium Firms | Large Firms | Total |
|--------|-------------|--------------|-------------|-------|
| Yes    | 191         | 225          | 175         | 591   |
| No     | 12          | 9            | 15          | 36    |

Although the significance of certain factors varies, approximately 94 percent of the respondents consider two or more factors as being at least somewhat significant to their selection process. Manufacturers not considering channel factors are either forced into a channel because it is an industry standard or satisfied with intuitive decisions.

### Relevant Market

Based on the responses of 627 manufacturers, the most significant factor for channel selection is the relevant market to which the product is intended. As illustrated in Table XII, 399 firms or approximately 64 percent of the companies studied indicated that the relevant market is definitely significant. Furthermore, Table V indicates a direct relationship between the relevant market and the distribution channel utilized.

TABLE XII

SIGNIFICANCE OF THE RELEVANT MARKET AS A FACTOR  
INFLUENCING CHANNEL SELECTION DECISIONS OF  
SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definitely significant                  | 117         | 57.64 | 151          | 64.53 | 131         | 68.95 | 399   | 63.64 |
| Somewhat significant                    | 19          | 9.36  | 22           | 9.40  | 12          | 6.32  | 53    | 8.45  |
| Somewhat insignificant                  | 6           | 2.96  | 2            | 0.85  | 4           | 2.11  | 12    | 1.91  |
| Definitely insignificant                | 19          | 9.36  | 21           | 8.97  | 13          | 6.84  | 53    | 8.45  |
| No opinion or indifferent               | 21          | 10.34 | 20           | 8.55  | 11          | 5.79  | 52    | 8.29  |
| No answer                               | 21          | 10.34 | 18           | 7.69  | 19          | 10.00 | 58    | 9.24  |

Only 67 manufacturers producing merchandise intended for the consumer market indicated a direct channel is utilized, while 284 industrial goods manufacturers use a direct channel.

Although the relevant market is considered definitely significant more frequently by large firms, it is still the controlling factor for medium and small firms. The manufacturers' response to this question is consistent with most academicians' conception of what should be the primary consideration.

#### Size of Relevant Market

Size of the relevant market in terms of number of customers is a significant consideration for most manufacturers. Table XIII presents the frequency and percent of responses for small, medium, and large firms.

TABLE XIII

SIGNIFICANCE OF SIZE OF RELEVANT MARKET AS A FACTOR  
INFLUENCING CHANNEL SELECTION DECISIONS OF  
SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definitely significant                  | 105         | 51.72 | 108          | 46.15 | 124         | 65.26 | 337   | 53.75 |
| Somewhat significant                    | 47          | 23.15 | 66           | 28.21 | 32          | 16.84 | 145   | 23.13 |
| Somewhat insignificant                  | 6           | 2.96  | 9            | 3.85  | 4           | 2.11  | 19    | 3.03  |
| Definitely insignificant                | 11          | 5.42  | 10           | 4.27  | 10          | 5.26  | 31    | 4.94  |
| No opinion or indifferent               | 15          | 7.39  | 23           | 9.83  | 5           | 2.63  | 43    | 6.86  |
| No answer                               | 19          | 9.36  | 18           | 7.69  | 15          | 7.89  | 52    | 8.29  |

Approximately 77 percent of the firms consider size of the market to be either definitely or somewhat significant. In other words, if the market is large, there is a tendency to use middlemen. On the other hand, if the market is small, the firm will have a greater tendency to sell direct.

#### Market Concentration and Order Size

The other market related factors considered significant are geographic concentration of the market and average size of individual orders to customers. Responses are represented in Table XIV.

Approximately 66 percent of the responding firms consider geographic concentration of the market to be either definitely or somewhat significant. Approximately 71 percent of the large firms, 62 percent of the medium firms, and 65 percent of the small firms classified market concentration to be at least somewhat significant.

Although significant, it becomes obvious that average order size is not as important as other market considerations. Only 29 percent of the responding firms consider order size to be a definitely significant factor for selection of channels of distribution. However, 65 percent of the firms indicated it is at least somewhat significant.

In addition to examining channel selection policies for different sized firms, the policies of consumer and industrial



TABLE XIV

SIGNIFICANCE OF MARKET CONCENTRATION AND ORDER SIZE AS  
FACTORS INFLUENCING CHANNEL SELECTION DECISIONS  
OF SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factors | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Market concentration:                    |             |       |              |       |             |       |       |       |
| Definitely significant                   | 91          | 44.83 | 87           | 37.18 | 92          | 48.42 | 270   | 43.06 |
| Somewhat significant                     | 41          | 20.20 | 57           | 24.36 | 43          | 22.63 | 141   | 22.49 |
| Somewhat insignificant                   | 10          | 4.93  | 16           | 6.84  | 9           | 4.74  | 35    | 5.58  |
| Definitely insignificant                 | 22          | 10.84 | 24           | 10.26 | 12          | 6.32  | 58    | 9.25  |
| No opinion or indifferent                | 21          | 10.34 | 29           | 12.39 | 18          | 9.47  | 68    | 10.85 |
| No answer                                | 18          | 8.87  | 21           | 8.97  | 16          | 8.42  | 55    | 8.77  |
| Order size:                              |             |       |              |       |             |       |       |       |
| Definitely significant                   | 59          | 29.06 | 65           | 27.78 | 56          | 29.47 | 180   | 28.71 |
| Somewhat significant                     | 83          | 40.89 | 74           | 31.62 | 69          | 36.32 | 226   | 36.04 |
| Somewhat insignificant                   | 10          | 4.93  | 19           | 8.12  | 13          | 6.84  | 42    | 6.70  |
| Definitely insignificant                 | 19          | 9.36  | 23           | 9.83  | 15          | 7.89  | 57    | 9.09  |
| No opinion or indifferent                | 18          | 8.87  | 27           | 11.54 | 19          | 10.00 | 64    | 10.21 |
| No answer                                | 14          | 6.90  | 26           | 11.11 | 18          | 9.47  | 58    | 9.25  |

goods manufacturers are studied. Table XV presents the responses of manufacturers to the questions dealing with market factors.

A higher percentage of consumer goods manufacturers than industrial goods manufacturers indicated market factors are at least somewhat significant. Approximately 77 percent of the

TABLE XV

SIGNIFICANCE OF RELEVANT MARKET, MARKET SIZE, MARKET  
CONCENTRATION, AND ORDER SIZE AS FACTORS  
INFLUENCING CHANNEL SELECTION  
DECISIONS OF CONSUMER GOODS  
AND INDUSTRIAL GOODS  
MANUFACTURERS

| Degree of Significance<br>Given the Factors | Consumer Goods<br>Firms |       | Industrial Goods<br>Firms |       |
|---|-------------------------|-------|---------------------------|-------|
|   | Freq.                   | %     | Freq.                     | %     |
| Relevant market:                            |                         |       |                           |       |
| Definite significant                        | 160                     | 66.67 | 239                       | 61.76 |
| Somewhat significant                        | 24                      | 10.00 | 29                        | 7.49  |
| Other                                       | 56                      | 23.33 | 119                       | 30.75 |
| Size of market:                             |                         |       |                           |       |
| Definite significant                        | 143                     | 59.58 | 194                       | 50.13 |
| Somewhat significant                        | 54                      | 22.50 | 91                        | 23.51 |
| Other                                       | 43                      | 17.92 | 102                       | 26.36 |
| Geographic concentration<br>of the market:  |                         |       |                           |       |
| Definite significant                        | 98                      | 40.83 | 172                       | 44.44 |
| Somewhat significant                        | 68                      | 28.33 | 73                        | 18.86 |
| Other                                       | 74                      | 30.84 | 142                       | 36.70 |
| Order size:                                 |                         |       |                           |       |
| Definite significant                        | 61                      | 25.42 | 119                       | 30.75 |
| Somewhat significant                        | 103                     | 42.92 | 123                       | 31.78 |
| Other                                       | 76                      | 31.66 | 145                       | 37.47 |

consumer goods manufacturers indicated the relevant market to which the product is intended is significant while only 69 percent of the industrial goods manufacturers are interested in the relevant market. Also, 82 percent of the consumer goods manufacturers classified size of the market as significant, 69 percent classified geographical concentration of customers as significant, and 68 percent classified order size as

significant. Finally, 74 percent of the industrial goods manufacturers classified size of the market as significant, 63 percent classified geographical concentration of customers as significant, and 62 percent classified order size as significant.

#### Technical Nature of Products

Although most firms attempt to be objective in their channel selection procedure, they indicated that they often-times have no control. For example, many industrial firms have highly technical products requiring technologically oriented middlemen. According to several firms, it is difficult to find middlemen familiar with the technologies of the manufacturer's industry. As a result, the manufacturer is forced to sell direct to the industrial user.

The participating manufacturers' response to the question related to technical nature of product is presented in Table XVI. Forty-one percent of the manufacturers consider technical nature of product to be definitely significant and 65 percent agreed it is at least somewhat significant. Market considerations are the only factors receiving a more favorable response.

Large firms are more concerned with technical nature of product as an influential factor than small or medium manufacturers. One possible reason for their concern is that large firms have more flexibility in selecting an appropriate channel. If the middleman cannot maintain a working knowledge of new

TABLE XVI

SIGNIFICANCE OF THE TECHNICAL NATURE OF THE PRODUCT AS A  
FACTOR INFLUENCING CHANNEL SELECTION DECISIONS OF  
SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definitely significant                  | 71          | 34.98 | 98           | 41.88 | 89          | 46.84 | 258   | 41.15 |
| Somewhat significant                    | 52          | 25.62 | 50           | 21.37 | 48          | 25.26 | 150   | 23.92 |
| Somewhat insignificant                  | 14          | 6.90  | 13           | 5.56  | 10          | 5.26  | 37    | 5.90  |
| Definitely insignificant                | 31          | 15.27 | 23           | 9.83  | 12          | 6.32  | 66    | 10.53 |
| No opinion or indifferent               | 20          | 9.85  | 27           | 11.54 | 15          | 7.89  | 62    | 9.89  |
| No answer                               | 15          | 7.39  | 23           | 9.83  | 16          | 8.42  | 54    | 8.61  |

technologies, the large manufacturer can sell direct to the ultimate user. The small and medium manufacturer, however, may not have the financial resources or management expertise to eliminate the middleman. This observation is particularly true of the small manufacturer. Only 35 percent of the small manufacturers classified technical nature of product as definitely significant; 47 percent of the large manufacturers classified it as definitely significant.

Technical nature of product becomes even more significant when data for consumer goods and industrial goods manufacturers is examined. The information is presented in Table XVII. Approximately 75 percent of the responding industrial goods firms indicated that technical nature of product is at least

TABLE XVII

SIGNIFICANCE OF TECHNICAL NATURE OF PRODUCT AS A FACTOR  
INFLUENCING CHANNEL SELECTION DECISIONS OF CONSUMER  
GOODS AND INDUSTRIAL GOODS MANUFACTURERS

| Degree of Significance<br>Given the Factor | Consumer Goods<br>Manufacturers |       | Industrial Goods<br>Manufacturers |       |
|--|---------------------------------|-------|-----------------------------------|-------|
|  | Freq.                           | %     | Freq.                             | %     |
| Definite significant                       | 62                              | 25.83 | 196                               | 50.96 |
| Somewhat significant                       | 55                              | 22.92 | 95                                | 24.55 |
| Somewhat insignificant                     | 25                              | 10.42 | 12                                | 3.10  |
| Definitely insignificant                   | 44                              | 18.33 | 22                                | 5.68  |
| No opinion                                 | 34                              | 14.17 | 28                                | 7.23  |
| No answer                                  | 20                              | 8.33  | 34                                | 8.79  |

somewhat significant to their firms in selecting distribution channels. It is the most important factor to industrial goods firms. On the other hand, only 49 percent of consumer goods companies consider technical nature of product to be significant. It is one of only two factors receiving a higher positive response from industrial goods manufacturers than consumer goods manufacturers.

Factors Related to Intrinsic Nature of Product

In addition to technical nature of product, several factors related to intrinsic nature of product are (1) physical or fashion perishability of product, (2) extent of product line (i.e., broad line vs. one or a few products), (3) cost of freight and handling because of weight and size of product, (4) fluctuation in price of product, and (5) unit value of

product. Each manufacturer was asked to indicate the degree of significance placed on each factor when selecting an appropriate channel of distribution. Data received from participating manufacturers are presented in Tables XVIII through XXII.

TABLE XVIII

SIGNIFICANCE OF PRODUCT PERISHABILITY AS A FACTOR  
INFLUENCING CHANNEL SELECTION DECISIONS OF  
SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factors | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definite significant                     | 32          | 15.76 | 29           | 12.39 | 24          | 12.63 | 85    | 13.56 |
| Somewhat significant                     | 20          | 9.85  | 17           | 7.26  | 14          | 7.37  | 51    | 8.13  |
| Somewhat insignificant                   | 25          | 12.32 | 23           | 9.03  | 16          | 5.42  | 64    | 10.21 |
| Definite insignificant                   | 74          | 36.45 | 98           | 41.88 | 84          | 44.21 | 256   | 40.83 |
| No opinion                               | 36          | 17.73 | 45           | 19.23 | 31          | 16.32 | 112   | 17.86 |
| No answer                                | 16          | 7.88  | 22           | 9.40  | 21          | 11.05 | 59    | 9.41  |

As illustrated in Table XVIII, only 22 percent of the respondents attribute any significance to perishability as a factor in selecting channels of distribution. There is, of course, a logical reason for such a low percentage of positive responses. Only a small percentage of the participating firms manufacture a product subject to fashion obsolescence or physical perishability. One firm operating under such circumstances indicated speed is the determining factor in channel selection. If the objective of expediency can be accomplished by utilizing

a middleman, one is contracted. Otherwise, a direct channel is used.

The same rationale can be applied to consumer and industrial goods organizations. Consumer goods firms deal with products subject to perishability more frequently than industrial goods organizations. Table XIX indicates the responses of firms primarily engaged in marketing of either consumer or industrial products. Approximately 30 percent of the consumer goods firms and 17 percent of the industrial goods firms consider fashion and physical perishability to be at least somewhat significant.

TABLE XIX

SIGNIFICANCE OF PRODUCT PERISHABILITY AS A FACTOR  
INFLUENCING CHANNEL SELECTION DECISIONS OF  
CONSUMER AND INDUSTRIAL GOODS  
MANUFACTURERS

| Degree of Significance<br>Given the Factor | Consumer Goods<br>Manufacturers |       | Industrial Goods<br>Manufacturers |       |
|--|---------------------------------|-------|-----------------------------------|-------|
|  | Freq.                           | %     | Freq.                             | %     |
| Definite significant                       | 45                              | 18.76 | 40                                | 10.34 |
| Somewhat significant                       | 26                              | 10.83 | 25                                | 6.46  |
| Somewhat insignificant                     | 34                              | 14.17 | 30                                | 7.75  |
| Definite insignificant                     | 78                              | 32.50 | 178                               | 45.99 |
| No opinion                                 | 41                              | 17.08 | 71                                | 18.35 |
| No answer                                  | 16                              | 6.67  | 43                                | 11.11 |

Table XX presents responses to the question dealing with the extent of one's product line as influencing channel selection. Although not as significant as some market factors, the

TABLE XX

SIGNIFICANCE OF PRODUCT LINE BREADTH AS A FACTOR  
INFLUENCING CHANNEL SELECTION DECISIONS OF  
SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definite significant                    | 70          | 34.48 | 84           | 35.90 | 66          | 34.74 | 220   | 35.09 |
| Somewhat significant                    | 56          | 27.59 | 67           | 28.63 | 61          | 32.11 | 184   | 29.35 |
| Somewhat insignificant                  | 10          | 4.93  | 8            | 3.42  | 9           | 4.74  | 27    | 4.31  |
| Definite insignificant                  | 24          | 11.82 | 19           | 8.12  | 8           | 4.21  | 51    | 8.13  |
| No opinion                              | 27          | 13.30 | 32           | 13.68 | 24          | 12.63 | 83    | 13.24 |
| No answer                               | 16          | 7.88  | 24           | 10.26 | 22          | 11.58 | 62    | 9.89  |

response to the extent of product line is relatively higher than most middleman, company, and quantitative factors. In fact, 65 percent of the respondents attribute some significance to the extent of one's product line.

Table XXI presents responses to the question dealing with cost of freight and handling as a consideration for selecting a distribution channel. Small firms tend to attribute more significance to freight cost than medium and large manufacturers. Forty-five percent of the small firms, 47 percent of medium firms, and 51 percent of large firms attribute some significance



to cost of freight and handling as a factor in channel selection.

TABLE XXI

SIGNIFICANCE OF FREIGHT AND HANDLING COST AS A FACTOR  
INFLUENCING CHANNEL SELECTION DECISIONS OF  
SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definite significant                    | 62          | 30.54 | 64           | 27.35 | 51          | 26.84 | 177   | 28.23 |
| Somewhat significant                    | 50          | 24.63 | 47           | 20.09 | 46          | 24.21 | 143   | 22.81 |
| Somewhat insignificant                  | 19          | 9.36  | 30           | 12.82 | 18          | 9.47  | 67    | 10.69 |
| Definite insignificant                  | 32          | 15.76 | 42           | 17.95 | 26          | 13.68 | 100   | 15.95 |
| No opinion                              | 25          | 12.32 | 32           | 13.68 | 32          | 16.84 | 89    | 14.19 |
| No answer                               | 15          | 7.39  | 19           | 8.12  | 17          | 8.95  | 51    | 8.13  |

Likewise, as indicated in Table XXII, small firms are more concerned with price fluctuations than medium and large firms.

TABLE XXII

SIGNIFICANCE OF PRICE AS A FACTOR INFLUENCING CHANNEL  
SELECTION DECISIONS OF SMALL, MEDIUM,  
AND LARGE MANUFACTURERS

| Degree of Significance Given the Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definite significant                    | 41          | 20.20 | 42           | 17.95 | 33          | 17.37 | 116   | 18.50 |
| Somewhat significant                    | 48          | 23.65 | 48           | 20.51 | 31          | 16.32 | 127   | 20.26 |
| Somewhat insignificant                  | 28          | 13.79 | 28           | 11.97 | 31          | 16.32 | 87    | 13.88 |
| Definite insignificant                  | 37          | 18.23 | 47           | 20.09 | 32          | 16.84 | 116   | 18.50 |
| No opinion                              | 34          | 16.75 | 43           | 18.38 | 44          | 23.16 | 121   | 19.30 |
| No answer                               | 15          | 7.35  | 26           | 11.11 | 19          | 10.00 | 60    | 9.57  |

Approximately 44 percent of the small organizations consider price fluctuation as a significant factor in selecting distribution channels. However, significance is attributed to price by only 38 percent of the medium firms and 34 percent of the large firms.

The final product factor is unit value of product. As indicated in Table XXIII, medium-sized manufacturers are more

TABLE XXIII

SIGNIFICANCE OF PRODUCT COST AS A FACTOR INFLUENCING  
CHANNEL SELECTION DECISIONS OF SMALL, MEDIUM,  
AND LARGE MANUFACTURERS

| Degree of Significance Given the Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definite significant                    | 70          | 34.48 | 66           | 28.21 | 63          | 33.16 | 199   | 31.74 |
| Somewhat significant                    | 43          | 21.18 | 69           | 29.49 | 42          | 22.11 | 154   | 24.56 |
| Somewhat insignificant                  | 16          | 7.88  | 15           | 6.41  | 19          | 10.00 | 50    | 7.97  |
| Definite insignificant                  | 25          | 12.32 | 23           | 9.83  | 20          | 10.53 | 68    | 10.85 |
| No opinion                              | 31          | 15.27 | 35           | 14.96 | 26          | 13.68 | 92    | 14.67 |
| No answer                               | 18          | 8.87  | 26           | 11.11 | 20          | 10.53 | 64    | 10.21 |

interested in unit value of their product than large or small firms. In fact, 55 percent of the large firms, 58 percent of the medium firms, and 56 percent of the small firms indicated that unit value is at least somewhat significant as a factor in channel selection.

### Company-Related Factors

In addition to responses related to product factors, data were gathered concerning manufacturers' consideration of factors related to their companies. Table XXIV presents information on four company-related considerations: (1) the company's available financial resources, (2) the ability of management to perform middleman activities, (3) the quantity and quality of services the manufacturer can provide in relation to those demanded by middlemen (i.e., does the middleman demand services such as supportive advertising before the product will be handled?), and (4) the desire for channel control.

Similar to the findings of product factors, small firms seem to be concerned with factors related to their company. Approximately 35 percent of the small manufacturers are concerned with financial considerations. One reason for this concern may be their inability to utilize shorter channels because of a lack of financial resources. On the other hand, larger firms have more flexibility in making selection decisions.

The same rationale may be applied to management's ability to perform middleman activities. Since small firms have limited resources, both human as well as capital, it may be necessary to contract middlemen to perform the functions.

One company-related factor is of major concern to large organizations. Approximately 71 percent of the large manufacturers indicated desire for channel control is at least somewhat significant to channel selection policies.

TABLE XXIV

SIGNIFICANCE OF COMPANY-RELATED CONSIDERATIONS AS FACTORS  
INFLUENCING CHANNEL SELECTION DECISIONS OF SMALL,  
MEDIUM, AND LARGE MANUFACTURERS

| Degree of Sig-<br>nificance Given<br>the Factors          | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Financial con-<br>siderations:                            |             |       |              |       |             |       |       |       |
| Definite sig.   | 70          | 34.48 | 68           | 29.06 | 62          | 32.63 | 200   | 31.90 |
| Somewhat sig.   | 50          | 24.63 | 67           | 28.63 | 46          | 24.21 | 163   | 26.00 |
| Somewhat insig.   | 15          | 7.39  | 18           | 7.69  | 19          | 10.00 | 52    | 8.29  |
| Definite insig.   | 25          | 12.32 | 28           | 11.97 | 20          | 10.53 | 73    | 11.64 |
| No opinion  | 26          | 12.81 | 32           | 13.68 | 26          | 13.68 | 84    | 13.40 |
| No answer   | 17          | 8.37  | 21           | 8.97  | 17          | 8.95  | 55    | 8.77  |
| Mgt's ability<br>to perform<br>middleman's<br>activities: |             |       |              |       |             |       |       |       |
| Definite sig.   | 53          | 26.11 | 55           | 23.50 | 41          | 21.58 | 149   | 23.76 |
| Somewhat sig.   | 59          | 29.06 | 69           | 29.49 | 52          | 27.37 | 180   | 28.71 |
| Somewhat insig.   | 19          | 9.36  | 15           | 6.41  | 20          | 10.53 | 54    | 8.61  |
| Definite insig.   | 24          | 11.82 | 24           | 10.26 | 21          | 11.05 | 69    | 11.00 |
| No opinion  | 32          | 15.76 | 49           | 20.94 | 38          | 20.00 | 119   | 18.98 |
| No answer   | 16          | 7.88  | 22           | 9.40  | 18          | 9.47  | 56    | 8.93  |
| Services per-<br>formed by mfr:                           |             |       |              |       |             |       |       |       |
| Definite sig.   | 39          | 19.21 | 44           | 18.80 | 34          | 17.89 | 117   | 18.66 |
| Somewhat sig.   | 48          | 23.65 | 45           | 19.23 | 57          | 30.00 | 150   | 23.92 |
| Somewhat insig.   | 20          | 9.85  | 24           | 10.26 | 14          | 7.37  | 58    | 9.25  |
| Definite insig.   | 45          | 22.17 | 46           | 19.66 | 32          | 16.84 | 123   | 19.62 |
| No opinion  | 33          | 16.26 | 52           | 22.22 | 34          | 17.89 | 119   | 18.98 |
| No answer   | 18          | 8.87  | 23           | 9.83  | 19          | 10.00 | 60    | 9.57  |
| Desire for<br>channel<br>control:                         |             |       |              |       |             |       |       |       |
| Definite sig.   | 72          | 35.47 | 82           | 35.04 | 76          | 40.00 | 230   | 36.68 |
| Somewhat sig.   | 50          | 24.63 | 57           | 24.36 | 58          | 30.53 | 165   | 26.32 |
| Somewhat insig.   | 12          | 5.91  | 13           | 5.56  | 6           | 3.16  | 31    | 4.94  |
| Definite insig.   | 28          | 13.79 | 20           | 8.55  | 9           | 4.74  | 57    | 9.09  |
| No opinion  | 26          | 12.81 | 41           | 17.52 | 24          | 12.63 | 91    | 14.51 |
| No answer   | 15          | 7.39  | 21           | 8.97  | 17          | 8.95  | 53    | 8.45  |

Service, Availability, and Attitude  
of Middlemen

In addition to desire for channel control, additional factors considered significant by large manufacturers more frequently than small firms include the (1) quantity and quality of services provided by the middleman, (2) availability of a middleman, (3) attitude of the middleman toward the manufacturer's policies, (4) potential sales volume that can be realized from a channel alternative, and (5) cost of selling through alternative channels.

As indicated in Table XXV, the quantity and quality of middleman services is considered definitely significant by only 26 percent of the respondents. Approximately 40 percent of the firms indicated they either have no opinion or consider middleman services to be insignificant. One reason for the high percentage of negative responses is the large number of firms not utilizing a middleman.

Similar findings were compiled for the other factors related to middlemen. The factor related to availability of middlemen is significant to approximately 44 percent of the respondents. The attitude of middlemen toward manufacturers' policies is significant to 47 percent of the responding firms.

Sales Volume and Cost

Sales volume and cost are of prime importance to small, medium, and large manufacturers. Table XXVI presents results

TABLE XXV

SIGNIFICANCE OF SERVICE, AVAILABILITY, AND ATTITUDE OF  
MIDDLEMEN AS FACTORS INFLUENCING CHANNEL DECISIONS  
OF SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factors              | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Quantity and quality of middlemen services:           |             |       |              |       |             |       |       |       |
| Definite significant                                  | 43          | 21.18 | 65           | 27.78 | 54          | 28.42 | 162   | 25.84 |
| Somewhat significant                                  | 55          | 27.09 | 47           | 20.09 | 51          | 26.84 | 153   | 24.40 |
| Somewhat insignificant                                | 15          | 7.39  | 14           | 5.98  | 8           | 4.21  | 37    | 5.90  |
| Definite insignificant                                | 43          | 21.18 | 36           | 15.38 | 24          | 12.63 | 103   | 16.43 |
| No opinion  | 30          | 14.78 | 47           | 20.09 | 33          | 17.37 | 110   | 17.54 |
| No answer   | 17          | 8.37  | 25           | 10.68 | 20          | 10.53 | 62    | 9.89  |
| Availability of middlemen:                            |             |       |              |       |             |       |       |       |
| Definite significant                                  | 41          | 20.20 | 51           | 21.79 | 43          | 22.63 | 135   | 21.53 |
| Somewhat significant                                  | 44          | 21.67 | 54           | 23.08 | 43          | 22.63 | 141   | 22.49 |
| Somewhat insignificant                                | 22          | 10.84 | 16           | 6.84  | 15          | 7.89  | 53    | 8.45  |
| Definite insignificant                                | 41          | 20.20 | 41           | 17.52 | 26          | 13.68 | 108   | 17.22 |
| No opinion  | 36          | 17.73 | 47           | 20.09 | 43          | 22.63 | 126   | 20.10 |
| No answer   | 19          | 9.36  | 25           | 10.68 | 20          | 10.53 | 64    | 10.21 |
| Attitude of middlemen toward manufacturers' policies: |             |       |              |       |             |       |       |       |
| Definite significant                                  | 43          | 21.18 | 52           | 22.22 | 45          | 23.68 | 140   | 22.33 |
| Somewhat significant                                  | 54          | 26.60 | 51           | 21.79 | 51          | 26.84 | 156   | 24.88 |
| Somewhat insignificant                                | 17          | 8.37  | 16           | 6.84  | 9           | 4.74  | 42    | 6.70  |
| Definite insignificant                                | 41          | 20.20 | 37           | 15.81 | 27          | 14.21 | 105   | 16.75 |
| No opinion  | 33          | 16.26 | 57           | 24.36 | 38          | 20.00 | 128   | 20.41 |
| No answer   | 15          | 7.39  | 21           | 8.97  | 20          | 10.53 | 56    | 8.93  |

of the question related to cost and volume. Approximately 65 percent of the manufacturers consider potential sales volume as a significant factor in selection of distribution channels. Volume is particularly important to large firms.

TABLE XXVI

SIGNIFICANCE OF COST AND SALES VOLUME AS FACTORS  
INFLUENCING CHANNEL SELECTION DECISIONS OF  
SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factors | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Sales vol. of alt channels:              |             |       |              |       |             |       |       |       |
| Definite significant                     | 62          | 30.54 | 87           | 37.18 | 82          | 43.16 | 231   | 36.84 |
| Somewhat significant                     | 61          | 30.05 | 63           | 26.92 | 52          | 27.37 | 176   | 28.07 |
| Somewhat insignificant                   | 11          | 5.42  | 7            | 2.99  | 6           | 3.16  | 24    | 3.83  |
| Definite insignificant                   | 24          | 11.82 | 15           | 6.41  | 14          | 7.37  | 53    | 8.45  |
| No opinion                               | 29          | 14.29 | 38           | 16.24 | 17          | 8.95  | 84    | 13.40 |
| No answer                                | 16          | 7.88  | 24           | 10.26 | 19          | 10.00 | 59    | 9.41  |
| Cost of alt. channels:                   |             |       |              |       |             |       |       |       |
| Definite significant                     | 75          | 36.95 | 94           | 40.14 | 76          | 40.00 | 245   | 39.07 |
| Somewhat significant                     | 58          | 28.57 | 62           | 26.50 | 63          | 33.16 | 183   | 29.19 |
| Somewhat insignificant                   | 14          | 6.90  | 11           | 4.70  | 5           | 2.63  | 30    | 4.78  |
| Definite insignificant                   | 19          | 9.36  | 13           | 5.56  | 8           | 4.21  | 40    | 6.38  |
| No opinion                               | 21          | 10.34 | 33           | 14.10 | 19          | 10.00 | 73    | 11.64 |
| No answer                                | 16          | 7.88  | 21           | 8.97  | 19          | 10.00 | 56    | 8.93  |

Of the companies with assets in excess of one million dollars, 71 percent indicated volume is either definitely or somewhat significant, while 60 percent of the medium-sized firms and 61

percent of the small companies believe sales volume is significant.

Cost of selling through alternative channels is also an important consideration. Approximately 68 percent of the firms are especially interested in cost, with 73 percent of the respondents indicating cost is at least somewhat significant to their firms.

Also, Table XXVII shows that industrial goods firms indicate more frequently than manufacturers of consumer goods that

TABLE XXVII

SIGNIFICANCE OF COST AS A FACTOR INFLUENCING  
CHANNEL SELECTION DECISIONS OF CONSUMER  
AND INDUSTRIAL GOODS MANUFACTURERS

| Degree of Significance<br>Given the Factor | Consumer Goods<br>Manufacturers |       | Industrial Goods<br>Manufacturers |       |
|--|---------------------------------|-------|-----------------------------------|-------|
|  | Freq.                           | %     | Freq.                             | %     |
| Definitely significant                     | 89                              | 37.08 | 156                               | 40.31 |
| Somewhat significant                       | 67                              | 27.92 | 116                               | 29.97 |
| Somewhat insignificant                     | 16                              | 6.67  | 14                                | 3.62  |
| Definitely insignificant                   | 17                              | 7.08  | 23                                | 5.94  |
| No opinion                                 | 33                              | 13.75 | 40                                | 10.34 |
| No answer                                  | 18                              | 7.50  | 38                                | 9.82  |

cost of selling through alternative channels is at least somewhat significant in selecting an appropriate channel of distribution. Seventy percent of the industrial goods firms and



65 percent of the consumer goods firms attribute significance to channel cost as a significant channel selection factor. Other than technical nature of product, channel cost is the only factor considered significant more frequently by industrial goods firms than consumer goods organizations.

In addition to responding positively to the question directly related to cost and volume, the respondents made numerous comments indicating their profit orientation. In fact, nineteen firms indicated in an unsolicited response that profit, sales volume, and channel efficiency are the primary factors for selection of channels of distribution.

#### Other Considerations

In addition to the traditional considerations for channel selection, there were numerous factors mentioned that are not normally covered in marketing literature. First, the amount of available trade association assistance is a prime consideration for one respondent. Assistance is important when trade associations are active in disseminating information and providing sales and marketing aids to member firms.

Another factor important to several firms is industry tradition. In some industries a traditional channel has been utilized for years. When new companies emerge, traditional channel patterns are emulated disregarding other alternatives. There are firms, however, that would prefer to use other distribution channels but cannot find feasible alternatives. Tradition

has stifled the development of facilitating agencies making some channels unavailable.

A third factor considered significant in selecting appropriate channels is intuition based on past experience. Five firms indicated they do not analyze a multiplicity of considerations. They simply rely on common sense.

A final factor considered significant is the extent to which technology changes. In an industry characterized by rapid technological change, such as electronics, it is necessary to maintain a flexible channel policy. One cannot utilize a rigid channel structure. For example, one firm mentioned it utilized a distributor for many of its electronic products. When the technology got too sophisticated, however, it was necessary to employ a direct channel since the middleman was unable and unwilling to familiarize himself with the new technology.

#### Quantitative Factors

In addition to testing the significance of qualitative considerations for channel selection, the study determined the extent to which firms utilize quantitative tools. The three tools examined are (1) game theory, (2) simulation, and (3) Bayesian decision theory. Table XXVIII shows responses of small, medium, and large firms to the question related to the significance of quantitative factors for channel selection.

TABLE XXVIII

SIGNIFICANCE OF QUANTITATIVE TOOLS AS METHODS USED  
BY SMALL, MEDIUM, AND LARGE MANUFACTURERS  
TO SELECT DISTRIBUTION CHANNELS

| Quantitative Tools for Channel Selection and the Significance of Each | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Game Theory:  |             |       |              |       |             |       |       |       |
| Definite significant  | 2           | 0.99  | 12           | 5.13  | 4           | 2.11  | 18    | 2.87  |
| Somewhat significant  | 17          | 8.37  | 22           | 9.40  | 16          | 8.42  | 55    | 8.77  |
| Somewhat insignificant  | 18          | 8.87  | 24           | 10.26 | 16          | 8.42  | 58    | 9.25  |
| Definite insignificant  | 69          | 33.99 | 67           | 28.63 | 53          | 27.89 | 189   | 30.14 |
| No opinion  | 70          | 34.48 | 76           | 32.48 | 76          | 40.00 | 222   | 35.41 |
| No answer   | 27          | 13.30 | 33           | 14.10 | 25          | 13.16 | 85    | 13.56 |
| Simulation:   |             |       |              |       |             |       |       |       |
| Definite significant  | 5           | 2.46  | 15           | 6.41  | 3           | 1.58  | 23    | 3.67  |
| Somewhat significant  | 20          | 9.85  | 25           | 10.68 | 25          | 13.16 | 70    | 11.16 |
| Somewhat insignificant  | 20          | 9.85  | 21           | 8.97  | 15          | 7.89  | 56    | 8.93  |
| Definite insignificant  | 60          | 29.56 | 75           | 32.05 | 52          | 27.37 | 187   | 29.82 |
| No opinion  | 68          | 33.50 | 70           | 29.91 | 71          | 37.37 | 209   | 33.33 |
| No answer   | 30          | 14.78 | 28           | 11.97 | 24          | 12.63 | 82    | 13.08 |
| Bayesian decision theory:   |             |       |              |       |             |       |       |       |
| Definite significant  | 1           | 0.49  | 6            | 2.56  | 2           | 1.05  | 9     | 1.44  |
| Somewhat significant  | 4           | 1.97  | 9            | 3.85  | 8           | 4.21  | 21    | 3.35  |
| Somewhat insignificant  | 15          | 7.39  | 10           | 4.27  | 9           | 4.74  | 34    | 5.42  |
| Definite insignificant  | 51          | 25.12 | 66           | 28.21 | 51          | 26.84 | 168   | 26.79 |
| No opinion  | 82          | 40.39 | 93           | 39.74 | 87          | 45.79 | 262   | 41.79 |
| No answer   | 50          | 24.63 | 50           | 21.37 | 33          | 17.37 | 133   | 21.21 |

Only 9 percent of the small firms, 15 percent of the medium firms, and 11 percent of the large firms use game theory as a tool in selecting distribution channels. Approximately 76 percent of the respondents indicated game theory is either not significant to their firms or not their concern.

Of the three techniques analyzed, simulation received the most favorable response. Twelve percent of the small companies, 17 percent of the medium companies, and 15 percent of the large firms considered simulation to be at least somewhat significant to channel selection. In addition, 39 percent of the respondents indicated it is not significant and 33 percent had no opinion.

Finally, only 5 percent of the participating organizations believe Bayesian decision theory is a significant tool. Also, 32 percent of the respondents felt Bayesian statistics is insignificant, 42 percent had no opinion or were indifferent, and 21 percent did not answer the question. The high percentage of no opinion and no answer responses resulted from the respondents' lack of knowledge of the techniques.

Although game theory, Bayesian decision theory, and simulation are not new techniques, they are relatively new to marketing. It is reasonable, therefore, to assume corporate executives are either not interested in the tools or have no knowledge of their application.

### Factors Considered in Selecting Individual Outlets

After the manufacturing firm determines general channel policy, it must select an individual outlet. Selection of an outlet is the most important channel decision for firms utilizing middlemen. It will determine the manufacturer's ultimate success since the selected middleman will contact and work with the ultimate consumer or industrial user.

#### Financial Stability and Reputation of Middlemen

According to the responding manufacturers, the most significant factors for selection of individual outlets are credit and financial stability of middlemen and reputation of middlemen. Table XXIX presents results to questions related to middlemen's financial status and reputation.

Of the 416 manufacturers that utilize middlemen, 297, or approximately 71 percent, indicated financial stability is definitely significant and 20 percent believe it is somewhat significant. Only 16 of the respondents indicated no opinion or indifference. Most firms are definite about financial stability. Also, numerous firms indicated payment of bills and credit ratings are the most important factors for selection of distributors and wholesalers. Some have definite policies concerning delinquent accounts. They normally terminate the business relationship if payment is not made within some specified time period.

TABLE XXIX

SIGNIFICANCE OF THE MIDDLEMAN'S FINANCIAL STABILITY  
AND REPUTATION TO SMALL, MEDIUM, AND LARGE  
MANUFACTURERS FOR SELECTING OUTLETS

| Degree of Significance Given the Factors     | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Credit and financial stability of middleman: |             |       |              |       |             |       |       |       |
| Definite significant                         | 91          | 68.94 | 104          | 68.42 | 102         | 77.26 | 297   | 71.39 |
| Somewhat significant                         | 31          | 23.48 | 35           | 23.03 | 18          | 13.64 | 84    | 20.19 |
| Somewhat insignificant                       | 1           | .76   | 1            | .66   | 1           | .76   | 3     | .72   |
| Definite insignificant                       | 5           | 3.79  | 5            | 3.29  | 4           | 3.03  | 14    | 3.37  |
| No opinion                                   | 3           | 2.27  | 7            | 4.60  | 6           | 4.55  | 16    | 3.85  |
| No answer                                    | 1           | .76   | 0            | 0     | 1           | .76   | 2     | .48   |
| Reputation of the middleman:                 |             |       |              |       |             |       |       |       |
| Definite significant                         | 83          | 62.88 | 82           | 53.95 | 85          | 64.39 | 250   | 60.10 |
| Somewhat significant                         | 34          | 25.76 | 51           | 33.55 | 38          | 28.79 | 123   | 29.57 |
| Somewhat insignificant                       | 2           | 1.51  | 5            | 3.29  | 1           | .76   | 8     | 1.92  |
| Definite insignificant                       | 3           | 2.27  | 5            | 3.29  | 3           | 2.27  | 11    | 2.64  |
| No opinion                                   | 1           | .76   | 3            | 1.97  | 1           | .76   | 5     | 1.20  |
| No answer                                    | 9           | 6.82  | 6            | 3.95  | 4           | 3.03  | 19    | 4.57  |

Middleman reputation is also a significant factor for channel selection. Three hundred and seventy-three respondents, or 90 percent, indicated reputation is at least somewhat significant. Also, only nineteen firms, or 5 percent of the respondents, are indifferent. Again, this indicates they are certain about their personal feelings concerning middleman

reputation as influencing channel decisions. Financial stability and reputation are the only factors receiving a definite response. Additional factors received a much higher percentage of indifferent replies.

Also, large firms indicated more frequently than small or medium manufacturers that middleman reputation and financial stability are at least somewhat significant. The difference, however, is slight.

Sales Volume, Sales Ability, Clientele,  
and Market Coverage

Other significant considerations include (1) sales volume of the outlet, (2) strength of the middleman's sales group, (3) kind of customers reached by the distributor, and (4) geographical market covered by the outlet. The frequency of responses is presented in Table XXX.

Factors illustrated in Table XXX--sales volume, strength of the middleman's sales group, kind of customers reached by the middleman, and geographical market covered by the outlet--are considered significant by 85 percent, 81 percent, 80 percent, and 80 percent of the respondents, respectively. Also, large organizations indicated more frequently than small or medium firms that the factors are at least somewhat significant. This finding is similar to the findings for factors related to financial stability and middleman reputation.

TABLE XXX

SIGNIFICANCE OF SALES VOLUME, SALES ABILITY, CLIENTELE,  
AND MARKET COVERAGE TO SMALL, MEDIUM, AND LARGE  
MANUFACTURERS FOR SELECTING OUTLETS

| Degree of Significance Given the Factors   | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Sales volume:                              |             |       |              |       |             |       |       |       |
| Definite significant                       | 55          | 41.67 | 78           | 51.32 | 76          | 57.57 | 209   | 50.24 |
| Somewhat significant                       | 57          | 43.18 | 48           | 31.58 | 41          | 31.06 | 146   | 35.10 |
| Somewhat insignificant                     | 3           | 2.27  | 2            | 1.32  | 5           | 3.79  | 10    | 2.40  |
| Definite insignificant                     | 5           | 3.79  | 4            | 2.64  | 5           | 3.79  | 14    | 3.37  |
| No opinion                                 | 12          | 9.09  | 18           | 11.82 | 4           | 3.03  | 34    | 8.17  |
| No answer                                  | 0           | 0.00  | 2            | 1.32  | 1           | .76   | 3     | .72   |
| Strength of the sales group:               |             |       |              |       |             |       |       |       |
| Definite significant                       | 52          | 39.39 | 77           | 50.66 | 78          | 59.09 | 207   | 49.76 |
| Somewhat significant                       | 51          | 38.64 | 44           | 28.96 | 36          | 27.28 | 131   | 31.49 |
| Somewhat insignificant                     | 1           | .76   | 8            | 5.26  | 3           | 2.27  | 12    | 2.88  |
| Definite insignificant                     | 8           | 6.06  | 3            | 2.27  | 4           | 3.03  | 15    | 3.61  |
| No opinion                                 | 18          | 13.64 | 17           | 11.18 | 11          | 8.33  | 46    | 11.06 |
| No answer                                  | 2           | 1.51  | 3            | 2.29  | 0           | 0.00  | 5     | 1.20  |
| Kind of customer reached:                  |             |       |              |       |             |       |       |       |
| Definite significant                       | 60          | 45.44 | 63           | 41.44 | 78          | 59.09 | 201   | 48.32 |
| Somewhat significant                       | 43          | 32.58 | 56           | 36.84 | 32          | 24.24 | 131   | 31.49 |
| Somewhat insignificant                     | 5           | 3.79  | 7            | 4.61  | 6           | 4.55  | 18    | 4.33  |
| Definite insignificant                     | 6           | 4.55  | 7            | 4.61  | 7           | 5.30  | 20    | 4.81  |
| No opinion                                 | 14          | 10.61 | 16           | 10.53 | 9           | 6.82  | 39    | 9.39  |
| No answer                                  | 4           | 3.03  | 3            | 1.97  | 0           | 0.00  | 7     | 1.68  |
| Geographical market covered by the outlet: |             |       |              |       |             |       |       |       |
| Definite significant                       | 59          | 44.69 | 67           | 44.07 | 79          | 59.85 | 205   | 49.28 |



TABLE XXX--Continued

| Degree of Significance Given the Factors | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Somewhat significant                     | 40          | 30.30 | 54           | 35.53 | 35          | 26.52 | 129   | 31.01 |
| Somewhat insignificant                   | 6           | 4.55  | 9            | 5.92  | 3           | 2.27  | 18    | 4.33  |
| Definite insignificant                   | 10          | 7.58  | 6            | 3.95  | 7           | 5.30  | 23    | 5.53  |
| No opinion                               | 16          | 12.12 | 15           | 9.87  | 8           | 6.06  | 39    | 9.37  |
| No answer                                | 1           | .76   | 1            | .66   | 0           | 0.00  | 2     | .48   |

Willingness of the Middleman to Carry  
the Manufacturer's Product

One factor is considered more significant to small firms than large manufacturers. As indicated in Table XXXI, willingness

TABLE XXXI

SIGNIFICANCE OF THE MIDDLEMAN'S WILLINGNESS TO CARRY  
THE MANUFACTURER'S PRODUCT AS A FACTOR CONSIDERED  
IN THE SELECTION OF OUTLETS BY SMALL, MEDIUM,  
AND LARGE MANUFACTURERS

| Degree of Significance Given the Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definite significant                    | 56          | 42.41 | 55           | 36.19 | 51          | 38.65 | 162   | 38.94 |
| Somewhat significant                    | 50          | 37.88 | 52           | 34.21 | 36          | 27.27 | 138   | 33.17 |
| Somewhat insignificant                  | 6           | 4.55  | 8            | 5.26  | 11          | 8.33  | 25    | 6.01  |
| Definite insignificant                  | 6           | 4.55  | 8            | 5.26  | 7           | 5.30  | 21    | 5.05  |
| No opinion                              | 10          | 7.58  | 24           | 15.79 | 20          | 15.15 | 54    | 12.98 |
| No answer                               | 4           | 3.03  | 5            | 3.29  | 7           | 5.30  | 16    | 3.85  |

of the middleman to carry the manufacturer's product is significant to 80 percent of small firms, 70 percent of medium firms, and 66 percent of large firms. The reason for this finding is that large firms have more control over distribution decisions. Small companies rely on middleman availability. Distributors select manufacturers providing the highest return on investment. Small manufacturers, therefore, may be forced to utilize the only available outlet.

#### Competitors' Outlets

The factor receiving the fewest significant responses is related to the type of outlet used by competing firms. Table XXXII indicates only 56 percent of the respondents consider the type of outlets utilized by competitors.

TABLE XXXII

SIGNIFICANCE OF COMPETING FIRMS' OUTLETS AS A FACTOR  
CONSIDERED IN THE SELECTION OF OUTLETS BY  
SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Degree of Significance Given the Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definite significant                    | 31          | 23.48 | 38           | 25.00 | 29          | 21.97 | 98    | 23.56 |
| Somewhat significant                    | 32          | 24.24 | 56           | 36.84 | 47          | 35.61 | 135   | 32.45 |
| Somewhat insignificant                  | 14          | 10.61 | 11           | 7.24  | 7           | 5.30  | 32    | 7.69  |
| Definite insignificant                  | 20          | 15.15 | 11           | 7.24  | 15          | 11.36 | 46    | 11.06 |
| No opinion                              | 31          | 23.48 | 32           | 21.04 | 33          | 25.00 | 96    | 23.08 |
| No answer                               | 4           | 3.03  | 4            | 2.64  | 1           | .76   | 9     | 2.16  |

Consideration of competitors' channels is especially low for consumer goods manufacturers. As indicated in Table XXXIII, forty-two, or 20 percent, of the manufacturers said the type of outlet used by competitors is definitely significant.

TABLE XXXIII

SIGNIFICANCE OF COMPETING FIRMS' OUTLETS AS A FACTOR  
CONSIDERED IN THE SELECTION OF OUTLETS  
BY CONSUMER AND INDUSTRIAL GOODS  
MANUFACTURERS

| Significance of the Selection Factor | Consumer Goods Manufacturers |       | Industrial Goods Manufacturers |       |
|--------------------------------------|------------------------------|-------|--------------------------------|-------|
|                                      | Freq.                        | %     | Freq.                          | %     |
| Definitely significant               | 42                           | 20.19 | 56                             | 26.92 |
| Somewhat significant                 | 73                           | 35.10 | 62                             | 29.81 |
| Somewhat insignificant               | 19                           | 9.13  | 13                             | 6.25  |
| Definitely insignificant             | 20                           | 9.62  | 26                             | 12.50 |
| No opinion                           | 48                           | 23.08 | 48                             | 23.08 |
| No answer                            | 6                            | 2.88  | 3                              | 1.44  |

Products Carried by Middleman, Middleman's Business Philosophy, Distribution Cost, Middleman's Management Capability, Middleman's Inventory

In addition, the significance of five additional factors was tested. Results are presented in Table XXXIV. Whether the outlet carries competing products is significant to 71 percent of the respondents. The compatibility of manufacturer and middleman business philosophy is considered significant by 73 percent of the respondents. In addition, 74 percent of the firms consider cost of reaching the outlet to be at least

TABLE XXXIV

SIGNIFICANCE OF CHANNEL SELECTION FACTORS FOR SMALL,  
MEDIUM, AND LARGE MANUFACTURERS

| Significance<br>of the<br>Selection<br>Factors                                    | Small |       | Medium |       | Large |       | Total |       |
|---|-------|-------|--------|-------|-------|-------|-------|-------|
|   | Freq. | %     | Freq.  | %     | Freq. | %     | Freq. | %     |
| Does the outlet carry competing products:   |       |       |        |       |       |       |       |       |
| Definite significant  | 54    | 40.90 | 66     | 43.42 | 59    | 44.70 | 179   | 43.03 |
| Somewhat significant  | 36    | 27.28 | 46     | 30.26 | 35    | 26.52 | 117   | 28.13 |
| Somewhat insignificant  | 11    | 8.33  | 8      | 5.26  | 11    | 8.33  | 30    | 7.21  |
| Definite insignificant  | 12    | 9.09  | 11     | 7.24  | 13    | 9.85  | 36    | 8.65  |
| No opinion  | 18    | 13.64 | 17     | 11.18 | 12    | 9.09  | 47    | 11.30 |
| No answer   | 1     | .76   | 4      | 2.64  | 2     | 1.51  | 7     | 1.68  |
| Degree to which middleman business philosophy is consistent with mfrs philosophy: |       |       |        |       |       |       |       |       |
| Definite significant  | 51    | 38.64 | 55     | 36.19 | 51    | 38.64 | 157   | 37.74 |
| Somewhat significant  | 48    | 36.36 | 53     | 34.87 | 47    | 35.60 | 148   | 35.58 |
| Somewhat insignificant  | 4     | 3.03  | 9      | 5.92  | 6     | 4.55  | 19    | 4.57  |
| Definite insignificant  | 9     | 6.82  | 10     | 6.58  | 8     | 6.06  | 27    | 6.49  |
| No opinion  | 18    | 13.64 | 22     | 14.47 | 20    | 15.15 | 60    | 14.42 |
| No answer   | 2     | 1.51  | 3      | 1.97  | 0     | 0.00  | 5     | 1.20  |
| Cost of reaching the outlet:  |       |       |        |       |       |       |       |       |
| Definite significant  | 48    | 36.36 | 54     | 35.53 | 57    | 43.18 | 159   | 38.22 |
| Somewhat significant  | 49    | 37.12 | 55     | 36.19 | 44    | 33.33 | 148   | 35.58 |
| Somewhat insignificant  | 5     | 3.79  | 7      | 4.60  | 4     | 3.03  | 16    | 3.85  |

TABLE XXXIV--Continued

| Significance of the Selection Factors              | Small |       | Medium |       | Large |       | Total |       |
|--|-------|-------|--------|-------|-------|-------|-------|-------|
|  | Freq. | %     | Freq.  | %     | Freq. | %     | Freq. | %     |
| Definite insignificant                             | 12    | 9.09  | 7      | 4.60  | 11    | 8.33  | 30    | 7.21  |
| No opinion   | 18    | 13.64 | 27     | 17.76 | 16    | 12.12 | 61    | 14.66 |
| No answer  | 0     | 0.00  | 2      | 1.32  | 0     | 0.00  | 2     | .48   |
| Capabilities of the middleman's mgt personnel:     |       |       |        |       |       |       |       |       |
| Definite significant                               | 35    | 26.52 | 42     | 27.63 | 58    | 43.94 | 135   | 32.45 |
| Somewhat significant                               | 57    | 43.18 | 67     | 44.08 | 49    | 37.12 | 173   | 41.59 |
| Somewhat insignificant                             | 4     | 3.03  | 6      | 3.95  | 6     | 4.55  | 16    | 3.85  |
| Definite insignificant                             | 9     | 6.82  | 9      | 5.92  | 4     | 3.03  | 22    | 5.29  |
| No opinion   | 25    | 18.94 | 25     | 16.45 | 13    | 9.85  | 63    | 15.14 |
| No answer  | 2     | 1.51  | 3      | 1.97  | 2     | 1.51  | 7     | 1.68  |
| Will it carry an adequate supply of your products? |       |       |        |       |       |       |       |       |
| Definite significant                               | 51    | 38.64 | 49     | 32.24 | 64    | 48.47 | 164   | 39.42 |
| Somewhat significant                               | 45    | 34.09 | 54     | 35.53 | 41    | 31.06 | 140   | 33.65 |
| Somewhat insignificant                             | 10    | 7.58  | 8      | 5.26  | 6     | 4.55  | 24    | 5.77  |
| Definite insignificant                             | 12    | 9.09  | 13     | 8.55  | 14    | 10.61 | 39    | 9.37  |
| No opinion   | 11    | 8.33  | 25     | 16.45 | 6     | 4.55  | 42    | 10.10 |
| No answer  | 3     | 2.27  | 3      | 1.97  | 1     | .76   | 7     | 1.68  |

somewhat significant. Capabilities of the middleman's management personnel are significant to 74 percent of the manufacturers. Finally, the amount of inventory carried by the middleman is significant to 73 percent of the firms.

In addition to traditional considerations for channel selection, there are numerous factors considered that are not normally covered in marketing literature. The most frequently mentioned factor is technical ability of the middleman. Finding a middleman with technical knowledge necessary to adequately sell and service industrial products is the primary problem in distribution channel selection. The result is utilization of direct channels from the producer to the industrial user. In fact, several electronics manufacturers indicated a preference for distributors if they could be found that were able to keep informed of the rapid technological changes characteristic of the electronics industry.

Another factor considered definitely significant is the extent to which the customer accepts the middleman. If the customer cannot adequately be served by the middleman because of the middleman's lack of interest, incompetent salesmen, or personality conflict, he is replaced by a direct channel.

A third factor considered significant in selecting individual outlets is the compatibility of the middleman's products with the manufacturer's products. Numerous manufacturers indicated they only sell through outlets carrying compatible merchandise.

In addition, enthusiasm of the middleman toward the manufacturer's product line is extremely significant to several manufacturers. Manufacturers frequently interact with their middleman and subjectively evaluate the middleman's attitude

toward the product as well as the manufacturer. If there is tension or conflict or the middleman does not believe in the product, he is replaced by another middleman or company sales representatives.

Another critical consideration for some firms is the middleman's knowledge of the market. Several manufacturers indicated the middleman should understand the demographic characteristics and geographical location of the market.

A sixth factor is the personal relationship between the middleman and the manufacturer's senior management. Personal relations are particularly important to industrial goods manufacturers.

Other factors considered by manufacturers are integrity of the middleman, ability and willingness of the middleman to communicate with the customer and the manufacturer, simple intuition and experience in judging people, and legal factors such as meeting licensing requirements.

#### Factors Considered in Evaluating Distribution Channels

After the initial selection of distribution channels, it may be necessary to evaluate their effectiveness. The study attempts to ascertain the extent to which United States manufacturers regularly evaluate existing channels and the factors considered in the evaluation procedures.

Table XXXV presents the results of a question designed to test the regularity of channel evaluation procedures. The

TABLE XXXV

NUMBER OF SMALL, MEDIUM, AND LARGE MANUFACTURERS  
EMPLOYING REGULAR CHANNEL EVALUATION  
PROCEDURES

| Answer    | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|-----------|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|           | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Yes       | 18          | 8.87  | 26           | 11.11 | 37          | 19.47 | 81    | 12.92 |
| No        | 173         | 85.22 | 199          | 85.04 | 140         | 73.68 | 512   | 81.66 |
| No answer | 12          | 5.91  | 9            | 3.85  | 13          | 6.84  | 34    | 5.42  |

manufacturers were asked if they have regular distribution channel evaluation policies. Only 13 percent of the firms indicated that they employ such procedures. Also, large firms employ regular evaluation procedures more frequently than small firms. In fact, approximately 20 percent of the large companies, 11 percent of the medium companies, and 9 percent of the small companies have developed formal channel evaluation procedures.

Procedures used by firms are fairly basic. Most firms indicated their procedure involves a comparison of sales volume to a predetermined quota or goal. If the outlet or channel is not generating desired volume, alternatives are considered. Another evaluative method is to analyze the growth in sales and profit of each distributor, product, and territory. A third method of analyzing existing distribution channels is to periodically analyze product profitability, customer profitability, inventory levels, inventory flow, and manufacturer-middleman-consumer compatibility. Fourth, several firms



indicated they continuously examine the development of the sales plan as well as conduct an intensive quarterly review of territories, customers, and products. They also conduct a semiannual inventory analysis at all distribution levels. Fifth, one manufacturer relying on mail-order business evaluates its channel by examining (1) the dollar volume realized from orders each year, (2) the number of orders each year, (3) the number of repeat orders per year, (4) the amount spent on postage, and (5) the number of items mailed each year. Finally, several firms indicated they rely on periodic contact with the middleman.

#### Profit Evaluation and Payment of Bills

Although only 13 percent of the respondents have regular, formal channel evaluation procedures, approximately 90 percent of the companies periodically examine several factors as considerations for evaluating channels of distribution. The most frequently mentioned factors, profit evaluation of each channel and promptness of the middleman in paying bills, are presented in Table XXXVI.

Approximately 75 percent of the firms indicated that profit evaluation of each channel is a significant factor for evaluating existing channels of distribution. Approximately 80 percent of the large firms consider the profitability of each channel while only 74 percent of the medium firms and 69 percent of the small firms are concerned with profitability.

TABLE XXXVI

SIGNIFICANCE OF PROFIT EVALUATION AND MIDDLEMAN  
PROMPTNESS IN PAYING BILLS FOR THE EVALUATION  
OF DISTRIBUTION CHANNELS BY SMALL, MEDIUM,  
AND LARGE MANUFACTURERS

| Significance of Channel Evaluation Factors | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Profit evaluation of each channel:         |             |       |              |       |             |       |       |       |
| Definite significant                       | 96          | 47.29 | 109          | 46.58 | 107         | 56.32 | 312   | 49.76 |
| Somewhat significant                       | 44          | 21.67 | 64           | 27.35 | 44          | 23.16 | 152   | 24.24 |
| Somewhat insignificant                     | 6           | 2.96  | 4            | 1.71  | 2           | 1.05  | 12    | 1.91  |
| Definite insignificant                     | 10          | 4.93  | 10           | 4.27  | 6           | 3.16  | 26    | 4.15  |
| No opinion or indifferent                  | 22          | 10.84 | 28           | 11.97 | 9           | 4.74  | 59    | 9.41  |
| No answer                                  | 25          | 12.32 | 19           | 8.12  | 22          | 11.58 | 66    | 10.53 |
| Promptness of middleman in paying bills:   |             |       |              |       |             |       |       |       |
| Definite significant                       | 104         | 51.23 | 111          | 47.44 | 80          | 42.11 | 295   | 47.05 |
| Somewhat significant                       | 39          | 19.21 | 52           | 22.22 | 50          | 26.32 | 141   | 22.49 |
| Somewhat insignificant                     | 4           | 1.97  | 6            | 2.56  | 2           | 1.05  | 12    | 1.91  |
| Definite insignificant                     | 12          | 5.91  | 22           | 9.40  | 14          | 7.37  | 48    | 7.66  |
| No opinion or indifferent                  | 19          | 9.36  | 19           | 8.12  | 20          | 10.53 | 58    | 9.25  |
| No answer                                  | 25          | 12.32 | 24           | 10.26 | 24          | 12.63 | 73    | 11.64 |

On the other hand, small and medium firms indicated as frequently as large organizations that promptness of middlemen in paying bills is a significant factor for channel evaluation. In fact, 436 firms, or approximately 70 percent of the respondents,

consider payment of bills as significant. Also, it is significant to 70 percent of the small firms, 69 percent of the medium firms, and 68 percent of the large organizations.

In addition, Table XXXVII shows a relationship between consumer and industrial firms concerning the promptness of middlemen in paying bills. Approximately 86 percent of the responding consumer goods manufacturers believe payment of bills is at least somewhat significant. Also, the consumer

TABLE XXXVII

SIGNIFICANCE OF MIDDLEMAN PROMPTNESS IN PAYING BILLS  
AS A FACTOR INFLUENCING CHANNEL EVALUATION  
DECISIONS OF CONSUMER AND INDUSTRIAL  
GOODS MANUFACTURERS

| Significance of the<br>Evaluation Factor | Consumer Goods |       | Industrial Goods |       |
|--|----------------|-------|------------------|-------|
|  | Freq.          | %     | Freq.            | %     |
| Definitely significant                   | 148            | 61.67 | 147              | 37.98 |
| Somewhat significant                     | 58             | 24.17 | 83               | 21.45 |
| Somewhat insignificant                   | 0              | 0.00  | 12               | 3.10  |
| Definitely insignificant                 | 6              | 2.50  | 42               | 10.85 |
| No opinion or indifferent                | 11             | 4.58  | 47               | 12.14 |
| No answer                                | 17             | 7.08  | 56               | 14.47 |

goods firms are very definite about their attitude. Only 7 percent of the firms failed to respond and only 5 percent have no opinion or are indifferent. On the other hand, approximately 60 percent of the industrial firms responded that payment of

bills is significant, 12 percent are indifferent, and 14 percent gave no answer.

Contribution of the Channel to Overall  
Corporate Objectives

Another significant factor for channel evaluation is the contribution of the channel to overall corporate objectives. Again, as indicated in Table XXXVIII, large firms indicated more frequently than small companies that it is significant.

TABLE XXXVIII

SIGNIFICANCE OF THE CONTRIBUTION OF THE CHANNEL TO OVERALL  
CORPORATE OBJECTIVES AS A FACTOR INFLUENCING CHANNEL  
EVALUATION DECISIONS OF SMALL, MEDIUM, AND  
LARGE MANUFACTURERS

| Significance<br>of the<br>Evaluation<br>Factor | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definitely significant                         | 68          | 33.50 | 98           | 41.88 | 95          | 50.00 | 261   | 41.63 |
| Somewhat significant                           | 57          | 28.08 | 63           | 26.92 | 53          | 27.89 | 173   | 27.59 |
| Somewhat insignificant                         | 7           | 3.45  | 8            | 3.42  | 1           | 0.53  | 16    | 2.55  |
| Definitely insignificant                       | 12          | 5.91  | 12           | 5.13  | 4           | 2.11  | 28    | 4.47  |
| No opinion or indifferent                      | 30          | 14.78 | 29           | 12.39 | 15          | 7.89  | 74    | 11.80 |
| No answer                                      | 29          | 14.29 | 24           | 10.26 | 22          | 11.58 | 75    | 11.96 |

Approximately 78 percent of the large firms, 69 percent of the medium companies, and 62 percent of the small firms consider the relationship between channels of distribution and achievement of corporate objectives to be important.

### Other Factors

The factors receiving the fewest significant responses are (1) the contribution of a channel alternative to customer recognition and acceptance of the manufacturer's sales promotional campaigns, (2) the comparison of actual sales with expected sales, (3) the comparison of sales with sales of other middlemen, and (4) the middleman's treatment of competing lines. The responses of the manufacturers to the above factors are presented in Table XXXIX. Only about 50 percent of the respondents indicated that the above factors are significant.

Although not too significant, the large firms did indicate more frequently that the factors are at least somewhat significant. Approximately 62 percent of the large firms indicated that contribution of the channel to customer recognition and acceptance of the companies' sales promotion campaigns is important. Only 51 percent of the medium firms and 49 percent of the small firms, however, considered it to be significant.

Also, the relationship of sales to a predetermined quota is significant to 61 percent of the large firms, 45 percent of the medium firms, and 43 percent of the small firms. In addition, the comparison of sales volume with the sales of other middlemen is considered significant by approximately 48 percent of the large, medium, and small companies. Finally, 63 percent of the large organizations indicated they believe the middleman's treatment of competing lines is a significant factor in the evaluation of existing channels. Fifty-eight percent of

TABLE XXXIX

SIGNIFICANCE OF CHANNEL EVALUATION FACTORS TO  
SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Significance of Channel Evaluation Factors  | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Contribution of the channel to customer recognition and acceptance of the company's sales promotional campaign: |             |       |              |       |             |       |       |       |
| Definitely significant  | 45          | 22.17 | 50           | 21.37 | 53          | 27.89 | 148   | 23.60 |
| Somewhat significant  | 54          | 26.60 | 71           | 30.34 | 65          | 34.21 | 190   | 30.30 |
| Somewhat insignificant  | 9           | 4.43  | 14           | 5.98  | 3           | 1.58  | 26    | 4.15  |
| Definite insignificant  | 20          | 9.85  | 19           | 8.12  | 8           | 4.21  | 47    | 7.50  |
| No opinion  | 41          | 20.20 | 52           | 22.22 | 35          | 18.42 | 128   | 20.41 |
| No answer   | 34          | 16.75 | 28           | 11.97 | 26          | 13.68 | 88    | 14.04 |
| Relationship of sales to quota:   |             |       |              |       |             |       |       |       |
| Definitely significant  | 40          | 19.70 | 46           | 19.66 | 52          | 27.37 | 138   | 22.01 |
| Somewhat significant  | 47          | 23.15 | 60           | 25.64 | 66          | 34.74 | 173   | 27.59 |
| Somewhat insignificant  | 14          | 6.90  | 15           | 6.41  | 7           | 3.68  | 36    | 5.74  |
| Definite insignificant  | 28          | 13.79 | 33           | 14.10 | 13          | 6.84  | 74    | 11.80 |
| No opinion  | 41          | 20.20 | 53           | 22.65 | 31          | 16.32 | 125   | 19.94 |
| No answer   | 33          | 16.26 | 27           | 11.54 | 21          | 11.05 | 81    | 12.92 |
| Comparison of sales with sales of other middlemen:  |             |       |              |       |             |       |       |       |
| Definitely significant  | 36          | 17.73 | 34           | 14.53 | 36          | 18.95 | 106   | 16.91 |
| Somewhat significant  | 61          | 3.05  | 77           | 32.91 | 55          | 28.95 | 193   | 30.78 |

TABLE XXXIX--Continued

| Significance of Channel Evaluation Factors | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Somewhat insignificant                     | 12          | 5.91  | 13           | 5.56  | 15          | 7.89  | 40    | 6.38  |
| Definitely insignificant                   | 23          | 11.33 | 28           | 11.97 | 19          | 10.00 | 70    | 11.16 |
| No opinion                                 | 41          | 20.20 | 53           | 22.65 | 41          | 21.58 | 135   | 21.53 |
| No answer                                  | 30          | 14.78 | 29           | 12.39 | 24          | 12.63 | 83    | 13.24 |
| Middleman's treatment of competing lines:  |             |       |              |       |             |       |       |       |
| Definitely significant                     | 62          | 30.54 | 67           | 28.63 | 64          | 33.68 | 193   | 30.78 |
| Somewhat significant                       | 49          | 24.14 | 68           | 29.06 | 55          | 28.95 | 172   | 27.43 |
| Somewhat insignificant                     | 6           | 2.96  | 10           | 4.27  | 6           | 3.16  | 22    | 3.51  |
| Definitely insignificant                   | 24          | 11.82 | 21           | 8.97  | 17          | 8.95  | 62    | 9.89  |
| No opinion                                 | 32          | 15.76 | 38           | 16.24 | 25          | 13.16 | 95    | 15.15 |
| No answer                                  | 30          | 14.78 | 30           | 12.82 | 23          | 12.11 | 83    | 13.24 |

the medium firms and 55 percent of the small firms also believe it is significant.

The final factors evaluated by the manufacturing firms are listed in Table XL. Customer complaints of the respondents' middlemen is a significant consideration in approximately 63 percent of the cases. Also, contribution of the channel to an understanding of the character of the market it serves is at least somewhat significant to 65 percent of the respondents. In addition, performance data concerning service of customers are considered significant by 64 percent of the companies surveyed. Finally, approximately 62 percent of the firms consider

TABLE XL

SIGNIFICANCE OF VARIOUS CHANNEL EVALUATION FACTORS  
TO SMALL, MEDIUM, AND LARGE MANUFACTURERS

| Significance<br>of Channel<br>Evaluation<br>Factors                                       | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Customer complaints of your middlemen:  |             |       |              |       |             |       |       |       |
| Definitely significant  | 77          | 37.93 | 91           | 38.89 | 74          | 38.95 | 242   | 38.60 |
| Somewhat significant  | 41          | 20.20 | 55           | 23.50 | 56          | 29.47 | 152   | 24.24 |
| Somewhat insignificant  | 12          | 5.91  | 12           | 5.13  | 6           | 3.16  | 30    | 4.78  |
| Definitely insignificant  | 23          | 11.33 | 18           | 7.69  | 8           | 4.12  | 49    | 7.81  |
| No opinion  | 20          | 9.85  | 31           | 13.25 | 24          | 12.63 | 75    | 11.96 |
| No answer   | 30          | 14.78 | 27           | 11.54 | 22          | 11.58 | 79    | 12.60 |
| Contribution of the channel to an understanding of the character of the market it serves: |             |       |              |       |             |       |       |       |
| Definitely significant  | 54          | 26.60 | 79           | 33.76 | 80          | 42.11 | 213   | 33.97 |
| Somewhat significant  | 65          | 32.02 | 79           | 33.76 | 51          | 26.84 | 195   | 31.10 |
| Somewhat insignificant  | 8           | 3.94  | 5            | 2.14  | 7           | 3.68  | 20    | 3.19  |
| Definitely insignificant  | 11          | 5.42  | 10           | 4.27  | 5           | 2.63  | 26    | 4.15  |
| No opinion  | 36          | 17.73 | 34           | 14.53 | 25          | 13.16 | 95    | 15.15 |
| No answer   | 29          | 14.29 | 27           | 11.54 | 22          | 11.58 | 78    | 12.44 |
| Performance data on service:  |             |       |              |       |             |       |       |       |
| Definitely significant  | 75          | 36.95 | 79           | 33.76 | 76          | 40.00 | 230   | 36.68 |
| Somewhat significant  | 46          | 22.66 | 72           | 30.77 | 53          | 27.89 | 171   | 27.27 |
| Somewhat insignificant  | 7           | 3.45  | 10           | 4.27  | 6           | 3.16  | 23    | 3.67  |



TABLE XI--Continued

| Significance of Channel Evaluation Factors         | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|--|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|  | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Definitely insignificant                           | 12          | 5.91  | 15           | 6.41  | 9           | 4.74  | 36    | 5.74  |
| No opinion   | 29          | 14.29 | 33           | 14.10 | 23          | 12.11 | 85    | 13.56 |
| No answer  | 34          | 16.75 | 25           | 10.68 | 23          | 12.11 | 82    | 13.08 |
| Comparison of current sales with historical sales: |             |       |              |       |             |       |       |       |
| Definitely significant                             | 50          | 24.63 | 70           | 29.91 | 53          | 27.89 | 173   | 27.59 |
| Somewhat significant                               | 67          | 33.00 | 74           | 31.62 | 72          | 37.89 | 213   | 33.97 |
| Somewhat insignificant                             | 11          | 5.42  | 14           | 5.98  | 8           | 4.21  | 33    | 5.26  |
| Definitely insignificant                           | 17          | 8.37  | 17           | 7.26  | 10          | 5.26  | 44    | 7.02  |
| No opinion   | 28          | 13.79 | 34           | 14.53 | 25          | 13.16 | 87    | 13.88 |
| No answer  | 30          | 14.78 | 25           | 10.68 | 22          | 11.58 | 77    | 12.28 |

the comparison of current sales to historical sales to be significant. It may also be noticed that large firms indicated that the factors are significant more frequently than the small firms in all four circumstances. In addition to the above factors used by manufacturers for evaluating channels of distribution, there were several additional considerations mentioned by firms as being definitely significant. First, several industrial firms mentioned that the extent to which the middleman handles customers' technical problems is the most significant factor. If the current channel does not provide adequate technical assistance, it is replaced.

Another factor significant to several firms is the attitude of all members of the channel toward the manufacturer. Although subjective in nature, it is measured in terms of amount of effort expended, types of requests made of the manufacturer, frequency of contact with the home office, suggestions made to improve the product, and the extent to which one wants to sell the manufacturer's product.

A third factor considered significant for channel evaluation is a quantitative evaluation of performance. Performance data include an examination of share of the market, number of new accounts, and return on investment objectives.

In addition, a few firms mentioned that channel cost is an important factor. Finally, one company indicated that the extent of trade union difficulties is carefully scrutinized. If there appears to be future trade union difficulties that could affect supply, the channel could be abandoned. This is a critical consideration in industries where a firm's survival depends upon its ability to supply dealers with product. If there is a slowdown in supply, the dealer may replace the product with a competitor's product or give the competitor's product prime shelf position.

#### Avenues of Receiving Information on the Functioning of Existing Channels of Distribution

In addition to studying evaluative factors considered by manufacturers concerning existing distribution channels, the

survey examined avenues along which information concerning the relevant factors travels to the manufacturer. Numerous manufacturers indicated that communication is one of the primary channel problems. It is difficult to receive information about the characteristics of customers, sales effectiveness of middlemen, merchandising procedures of middlemen, promotional support, pricing policies, inventory turnover, and sales volume. Since the evaluation of channel effectiveness is based on these factors, lack of pertinent information concerning the factors can lead to suboptimum evaluative efforts. The methods, therefore, used by manufacturers are examined to determine how relevant information is obtained.

Table XLI presents the three most frequent responses to the question asking the participating manufacturers to indicate avenues of communication used to receive information on how well

TABLE XLI

NUMBER OF SMALL, MEDIUM, AND LARGE MANUFACTURERS USING SALES REPORTS, CUSTOMER CONVERSATIONS, AND INFORMATION FROM SALESMEN TO EVALUATE DISTRIBUTION CHANNELS

| Avenue of Communication                           | Small Firms |       | Medium Firms |       | Large Firms |       | Total |       |
|---|-------------|-------|--------------|-------|-------------|-------|-------|-------|
|   | Freq.       | %     | Freq.        | %     | Freq.       | %     | Freq. | %     |
| Sales reports                                     | 120         | 59.11 | 149          | 63.68 | 155         | 81.58 | 424   | 67.62 |
| Conversations with customers                      | 147         | 72.41 | 177          | 75.64 | 151         | 79.47 | 475   | 75.76 |
| Information filtering back by way of the salesmen | 112         | 55.17 | 145          | 61.97 | 145         | 76.32 | 402   | 64.11 |

the channel is functioning. Of the seven communication avenues mentioned by manufacturers, sales reports, conversations with customers, and information filtering to the manufacturer from the salesmen are the most significant. Approximately 68 percent of the responding firms indicated that sales reports are used to receive information on channel effectiveness. Also, 76 percent of the firms rely on conversations with customers and 64 percent use information filtering to the company by way of the sales force. In addition, most firms use a combination of the three communication methods.

Also, the relationship between responses of small, medium, and large firms was examined. Large firms indicated more frequently than small or medium firms that the three communication methods are used. In fact, 82 percent of the large firms use sales reports while 59 percent of the small firms and 60 percent of the medium firms use such reports. Also, 79 percent of the large companies, 76 percent of the medium companies, and 72 percent of the small firms rely on conversations with customers. Finally, 76 percent of the large firms utilize information filtering back from salesmen. Sixty-two percent of the medium companies and 55 percent of the small companies use such information.

Other methods of communication mentioned by manufacturers are presented in Table XLII. Warranty cards often accompany merchandise. The buyer is asked to immediately return the card in order to protect the warranty. Its primary purpose, however,

TABLE XLII

NUMBER OF MANUFACTURERS USING INFORMATION FROM WARRANTY CARDS, CONSUMER SURVEYS, MIDDLEMAN SURVEYS, AND ATTITUDE SURVEYS AS A BASIS FOR EVALUATING CHANNELS OF DISTRIBUTION

| Avenues of Communication                                 | Small Firms |      | Medium Firms |      | Large Firms |       | Total |       |
|--|-------------|------|--------------|------|-------------|-------|-------|-------|
|  | Freq.       | %    | Freq.        | %    | Freq.       | %     | Freq. | %     |
| Warranty Cards   | 14          | 6.90 | 13           | 5.56 | 14          | 7.37  | 41    | 6.54  |
| Consumer surveys   | 15          | 7.39 | 21           | 8.97 | 29          | 15.26 | 65    | 10.37 |
| Middleman surveys  | 11          | 5.42 | 18           | 7.69 | 19          | 10.00 | 48    | 7.66  |
| Attitude surveys concerning middleman-customer relations | 13          | 6.40 | 12           | 5.13 | 22          | 11.58 | 47    | 7.50  |

is to provide information on the nature of the market, how the product is being used, and frequency of purchase. The study showed that approximately 7 percent of the United States manufacturers use warranty cards to obtain information.

Another method of obtaining channel information is by directly contacting the customer. This method is used by about 10 percent of the respondents. Also, approximately 15 percent of the large manufacturers, 9 percent of the medium manufacturers, and 7 percent of the small manufacturers utilize consumer surveys.

Another avenue of communication is direct contact with the middleman. Several firms mentioned a standardized questionnaire is semiannually mailed to middlemen. Of the companies surveyed, approximately 8 percent utilize some variation of

the middleman survey. Also, it is used by 10 percent, 8 percent, and 5 percent of the large, medium, and small manufacturers, respectively.

Finally, approximately 8 percent of the respondents conduct interviews to obtain attitude information on customer-middleman relations. Again, the large firms use the method more frequently than the small firms. In fact, 12 percent of the large firms conduct attitude surveys while only 5 percent of the medium and 6 percent of the small companies utilize such surveys.

## CHAPTER V

### CONCLUSIONS AND RECOMMENDATIONS

The study was designed to examine channel structure, channel selection policy, and channel evaluation policy of United States manufacturers. The findings were based on an analysis of 637 responses by small, medium, and large firms. The firms were selected by a systematic sample of Thomas's Register of American Manufacturers.

#### Conclusions

Based on a knowledge of distribution channels, certain conclusions were anticipated before beginning the study. The following suppositions have been either confirmed, rejected, or modified by the study findings and conclusions.

Hypothesis I: The size of the manufacturing firm (small, medium, and large) influences the degree of significance attributed the channel selection and evaluation factors. Large manufacturers are more concerned with channel selection factors than small or medium companies.

Hypothesis II: Large firms use a direct channel of distribution more frequently than small and medium firms.

Hypothesis III: Industrial goods firms use a direct channel of distribution more frequently than consumer goods manufacturers.

Hypothesis IV: The large manufacturer determines within its own organization which channel of distribution should be used to distribute its products. In the case of small and medium-sized manufacturers, however, the wholesaler and retailer will play a significant role in channel selection.

Hypothesis V: A group of several executives selects appropriate channels in large firms. However, the channel selection is made by one person in small and medium-sized companies.

Hypothesis VI: The results of the study will show that the factor related to the relevant market is the most significant consideration for selecting an optimum channel of distribution.

Hypothesis VII: The most important factors considered by manufacturers of all sizes for selecting individual outlets (wholesalers and retailers) are their credit status and financial stability.

Hypothesis VIII: Most manufacturers do not have regular channel evaluation procedures.

Hypothesis IX: A sales report is the most widely used method of receiving information for evaluating distribution channels.

Consistent with the purposes of this study and based on an analysis of the findings, certain conclusions are presented.

1. Most small, medium, and large manufacturing firms consider two or more factors as important in selecting



distribution channels. This conflicts with Hypothesis I.

2. Firm size does not influence the distribution channel utilized by manufacturers. This conflicts with Hypothesis II.

3. Industrial goods manufacturers primarily utilize direct distribution channels while consumer goods manufacturers rely on middlemen. This is consistent with Hypothesis III.

4. Manufacturers of custom-made products have no control over channel selection decisions. Additional reasons why firms have no control over channel selection include the following: (1) the channel is an industry standard, (2) the nature of the product dictates channel policy, and (3) state laws dictate channel policy. Most manufacturers, however, have control over selection of appropriate channels. This modifies Hypothesis IV.

5. Channel selection decisions are made by one person, the president, more frequently in small firms than large firms. Large companies that are characterized by autonomous channel decision making delegate authority for channel selection to the marketing executive and vice president of sales. Other executives given responsibility for channel decisions are the sales manager and general manager. This is consistent with Hypothesis V.

6. The most significant factor for channel selection of all manufacturers is the relevant market to which the product is intended. The second most significant factor is the size of the relevant market. This is consistent with Hypothesis VI.

7. The most significant factors for selection of individual outlets are credit and financial stability and reputation of middlemen. Most companies have definite policies for handling delinquent accounts. This is consistent with Hypothesis VII.

8. Most manufacturers do not have regular channel evaluation policies. Large firms, however, are more likely to regularly evaluate distribution channels than small manufacturers. Although manufacturers do not have regular evaluation policies, they do periodically consider several factors to determine their effectiveness. This is consistent with Hypothesis VIII.

9. The most frequently utilized methods of receiving information on how well the channel is functioning are (1) sales reports, (2) conversations with customers, and (3) information filtering to the manufacturer by way of salesmen. The three communication methods are more significant to large firms than small manufacturers. Other communication methods considered significant by large firms more frequently than small manufacturers include warranty cards, consumer surveys, middleman surveys, and attitude surveys concerning middleman-customer relations. This is consistent with Hypothesis IX.

10. Channel selection decisions are normally made by an interaction of several executives in large firms. The executives that interact to make channel selection decisions are the president, marketing executive, and sales manager. The

production executive, general manager, comptroller, chairman of the board, trade relations manager, marketing policy group, executive committee, product manager, and technical director are also important.

11. Channel selection decisions are normally made through the interaction of several executives in consumer goods firms, while the president makes channel decisions in firms that manufacture industrial goods.

12. For industrial goods manufacturers, the most significant factor for distribution channel selection is the technical nature of the product. Many industrial goods manufacturers would prefer using a middleman but the middleman is usually not qualified to handle the product. They are unwilling to learn the technical aspects of the product.

13. The channel selection factors considered significant more frequently by large manufacturers than small manufacturers are (1) the relevant market to which the product is intended, (2) the size of the relevant market, (3) market concentration, (4) technical nature of product, (5) the desire for channel control, (6) the quantity and quality of the middleman's services, (7) the availability of middlemen, (8) the attitude of middlemen toward manufacturers' policies, (9) the potential sales volume of the channel, and (10) the cost of selling through alternative channels.

14. The channel selection factors considered significant more frequently by small manufacturers than large manufacturers

are (1) product perishability, (2) freight and handling cost, (3) price fluctuations, (4) unit value of the product, (5) financial considerations, and (6) management's ability to perform middleman activities.

15. The channel selection factors considered significant regardless of size are (1) order size, (2) product line breadth, (3) quality and quantity of trade association assistance, (4) traditional channel structures, and (5) intuition based on past experience.

16. Game theory, simulation, and Bayesian decision theory are infrequently used by small, medium, and large firms to select distribution channels. Simulation is used slightly more than the other quantitative techniques. The primary reasons for the lack of utilization of quantitative methods are (1) lack of interest and (2) limited knowledge.

17. The factor considered by the fewest number of manufacturers as a factor for selecting individual outlets is whether the outlet is utilized by competing firms.

18. The individual distributor selection factors considered significant more frequently by large manufacturers than small manufacturers are (1) the sales volume of the outlet, (2) the strength of the middleman's sales group, (3) the kinds of customers reached by the distributor, (4) the geographical market covered by the outlet, (5) the capabilities of the middleman's management personnel, and (6) whether the middleman will carry an adequate supply of the manufacturer's product.

19. The only distributor selection factor considered more significant by small firms than large manufacturers is the willingness of the middleman to carry the manufacturer's product.

20. Distributor selection factors considered significant by firms of all sizes are (1) the credit and financial stability of the middleman, (2) the reputation of the middleman, (3) the outlets utilized by competing firms, (4) the nature of products carried by the outlet, (5) the degree to which middleman business philosophy is consistent with manufacturer philosophy, (6) the cost of reaching the outlet, (7) the technical expertise of the middleman's salesmen, (8) the extent to which the consumer accepts the middleman, (9) the enthusiasm of the middleman toward the product line, (10) the middleman's knowledge of the market, (11) the relationship between the middleman and the manufacturer's senior management, (12) the integrity of the middleman, (13) the ability and willingness of the middleman to communicate with the customer and manufacturer, (14) intuition and experience in judging people, and (15) legal factors such as meeting licensing requirements.

21. Among the firms employing regular channel evaluation procedures, the most widely utilized procedure involves a comparison of sales volume to a predetermined quota or goal. Other methods frequently used for channel evaluation include (1) an analysis of growth in sales and profit of each distributor, product, and territory; (2) a periodic analysis of

product profitability, customer profitability, inventory analysis, inventory flow, and manufacturer-middleman-customer compatibility; (3) an examination of the sales plan as well as intensive quarterly reviews of territories, customers, and products; and (4) periodic contact with the middleman. In addition, a manufacturer relying on mail-order business evaluates its channel by examining (1) the dollar volume realized from orders each year, (2) the number of orders per year, (3) the number of repeat orders per year, (4) the amount spent on postage, and (5) the number of items mailed per year.

22. Among the firms not employing regular channel evaluation procedures, the most frequently considered factors for their periodic evaluation are promptness of the middleman in paying bills and profit evaluation.

23. Large manufacturers consider factors for channel evaluation more frequently than small firms. The factors considered by large firms include (1) a profit evaluation of each channel, (2) the contribution of the channel to customer recognition and acceptance of the company's sales promotion campaign, (3) the relationship of sales to a predetermined quota, (4) the middleman's treatment of competing lines, (5) customer complaints of middlemen, (6) the contribution of the channel to an understanding of the character of the market it serves, (7) performance data concerning service of customers, and (8) the comparison of current sales to historical sales.

24. Channel evaluation factors considered significant by manufacturers of all sizes include (1) promptness of customers in paying bills, (2) comparison of sales volume to the sales of other middlemen, (3) the middleman's treatment of competing lines, (4) the extent to which the middleman handles the customers' technical problems, (5) the attitude of all members of the channel toward the manufacturer and its product, (6) a quantitative evaluation of performance by examining share of the market, the number of new accounts, selling skills, return on investment objectives, and ability to follow up on leads provided by the manufacturer, (7) channel cost, and (8) the extent of trade union difficulties.

25. Consumer goods manufacturers consider promptness of customers in paying bills to be the most significant factor for channel evaluation. Payment of bills is not as significant to industrial goods manufacturers.

#### Recommendations

Based on an analysis of the findings and a review of the marketing literature, certain recommendations are advanced.

1. Manufacturers should develop regular channel evaluation procedures. The evaluation procedures should include an examination of the following factors: (1) comparison of sales volume and profit for each product, customer, and territory to a predetermined standard, (2) evaluation of inventory levels and turnover at all distribution levels, (3) promptness of

middlemen in paying bills, (4) contribution of the channel to overall corporate objectives--performance standards should be developed that interrelate with corporate objectives, and actual performance should subsequently be compared to performance standards, (5) comparison of sales volume with potential sales of alternative channels, (6) middleman's treatment of competing lines, (7) customer complaints, (8) contribution of the channel to an understanding of the market it serves--amount and nature of information channel members provide for the manufacturer, (9) performance data on service, (10) comparison of current sales to past sales, (11) extent to which the middleman handles customer problems such as technical problems with the product, (12) attitude of middlemen toward the manufacturer, measured in terms of amount of effort expended, types of requests made of the manufacturer, frequency of contact with the home office, suggestions made to improve the product, (13) quantitative evaluation of share of the market, number of new accounts, return on investment, and channel cost, and (14) extent of potential trade union difficulties.

2. Additional research should be conducted to develop practical quantitative applications to the channel selection problem. Particular attention should be given to simulation and Bayesian decision theory. The applications should be applied to actual business problems and introduced to students and businessmen.



3. The extent to which various channel selection and evaluation factors are considered by manufacturers should be treated by marketing literature. Also, marketing literature should contain all channel selection and evaluation considerations.

4. Manufacturers should utilize all available avenues of communication for receiving channel information. Most firms use sales reports, conversations with customers, and information from salesmen. This can be extended to include periodic surveys of customers and middlemen.

5. Executives of small manufacturers should place more emphasis on joint decision authority for the selection of distribution channels. It is difficult for one man, the president, to anticipate the effect of a decision on all areas of the company. He should rely on the expertise of major executives. All manufacturers should include the production manager and financial executive in channel decisions. The profound effect of channel decisions on inventory levels, production schedules, and capital reserves indicates the need for advice from all functional areas.

6. Additional research should be conducted at all distribution levels to determine the roles played by channel members in the selection and evaluation of distribution channels.

## APPENDIX

Dear

In exchange for a few minutes of your time I would like to send you a copy of a study on "Selection and Evaluation of Channels of Distribution." Since channel decisions affect sales volume, company image, inventory decisions, and other aspects of the organization, it must undoubtedly be of interest to you and other corporation executives.

As a doctoral candidate at North Texas State University, I am attempting to develop a better understanding of channel decision-making policies by gathering information from businessmen who, by their positions in industry, are able to provide insight into these activities.

Your response is critical to the success of this study. I would greatly appreciate your taking a few minutes to complete the enclosed questionnaire which will provide information about your views on channel decision-making activities. You can be assured that all replies are confidential and will be tabulated into general categories with no reference to individual companies by name. A postage-paid reply envelope is enclosed for your convenience. Thank you for your help.

Sincerely yours,

Joe L. Welch

eab

Enclosures

Dear Sir:

Recently I sent you a short questionnaire asking your views on channels of distribution decision-making activities. As we sent out only a limited number of these, your answer is critical to the accuracy of my survey.

It will take only a few minutes to fill out and return the form in the stamped envelope enclosed. If you've already done so, many thanks. If you have not yet had a chance to answer, I would be most grateful if you would do so now. Your answers will be held in strict confidence, of course.

Thank you for your assistance.

Sincerely yours,

Joe L. Welch

eab

Enclosures

SELECTION AND EVALUATION OF  
CHANNELS OF DISTRIBUTION

Name of Firm: \_\_\_\_\_

Location: \_\_\_\_\_

- I. What classification of goods does your company primarily sell? In other words, which class of goods is responsible for over 50% of your total revenue? Check only one.

\_\_\_\_\_ Consumer Goods---If checked, answer 1a.

- 1a. What channel(s) is used to distribute your products?

\_\_\_\_\_ Manufacturer to Ultimate Consumer

\_\_\_\_\_ Manufacturer to Retailer to Ultimate Consumer

\_\_\_\_\_ Manufacturer to Wholesaler to Retailer to  
Ultimate Consumer

\_\_\_\_\_ Manufacturer to Agent or Broker to Retailer  
to Ultimate Consumer

\_\_\_\_\_ Manufacturer to Agent or Broker to Wholesaler  
to Retailer to Ultimate Consumer

\_\_\_\_\_ Industrial Goods---If checked, answer 1b.

- 1b. What channel(s) is used to distribute your products?

\_\_\_\_\_ Manufacturer to Industrial User

\_\_\_\_\_ Manufacturer to Industrial Distributor to User

\_\_\_\_\_ Manufacturer to Agent to User

\_\_\_\_\_ Manufacturer to Agent to Industrial Distributor  
to User

- II. Who determines the appropriate channel to use?

\_\_\_\_\_ I make the decision: Title \_\_\_\_\_

\_\_\_\_\_ The decision is made through interaction of several executives. Please check the people who are involved in this decision.

Marketing Executive       President  
 Comptroller               Sales Manager  
 Production Executive       Chairman of the Board  
 Other \_\_\_\_\_

Our company has no control over the selection of the channel of distribution. Please explain. \_\_\_\_\_  
 \_\_\_\_\_

Other \_\_\_\_\_

FACTORS CONSIDERED IN CHANNEL SELECTION

III. Please "circle" the number corresponding to the appropriate category for each statement indicating the degree of significance that you place on the statement as factors that are considered by your organization when selecting a channel of distribution.

|  | Definitely Significant | Somewhat Significant | Indifferent or No Opinion | Somewhat Insignificant | Definitely Insignificant |
|--|------------------------|----------------------|---------------------------|------------------------|--------------------------|
|  | 1                      | 2                    | 3                         | 4                      | 5                        |
| 1. Whether or not the product is intended for the consumer or industrial market  | 1                      | 2                    | 3                         | 4                      | 5                        |
| 2. The size of the market in number of customers   | 1                      | 2                    | 3                         | 4                      | 5                        |
| 3. The geographic concentration of the market (i.e. whether the market is located in one small geographical area or spread throughout the country) | 1                      | 2                    | 3                         | 4                      | 5                        |
| 4. Average size of orders to individual firms  | 1                      | 2                    | 3                         | 4                      | 5                        |
| 5. Consumers desire for credit and services of personal salesmen   | 1                      | 2                    | 3                         | 4                      | 5                        |
| 6. Unit value of your product  | 1                      | 2                    | 3                         | 4                      | 5                        |
| 7. Fluctuation in the price of your products   | 1                      | 2                    | 3                         | 4                      | 5                        |

|   | Definitely<br>Significant | Somewhat<br>Significant | Indifferent<br>or No Opinion | Somewhat<br>Insignificant | Definitely<br>Insignificant |
|---|---------------------------|-------------------------|------------------------------|---------------------------|-----------------------------|
| 8. Cost of freight and handling   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 9. Channel used by competing firms  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 10. Extent of the product line (i.e. broad line vs. one or just a few products)   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 11. Your company's available financial resources  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 12. Ability of your management to perform middleman activities  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 13. Quantity and quality of services you can provide in relation to those demanded by middlemen (i.e. does the middleman demand services such as supportive advertising before they will handle the product?) | 1                         | 2                       | 3                            | 4                         | 5                           |
| 14. Quantity and quality of services provided by the middleman (i.e. does the middleman provide services you can't provide economically?)   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 15. Physical or fashion perishability of the product  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 16. Technical nature of the product   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 17. Is the middleman available?   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 18. Desire for control of the distribution of your products   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 19. Attitude of middleman toward your policies  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 20. Potential sales volume that can be realized from a channel alternative  | 1                         | 2                       | 3                            | 4                         | 5                           |

|   | Definitely Significant | Somewhat Significant | Indifferent or No Opinion | Somewhat Insignificant | Definitely Insignificant |
|---|------------------------|----------------------|---------------------------|------------------------|--------------------------|
| 21. Cost of selling through alternative channels                                | 1                      | 2                    | 3                         | 4                      | 5                        |
| 22. Legal implications of selecting a channel                                   | 1                      | 2                    | 3                         | 4                      | 5                        |
| 23. The use of game theory in determining channels of distribution              | 1                      | 2                    | 3                         | 4                      | 5                        |
| 24. The use of simulation in determining channels of distribution               | 1                      | 2                    | 3                         | 4                      | 5                        |
| 25. The use of Bayesian Decision Theory in determining channels of distribution | 1                      | 2                    | 3                         | 4                      | 5                        |

Please list other factors that are definitely significant to you when selecting a channel of distribution. \_\_\_\_\_

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#### FACTORS CONSIDERED IN SELECTING INDIVIDUAL OUTLETS

IV. Please "circle" the number corresponding to the appropriate category for each statement indicating the degree of significance that you place on the statements as factors that are considered by your organization when selecting individual outlets in the channel of distribution.

|  | Definitely Significant | Somewhat Significant | Indifferent or No Opinion | Somewhat Insignificant | Definitely Insignificant |
|--|------------------------|----------------------|---------------------------|------------------------|--------------------------|
| 1. Does the outlet carry competing products? | 1                      | 2                    | 3                         | 4                      | 5                        |

|   | Definitely<br>Significant | Somewhat<br>Significant | Indifferent<br>or No Opinion | Somewhat<br>Insignificant | Definitely<br>Insignificant |
|---|---------------------------|-------------------------|------------------------------|---------------------------|-----------------------------|
| 2. Credit and financial stability of the middleman  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 3. Degree to which the middleman's business philosophy is consistent with your philosophy (i.e. degree to which he cooperates in supporting your promotional ideas, pricing policies, etc.) | 1                         | 2                       | 3                            | 4                         | 5                           |
| 4. Reputation of the middleman  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 5. Willingness of the middleman to carry your product (will sell through any outlet that will carry your product)   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 6. Potential sales volume of the outlet   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 7. Costs involved in reaching the outlet  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 8. Type of outlet used by competitors   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 9. Capabilities of the middleman's management personnel   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 10. Strength of the middleman's sales group   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 11. Will it carry an adequate supply of your products?  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 12. Kinds of customers the distributor reaches  | 1                         | 2                       | 3                            | 4                         | 5                           |
| 13. Geographical market covered by the outlet   | 1                         | 2                       | 3                            | 4                         | 5                           |

Please list other factors that are definitely significant to you when selecting an individual firm. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



- V. Has your company ever employed a different channel for a product than what it currently being used for that same product?

\_\_\_\_\_ Yes            \_\_\_\_\_ No            \_\_\_\_\_ Don't Know

IF "NO" OR "DON'T KNOW," PLEASE SKIP TO QUESTION VII.

- VI. Why did you change distribution channels to what you are currently using? (What factors were considered in making such a decision?) \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

FACTORS CONSIDERED IN EVALUATING CURRENT CHANNELS

- VII. Please "circle" the number corresponding to the appropriate category for each statement indicating the degree of significance that you place on the statements as factors that are considered by your organization when evaluating your current channels of distribution.

|  | Definitely Significant | Somewhat Significant | Indifferent or No Opinion | Somewhat Insignificant | Definitely Insignificant |
|--|------------------------|----------------------|---------------------------|------------------------|--------------------------|
| 1. Customer complaints of your middlemen   | 1                      | 2                    | 3                         | 4                      | 5                        |
| 2. Profit evaluation of each channel   | 1                      | 2                    | 3                         | 4                      | 5                        |
| 3. Contribution of the channel to overall corporate objectives   | 1                      | 2                    | 3                         | 4                      | 5                        |
| 4. Contribution of the channel to an understanding of the character of the market it serves                                      | 1                      | 2                    | 3                         | 4                      | 5                        |
| 5. Contribution of the channel alternatives to customer recognition and acceptance of your company's sales promotional campaigns | 1                      | 2                    | 3                         | 4                      | 5                        |
| 6. Performance data on service   | 1                      | 2                    | 3                         | 4                      | 5                        |

|   | Definitely<br>Significant | Somewhat<br>Significant | Indifferent<br>or No Opinion | Somewhat<br>Insignificant | Definitely<br>Insignificant |
|---|---------------------------|-------------------------|------------------------------|---------------------------|-----------------------------|
| 7. Promptness of middlemen in paying bills            | 1                         | 2                       | 3                            | 4                         | 5                           |
| 8. Middleman's treatment of competing lines           | 1                         | 2                       | 3                            | 4                         | 5                           |
| 9. Relationship of sales with quota                   | 1                         | 2                       | 3                            | 4                         | 5                           |
| 10. Comparison of current sales with historical sales | 1                         | 2                       | 3                            | 4                         | 5                           |

Please list other factors that are definitely significant to you when evaluating your current channels of distribution. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

VIII. Check the avenues of communication that are used by your company in receiving information on how well the channel is functioning.

- |  |   |
|--|---|
| <input type="checkbox"/> Sales reports     | <input type="checkbox"/> Conversations with customers                             |
| <input type="checkbox"/> Warranty cards    | <input type="checkbox"/> Information filtering back via salesmen                  |
| <input type="checkbox"/> Consumer surveys  | <input type="checkbox"/> Attitude surveys concerning middleman-customer relations |
| <input type="checkbox"/> Middleman surveys | <input type="checkbox"/> Other _____  |

IX. Do you have a regular channel evaluation procedure?

Yes       No

If "Yes," briefly explain the procedure. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

X. What is your major channel problem(s)? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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