Intra-Brand Competition, Governance Mechanisms, and Channel Outcomes in Dual Distribution Systems

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ISBM Report 03-2011

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May 2011

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Funding for this Research was provided by the Institute for the Study of Business Markets of the Pennsylvania State University. The first author would also like to thank the Goizueta Business School at Emory University for financial and research assistance. However, the contents of this research report reflect the views of the researchers who are solely responsible for the facts and accuracy of the data presented herein.
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Abstract

The focus of this paper is on firms’ use of dual distribution channels in business-to-business (B2B) markets; namely the simultaneous reliance on vertically integrated (direct) and third-party (indirect) channels for the same product line in a single geographical market. We first outline the particular problems that characterize such systems, which pertain to various forms of intra-brand competition. Next, we link the different manifestations of intra-brand competition with various channel outcomes, both at the distributor and customer level of the channel. Finally, we show how these outcomes are impacted by the relationship governance mechanisms used by the supplier firm in question. Our hypotheses are tested empirically based on a multi-industry field study of distributors. In general, our research paints a complex picture of both the problems and possible governance solutions that exist in dual channels.

Keywords: Dual distribution, concurrent channels, channel design, relationship governance mechanisms, channel outcomes
A firm’s channel design is an important component of its overall marketing strategy. As noted in past research, channel design contributes to a firm’s strategy in many different ways, for instance by 1) creating customer value (Bucklin 1966, Ghosh and John 1999), 2) serving as entry barriers (Frazier 1999), and 3) representing a launching pad for new products (Rangan 2006).

In past research, channel design has often been viewed somewhat narrowly, in terms of channel choice. According to this view, firms are assumed, explicitly or implicitly, to select one particular channel from a set of available options. For instance, the early functional and institutional work of Aspinwall (1962), Miracle (1965), and Bucklin (1966) focused on firms’ choices between direct and indirect channels. Similarly, analytical models (e.g. McGuire and Staelin 1983, Coughlan 1985) frequently assume a choice of a single channel. A parallel perspective underlies applications of transaction cost theory (e.g. Anderson 1985, Klein, Frazier, and Roth 1990, John and Weitz 1988), whose decision heuristic is one of discrete choice, namely between 1) market (independent or indirect channel), 2) hierarchy (integrated or direct channel), or 3) some intermediate “hybrid”. In fact, transaction costs theorists explicitly embrace the notion of choice, given its focus on “shifts among discrete structural alternatives” (Williamson 1991, p. 293).

These theoretical accounts, while contributing significantly to our understanding of channel design, don’t fully account for marketplace realities. Specifically, firms don’t necessarily choose between available channels, but purposely deploy different ones in combination. For instance, Srinivasan’s (2006) research shows that “make and buy” is a common pattern in franchising systems. In fact, it has been argued (Corey, Cespedes, and Rangan 1989; Frazier...
1999; Sa Vinhas and Anderson 2005) that dual distribution strategies or “concurrent channels” are rapidly becoming the rule rather than the exception in many industries.

Clearly, dual channels are integral parts of many firms’ strategies, and they offer distinct benefits. For instance, dual distribution allows manufacturers to both 1) serve the needs of a given customer base over time, and 2) accommodate the needs of different customer segments in an efficient and effective fashion. Furthermore, past research has shown that relying on different channels, beyond accommodating customers per se, offers distinct relationship governance benefits. Specifically, Dutta et al. (1995) show that augmenting an indirect channel with a direct one enhances a supplier’s ability to manage the indirect channel. Considered in combination, these perspectives suggest that going to market via dual or concurrent channels permits a firm to combine a customer orientation with a concern for efficiency.

At the same time, dual distribution systems represent challenges. Some of these challenges follow from the intra-brand competition that such systems create among a given supplier’s channels (e.g. Moriarty and Moran 1990; Sa Vinhas and Anderson 2005). In fact, while a dual distribution system may address certain governance problems (Dutta et al. 1995), such systems also create tension; possibly to the point of promoting channel member opportunism. As a consequence, while there are inherent benefits in a dual design, pursuing such a strategy simultaneously raises important questions regarding on-going channel management.

Somewhat surprisingly, despite its importance, there exists little systematic empirical evidence regarding the multi-channel phenomenon. In particular, there is very little research that documents the reseller’s perspective on these channel structures. The general goal of this study is to begin to fill this gap. Our specific research questions are the following: First, we provide a
broadened conceptualization of the inherent problems that characterize multi-channel systems. While past research has pointed to the general problem of intra-brand competition, we identify specific ways in which intra-brand competition manifests itself. Second, we link these problems with different channel outcomes. Specifically, we examine the effects on distributor behavior, transaction costs, and end customer satisfaction. Third, we draw on extant research on relationship management (e.g. John 1984, Dwyer and Oh 1988) to consider how these outcomes are affected by particular governance mechanisms; designed to regulate the interaction between the individual channels.

An empirical test based on confidential, proprietary reports of 120 distributors belonging to six different industry associations provides good support for our hypotheses. Our findings show how the different performance outcomes are influenced both by 1) channel problems, in the form of different types of intra-brand competition, and 2) the governance mechanisms used by the firm in question. Interestingly, we show that an individual variable (type of competition or governance device) may have both desirable and undesirable consequences, through their differential impact on outcomes at different levels of the channel.

The paper is organized in the following fashion. The next section presents the conceptual framework and hypotheses. Next, the research method is described, including the empirical test of the hypotheses. The final section discusses the implications of the findings for theory and practice.

THEORETICAL FRAMEWORK

Our focus is on a dual channel which combines a direct and indirect branch in a particular market. Our conceptual framework, which is shown in Figure 1, comprises three categories of variables and the relationships between them: First, we capture the inherent tensions that exist in
a dual system through three particular forms of *intra-brand competition*, namely competition among channels for 1) customers, 2) resources, and 3) functions, respectively. We consider how each form of competition impacts distributor behavior. Drawing on transaction cost theory (Williamson 1975, 2005), we focus on distributor behavior in the form of opportunism. Next, we consider a supplier's efforts to *manage* the on-going interactions with the indirect channel in such a way that opportunism is kept in check. We draw on past research to identify two generic governance mechanisms, namely *formalized rules* which clarify order ownership (e.g. Dwyer and Oh 1988, Reve and Stern 1986, March 1994)\(^1\) and *centralized decision-making* which regulate the on-going interaction between the manufacturer and the independent channel (Grossman and Hart 1986, John 1984, Heide and John 1992). Finally, we consider the impact of the different variables (intra-brand competition, channel governance efforts) on customer-level outcomes in the form of satisfaction.

In general, our framework highlights the challenges and trade-offs that dual channel designs represent. For instance, dual designs are often deployed to promote customer convenience and achieve objectives at the end-user level. As such, we posit that competition between channels, at least up to a certain point, will have a positive effect on customer satisfaction. At the same time, intra-brand competition may give rise to tension at the distributor level; possibly to the point of promoting outright opportunism. While a supplier can deploy governance mechanisms to suppress opportunism, such structural initiatives may have unintended consequences at the customer level of the channel and actually compromise customer outcomes.

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\(^1\) Given that much of our focus is on the relationships *between* the parts of a dual system, our conceptualization of formalization involves the use of rules to delineate boundaries between individual channels in a downstream market. This is distinct from previous conceptualizations of the formalization construct (e.g. John, 1984, Dwyer and Oh 1988), which have focused on the regulation of a particular vertical relationship between a manufacturer and a reseller.
The general premise of our framework is that 1) dual channels involve a series of processes that span different levels of a channel (e.g. distributor, end customer), and 2) a supplier’s decisions have complex, and possibly contradictory, effects, across the different levels. In the section below, we first discuss how the different aspects of intra-brand competition influence reseller opportunism. Next, we consider how reseller opportunism is impacted by a firm's governance practices. Finally, we discuss how intra-brand competition and different channel management variables impact the downstream customer.

**Intra-Brand Competition and Reseller Opportunism**

The notion of intra-brand competition appears prominently in the channels literature (e.g. Cady 1982, Dutta, Heide, and Bergen 1999). We propose that intra-brand competition in a dual context has three distinct manifestations.

First, the most commonly recognized form of intra-brand competition involves (external) market competition for customers. For instance, a company’s direct and indirect channels may compete for the same customer order. Second, building on recent research on inter-unit competition within a firm (e.g. Luo, Slotegraaf and Pan 2006, Maltz and Kohli 2006, Ruekert and Walker 1987, Tsai 2002), we propose that individual channels compete for a manufacturer’s tangible and intangible resources. In a dual distribution system, where both channels sell the same supplier brand, manufacturer resources such as marketing and technical support people are likely to be shared amongst the two channels (Webb and Lambe 2007). In addition, the two channels also compete for access to the latest products and technologies from the manufacturer.

We also consider a third type of intra-brand competition in dual systems, namely competition between different channels for the performance of distribution functions. As discussed by Coughlan et. al. (2001), resellers perform particular functions such as lead
generation, lead qualification, pre-sales service, negotiations, and customer retention activities. In a dual distribution system, the manufacturer is likely to be involved in some of these activities. While the manufacturer’s involvement may contribute to customer value, it may decrease the value created by the distributor and ultimately lead to lower margins. The distributor will see the manufacturer’s involvement in the performance of distribution functions as competition for a “slice of the value pie” that is created. Interestingly, while functions are the building blocks of a channel, Frazier (1999) laments that they have received little attention by researchers.

Our first set of hypotheses pertains to the relationships between the different forms of intra-brand competition and distributor behavior. Interestingly, past research has suggested that a dual design in itself serves channel management purposes and as a source of influence on reseller behavior. For instance, Dutta et al. (1995) argued that a company’s (direct) presence in a territory makes it clear to the focal reseller that the manufacturer is in position to replace her if necessary. Stated differently, “house accounts” in a reseller’s territory establish relationship termination as a credible sanction (Bergen, Heide and Dutta 1998), which in turn impacts the reseller’s on-going behavior. Fein and Anderson (1997) also view direct sales as a potential threat of forward integration.

The above discussion, which is based on transaction cost logic (e.g. Dutta et al. 1995, Williamson 2005), suggests that the joint presence of a direct channel in a territory should serve disciplinary proposes and reduce a reseller’s inclination to behave opportunistically. It’s noteworthy, however, that past research has taken the perspective of a supplier, and focused on the conditions that influence her decision to deploy a dual channel in the first place. Somewhat surprisingly, with some exceptions (e.g. Heide and John 1988), past research has not systematically considered 1) the distributor’s perspective, 2) the particular problems that dual
channels create\(^2\), or 3) the distributor’s possible responses. With regard to the latter, we expect intra-brand competition to be capable of actually promoting channel member opportunism or “self-interest seeking with guile” (Williamson 1975, 2005, Wathne and Heide 2000).

Consider first intra-brand competition with respect to customers. A direct sales operation in a territory suggests to the reseller that the supplier is “cherry-picking” the best customers (Fein and Anderson 1997). Such sentiments can turn acrimonious to the extent that a reseller suspects the supplier of creating an uneven playing field in favor its own employees (Sa Vinhas and Anderson 2005). This issue is particularly relevant in a dual channel because when a supplier’s direct and indirect channels converge on the same customer, a major point of differentiation, namely the brand, is absent. It thus becomes easier for the direct channel to free-ride on the presales services that the independent channel provides to customers (Dutta, Heide and Bergen 1999).

Competition for manufacturer resources creates a similar problem. When two units rely on the same source for resource inputs, they are likely to compete with each other to gain preferential access (Tsai, 2002). In the particular case of dual distribution systems, the distributor has reasons to believe that the manufacturer operation will win this race for preferential access, given the manufacturer’s incentives to favor its own sales force.

Finally, a higher level of involvement by the manufacturer in the performance of distribution functions for the distributor’s customers decreases distributor margins and makes it easier for the manufacturer to eventually replace the distributor; thus exacerbating distributor fears of unfair competition. In addition, the distributor may perceive the manufacturer’s involvement as an attempt to directly control the reseller’s operations (Cespedes and Corey 1990,

\(^2\) One of our central arguments is the need to go beyond the presence of dual channel per se to account for its particular characteristics or manifestations.
Corstjens and Doyle 1979). For the distributor, such a move may cause reactance types of behaviors (Deci, Koestner, and Ryan 1999, Heide, Wathne, and Rokkan 2007) that are “characteristically opportunistic in nature” (John 1984).

The above discussion of the different forms of intra-brand competition can be summarized by the following hypotheses:

$H1$: In a dual distribution system, the higher the level of competition between the manufacturer and the independent distributor channels in terms of a) customers, b) manufacturer resources, or c) the performance of distribution functions, the higher the level of distributor opportunism.

One point of clarification is necessary. We distinguish the intra-brand competition that exists in dual distribution systems, as discussed above, from other scenarios that have been discussed in the literature. For instance, past research (e.g. Fein and Anderson 1997, Frazier and Lassar 1996) has examined the impact of intra-brand competition among different independent channels, which conceptually is a question of distribution intensity. While higher degrees of intensity increase intra-brand competition, the customer under such a scenario is left to make choices among channels, and the supplier can claim indifference among the available options. In contrast, in a dual distribution system, where the supplier sells through an internal branch, the distributor may perceive the manufacturer to purposely influence the customer decision process in favor of its own channels. In turn, this may trigger distributor opportunism.

**Channel Management Mechanisms and Distributor Opportunism**

A distributor’s fear of manufacturer opportunism, and hence the likely level of distributor opportunism, should be less salient to the extent that the manufacturer is purposely preventing the likelihood of competition between the two channels, or is proactively “directing traffic” (Magrath and Hardy 1989, Webb and Lamb 2007). In general, this can be done by imposing an
organizational structure (Van de Ven and Ferry 1980, John and Reve 1982) on the multi-channel system. Drawing on past channels research (Dwyer and Oh 1988, John 1984), we focus on two particular structural governance variables, namely 1) formalized rules that define the domains of the two channels ex ante, and 2) centralized decision-making or an a priori allocation of decision rights between the channels.\(^3\) While such variables may not eliminate competition, the manufacturer’s decision to deploy them in the first place may impact the distributor’s attributions about the manufacturer’s intentions, and ultimately the distributor’s own behavior towards the manufacturer.

Consider first formalized rules. While a manufacturer can’t impose rules on the customers with respect to how and where they buy, she can establish rules for each channel member that clarify which channel form is allowed to contact a customer for a given lead or order. Such rules signal that the manufacturer is concerned about the well-being of each channel, which in turn alleviates a distributor’s concerns about the manufacturer’s intentions. The presence of rules will decrease the likelihood that the distributor’s attributions about potential customer losses to the manufacturer channel will involve the manufacturer. Rather, the customer may attribute potential losses to the customer or to underlying market characteristics. As a consequence, this reduces the likelihood of retaliatory opportunistic actions on the distributor’s part. This is consistent with past research on relationship formalization which suggests that establishing clear responsibilities within a relationship guards against the capricious mobilization of power (Dwyer and Oh, 1987; Dahlstrom and Nygaard 1999). This, in turn,

\(^3\) The notions of centralization and formalization originate from Weber’s (1947) theory of rational-legal bureaucracy. We rely on Stinchcombe’s (1985) analysis and related work in marketing (e.g. Dwyer and Oh 1988, Reve and Stern 1986) to suggest how these mechanisms can be deployed in relationships between independent firms.
stabilizes a distributor’s expectations with respect to the behavior of the integrated channel (Simon, 1976). Thus:

\[ H2: \text{In a dual distribution system, higher levels of formalization with regard to clarity of order ownership are associated negatively with the level of distributor opportunism.} \]

Consider next centralization. From a channel management standpoint, one of the purposes of centralizing decision-making at the manufacturer level is to clarify the parties’ decision rights and degree of autonomy. Consistent with the theory of bureaucracy from which the centralization construct originates (e.g. Weber 1947), the clearer the a priori expectations, the lower the likelihood of reseller resentment, and the lower the likelihood of reseller opportunism. According to Williamson (1975), convergent expectations are one of the primary benefits of organizational “fiat”, and such expectations may serve as restraints on a party’s opportunism (Anderson 1988).

We posit, however, that while centralized decision-making in principle may have such a capability, centralization in the context at hand may actually promote, rather than suppress, opportunism. Specifically, attempts on the part of a supplier to centralize decision-making may fuel the inherent fears that resellers in such systems possess, and produce alienation and frustration (Dwyer and Oh 1987; John 1984). In general, the higher the level of centralization of decision-making at the manufacturer-level, the lower the reseller’s perception of self-control, and the greater the concerns about a tilted playing field (Sa Vinhas and Anderson 2005). As a consequence, higher levels of centralization may actually promote opportunism at the reseller level. In hypothesis form:

\[ H3: \text{In a dual distribution system, higher levels of centralization in the relationship between the manufacturer and the independent distributor are associated positively with the level of distributor opportunism.} \]
Consider next the possible outcomes of distributor opportunism. The higher the level of opportunism in the channel in question, the greater the “friction” between the focal parties (Arrow 1969), and the higher the on-going transaction costs. Specifically, distributor opportunism will lead to a higher need for monitoring, higher contract negotiation costs, and greater communication and coordination difficulties (Buvik and John 2000; Dahlstrom and Nygaard 1999). Ultimately, this will manifest itself in the form of transaction costs. In hypothesis form:

\[ H4: \text{In a dual distribution system, higher levels of distributor opportunism are associated positively with channel transaction costs.} \]

**Intra-Brand Competition and Customer Satisfaction**

Recent research highlights the linkage between a manufacturer’s channel decisions and its end customers (e.g. Sa Vinhas et al. 2010). We consider one important and widely studied customer-level outcome; namely customer satisfaction, defined as the extent to which the final customer is happy with the way the independent distributor is serving them while selling the manufacturer’s products. This outcome is particularly relevant in a dual distribution system, given that one of the main reasons for dual distribution systems is to serve the needs of different customer segments (Corey, Cespedes and Rangan 1989, Frazier 1999, Moriarty and Moran 1990).

We posit that the effect of intra-brand competition on customer satisfaction is complex. As a baseline, consider that low levels of competition among channels may limit a brand’s market exposure (Frazier and Lassar 1996). Further, some degree of competition among
organizational units is likely to promote efficiency and innovation which ultimately benefits the final customer (Beersma et al 2003).

However, higher levels of competition between channels are likely to create customer confusion and irritation (Frazier 1999). In addition, the tension that follows from high levels of intrabrand competition is likely to diminish service provision (Frazier and Shervani 1992). Predictably, high levels of competition prompt parties to prioritize their own goals over the larger system. In this regard, Beersma et. al. (2003) show how competition between two units within an organization reduces parties' willingness to share information. In the context of a dual channel, such conflict undermines a distributor’s willingness to collaborate with the manufacturer, and ultimately the system’s ability to respond to customer needs.

The above discussion suggests a quadratic effect of competition for customers on customer satisfaction:

\[ H5: \text{In a dual distribution system, the relationship between the degree of competition for customers between the manufacturer and the independent distributor channel operations is non-linear, i.e.} \]

\[ a) \text{ For low levels of competition, higher levels of competition will lead to higher levels of customer satisfaction} \]
\[ b) \text{ For high levels of competition, higher levels of competition will lead to lower levels of customer satisfaction} \]

**Channel Management Mechanisms and Customer Satisfaction**

Consider next how satisfaction is influenced by a firm’s channel management strategy. First, consider the likely effect of relying on formalized rules that clarify order ownership.

Interestingly, by relying on structural variables which prevent competition between channels, the

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4 We expect the direct effects on customer satisfaction to be less salient for the other two types of competition. Competition for resources is inherently less visible to the customer, as s/he is not necessarily involved in the resource acquisition and deployment process. The customer should also be indifferent between the two channels in terms of who is performing a given distribution function, as long as the function is performed effectively.
supplier is simultaneously limiting the choices available to customers. In addition, formalizing order ownership reduces each channel’s incentives to put effort into a sale, as it becomes inherently easier to win. Thus, and perhaps counter intuitively, a governance mechanism like formalization which is capable of suppressing opportunism at the distributor level of the channel, as per Hypothesis 2, may actually have negative consequences at the customer level of the channel. In hypothesis form:

\[ H_6: \text{The higher the level of clarity of order ownership in a dual distribution system, the lower the level of customer satisfaction.} \]

Consider next the effects of centralization. Parallel to the discussion of formalization, we expect higher levels of decision-making centralization at the manufacturer level to decrease customer satisfaction. Specifically, centralizing decision making at one level of the channel may come at the expense of the system’s ability to respond to changes in the market environment; including changes in customer needs and preferences. Moreover, by virtue of centralizing decision-making the manufacturer is constrained in her ability to utilize the distributor’s expertise and knowledge of customer behavior. In fact, as discussed in the context of Hypothesis 3, to the extent that tight vertical control produces distributor frustration, she may purposely withhold important customer information from the manufacturer which otherwise may have helped drive satisfaction. Thus:

\[ H_7: \text{The greater the level of centralization in the relationship between the manufacturer and the independent channel in a dual distribution system, the lower the level of customer satisfaction.} \]

Recall from our earlier discussion that distributor opportunism is expected to produce transaction costs for the channel. Our final hypothesis pertains to the effect of transaction costs on customer satisfaction. In general, we posit that transaction costs will adversely impact customer satisfaction. There are two reasons for this: First, from the perspective of the individual
distributor, higher transaction costs impact her margins, and hence her willingness to invest in customer support. Second, to the extent that customer satisfaction depends on coordinated action between the two channels, transaction costs create friction which undermines the value-creation process in the channel (Ghosh and John 1999). Thus:

\[ H8: \text{Transaction costs are associated negatively with the level of customer satisfaction} \]

**METHODOLOGY**

*Unit of Analysis and Research Design*

The unit of analysis for the study is the relationship between a particular distributor and a manufacturer. The distributor in question sells a particular product line in a geographical area where the manufacturer simultaneously uses a direct channel. As discussed above, our conceptual framework comprises different forms of competition between the distributor and the manufacturer, various governance mechanisms (e.g. clarity of order ownership), and a series of outcomes. Given that measures of the focal constructs are not available from secondary data sources, we designed a field study to obtain the necessary data to test our hypotheses.

*Research Context, Data Collection, and Questionnaire Design*

First, we identified a set of industries which exhibited variation with respect to the phenomena of interest. Next, we conducted a series of interviews with firms in order to 1) enhance our understanding of dual channels and 2) guide our research design choices. While these interviews indicated a high level of interest in our research topic, they also revealed a high degree of sensitivity to the different issues (e.g. competition), which in turn suggested data collection challenges and the need for extensive and systematic pre-survey efforts.
We contacted twelve different distributor associations (most members of the National Association of Wholesalers-Distributors) for participation in our study. We spent a considerable amount of time, both by email and telephone, with top executives at each of these organizations describing the project and the benefits of participation. Building cooperation in this fashion from the different associations was a critical step in our data collection process.

After closer inspection, we eliminated one of the distributor associations from the study whose members sold refurbished materials, rather than original manufacturer’s products. In this particular instance, the lack of comparability between the products sold by the parts of the dual system would likely impact the nature of the competition between them.

Seven distributor associations agreed to endorse our study and give us access to their members. In exchange for participation, each distributor association was given a summary of the results and a benchmarking report. The distributors in our sample comprise both independent distributors who take title to the product, as well as manufacturer representatives who represent a manufacturer in a given territory but don’t typically take title.

Our informants were the distributor association’s primary contact within each firm. They were usually the president of the distributorship or the local sales manager. These individuals had been involved with selling the manufacturer’s product-line for an average of 15.4 years. A formal post hoc check on informant quality (Kumar, Stern, and Anderson 1993, Van Bruggen, Lilien, and Kacker 2002) suggests that they were highly familiar with the relationship between their firm and the manufacturer (mean score of 6.6 on a 7-point informant knowledge scale).

Questionnaires were mailed to each informant along with a postage-paid envelope and a cover letter on University stationery explaining the purpose of the study. The respondents were also given the option to complete the survey online. One hundred and sixty seven surveys were
returned, for a response rate of 22%. Non-response bias was assessed by comparing early to late respondents (based on all the study variables). No significant differences were found between the groups.

The informants were instructed to complete the questionnaire with regard to their relationship with a particular manufacturer (1) whose products the distributor firm resold to business customers in a territory (the final users of the manufacturer’s product), (2) who also used its own sales force (employed by the manufacturer) in the territory, and (3) whom the distributor had represented for at least three years. Forty distributors indicated that they did not meet these criteria, and were eliminated from further consideration. Our final sample consisted of 118 observations.

**Measures**

Constructs were first defined conceptually based on the past literature and our theoretical framework. Distributor *opportunism* is the extent to which the distributor pursues self-interest seeking with guile (Williamson 1985). Channel *transaction costs* are the costs associated with haggling, documentation, and renegotiation between the manufacturer and the distributor (Buvik and John 2000). Customer *satisfaction* is the extent to which the customer is happy with the way the independent distributor is serving them while selling a given manufacturer’s products.

Turning to our main independent variables, we define the level of competition for *customers* as the frequency with which the two channels compete for the same order from the same customers. Competition for *resources* is the extent to which the two channels compete for tangible and intangible resources (Luo, Slotegraaf and Pan 2006, Tsai 2002). Competition for *functions* is the extent to which the manufacturer is involved in performing distribution functions
(lead generation, qualification, pre-sales service, negotiation phase, closing the sale, customer retention) for the distributor’s customers.

*Formalization* of order ownership is the extent to which the supplier imposes rules on the channel system which clarify which channel form is allowed to contact a customer for a given lead or order, and help mediate disputes over interpretation and encroachment. *Centralization* is the extent to which there is a concentration of decision making authority, or whether the manufacturer retains vertical control in the relationship with the independent channel (e.g. Dwyer and Welsh 1985, Heide and John 1992).

As per standard psychometric practice, a set of items was developed for each construct based on past measures. New measures were developed for constructs with no measurement precedent. The measures are presented in the Appendix. Our pre-tests indicated that a number of constructs were quite transparent to the informants and could be indexed with a single item. To avoid overburdening informants, multiple items were not used for these constructs, as per Rossiter (2002). In the particular case of customer satisfaction, this measurement approach is consistent with an extensive body of past research (e.g. Anderson and Sullivan 1993; Bowman and Narayandas 2004; Mittal, Ross and Baldasare 1998).

*Covariates.* Several covariates were included in the models for the three dependent variables. We include several possible determinants of distributor opportunism, transaction costs, and customer satisfaction, as identified in previous research. First, we considered other governance mechanisms that manufacturers may use in its independent distributor relationships. We controlled for the level of monitoring in the relationship, given past evidence that it may influence the level of distributor opportunism (e.g. Heide, Wathne and Rokkan 2007). We also expect monitoring to directly impact customer satisfaction as it reduces information asymmetry.
vis-à-vis the distributor and thus enhances the manufacturer’s ability to control the channel system’s value creation process. We operationalized relationship monitoring through a formative indicator. We also controlled for the degree of compensation for joint selling situations involving both channels. Specifically, to the extent that a manufacturer compensates the distributor for lost sales to the direct channel, it may alleviate distributor concerns and hence the likelihood of opportunism (Sa Vinhas and Anderson 2005, Webb and Lambe 2007).

Given our focus on intra-brand competition between the two channels, we controlled for the possibility of other competitive effects. We controlled for the level of distribution intensity, or the extent to which a manufacturer relies on numerous intermediaries in each trade area to carry its brand (Cory, Cespedes and Rangan 1989, Frazier and Lassar 1996). We were particularly interested in whether distribution intensity and intra-brand competition within dual distribution systems impact distributor opportunism in different ways. We also controlled for the level of competition at the manufacturer-level, captured through the level of price competition between the different manufacturer brands. Conceivably, this may influence a distributor’s reactions to intra-brand competition.

We also accounted for the ease with which the manufacturer could replace the distributor, given the likelihood that opportunism may be impacted by the degree of lock-in between the parties (Anderson and Weitz 1992). We also measured the extent to which customers consider a bundle of products the supplier does not make. Each channel type plays a role in the sale when contacting the same customer: independents sell the set of products, and the supplier makes sure that, at minimum, brand A is in the set (Sa Vinhas and Anderson 2005). This creates behavior interdependence among the supplier’s different channels as they need to coordinate their actions.
Previous research suggests that this may potentially result in tension in the channel (Anderson and Narus 1984, Thibault and Kelly 1952).

Our final three covariates were relationship length, distributor turnover, and distributor adaptability. The historical length of the relationship between the manufacturer and the distributor was included to account for how working relationship may strengthen over time, which in turn should influence a firm's channel management ability. Second, distributor turnover was included in the model because the manufacturer has more to lose if larger distributors retaliate. Therefore, it has lower incentives to engage in practices that raise the distributor’s fears of unfair competition with the direct operation and related distributor opportunism. Finally, we controlled for distributor adaptability, or willingness to change her sales and marketing practices for the manufacturer’s products in response to market-level changes. Customers are more likely to be satisfied if the distributor is willing to adapt to changing circumstances.

*Measure purification.* First, item analysis and exploratory factor analysis were used to assess and purify the measures. Items with high loadings on the intended factor and no substantial cross-loadings were retained. The exploratory factor analysis indicated that all of the measures were unidimensional. Next, confirmatory factor analysis (CFA) was used to assess the convergent and discriminant validity of the measures. The CFA model has a comparative fit index (CFI) of 0.96, a goodness-of-fit index (GFI) of 0.84, a Root Mean Square Error of Approximation of 0.058, and a standardized root mean square residual (SRMSR) of 0.067 which indicates a satisfactory fit to the data. All of the observable indicators loaded significantly on their intended factors, which suggests convergent validity among the items of each scale. Discriminant validity was assessed according to Fornell and Larcker’s (1981) criteria. All pairs of factors met these criteria, providing evidence of discriminant validity. Reliability was assessed
through calculation of coefficient alpha for each item set, all of which were acceptable. Table 1 presents the descriptive statistics for the set of variables.

[Insert Table 1 here]

Common Method Variance (CMV). To formally assess the risk of common method variance, we conducted three separate analyses. First, we conducted Harman’s one-factor test (Podsakoff et al. 2003). We subjected all items from our reflective measures to exploratory factor analysis. Several factors emerged from our analysis and no single factor explained the majority of the variance, reducing potential CMV concerns. We also conducted a confirmatory factor analysis where all manifested items were modeled as the indicators of a single factor. The model did not fit the data well, and all the fit indicators failed to meet recommended levels.

Second, Lindell and Whitney (2001) suggest that the smallest correlation among the manifest variables provides a reasonable proxy for CMV. The authors suggest using the second-smallest positive correlation as a more conservative estimate. Following their suggestion, this indicator of CMV was assumed to have a constant correlation with all of the measured items. We calculated CMV-adjusted correlations between the variables under investigation - partialling out the CMV coefficient from the unadjusted correlations - and found that there were no differences in terms of size and patterns of significance between the unadjusted and CMV-adjusted correlations.

Finally, we used a variant of this technique suggested by Malhotra, Kim and Patil (2006), where the CMV-adjusted correlation matrix is used as input for path analysis. We found that the CMV-adjusted correlation matrix does not differ significantly from the uncorrected one. All of the correlations that were significant in the uncorrected correlation matrix remain significant in
the CMV-adjusted matrix, and there are no significant differences in the path coefficients. These tests indicate that CMV is unlikely to represent a validity threat in our study.

**Model Estimation and Results**

Recall from our earlier discussion that the distributor sample comprises both traditional independent distributors and manufacturers sales representatives. While our hypotheses pertain to dual structures in general (and to the effects of the different variables on distributor opportunism, transaction costs, and customer satisfaction), we conducted a series of pooling tests to formally explore whether the effects of the independent variables on the three dependent variables differ between traditional distributors and manufacturer sales representatives. The pooling tests failed to reject the null hypotheses that all the intercepts and coefficients are the same for the two sub-samples.

Since the sample of independent distributors is drawn from 6 distributor associations from different industries, we also explored the possibility of association-level effects. Our analysis indicates that possible association-specific effects are not a source of bias.

To test our research hypotheses (H1-H8), we estimated a set of three regression equations, for the dependent variables of distributor opportunism, transaction costs, and customer satisfaction, respectively. The models are shown in Table 2, and we discuss the tests of our hypotheses below.

**Distributor Opportunism and Transaction Costs.** The coefficients corresponding to the hypothesized determinants of opportunism are shown in the first column of Table 2. We also considered possible direct effects of our main independent variables on the level of transaction
costs in the relationship between the independent channel and the manufacturer. These are shown in the second column of Table 2.

Consistent with Hypothesis 1, we find that the level of intra-brand competition among the two channels has a negative impact on distributor opportunism. We found this to be the case for each of the three different types of intra-brand competition (.19, p<.01 for competition for customers; .18, p<.10 for competition for resources; and .16, p<.01 for competition for the performance of distribution functions). Interestingly, we also find a direct effect of competition for resources on transaction costs (0.24, p<.01).

Turning to the channel management or governance constructs, we find support for Hypothesis 2. The greater the degree of formalization of order ownership, the lower the level of distributor opportunism (-.19, p<.10). While we do not find an effect for relationship centralization on opportunism, failing to support Hypothesis 3, we find that it actually increases transaction costs (.37, p<.01). Consistent with Hypothesis 4, higher levels of distributor opportunism lead to higher transaction costs (.21, p<.05).

Regarding the covariates, distributor opportunism is lower for higher levels of distribution intensity (-0.18, p<.05), and for difficulty in replacing the distributor (.18, p<.01). Transaction costs are higher for higher levels of relationship monitoring (.19, p<.10), competition at the manufacturer-level (.29, p<.01), the extent to which customers buy the manufacturer’s product as a bundle (.14, p<.05), and for younger relationships (-.02, p<.01).

Customer satisfaction. We present the results for customer satisfaction in the third column of Table 2. Consistent with Hypothesis 5, we find a quadratic effect of competition for customers on customer satisfaction (.49 for the main term and -.07 for the quadratic term, both significant at p<.05). As per Hypotheses 6 and 7, formalization of order ownership (-.17, p<.05)
and centralization of decision-making (-.18, p<.05) both have negative effects on customer satisfaction. Consistent with Hypothesis 8, customer satisfaction decreases for higher levels of transaction costs (-.16, p<.05).

Turning to the covariates, distributor adaptability and the level of monitoring have a positive impact on customer satisfaction (.20, p<.05 and 0.18, p<.10 respectively). We discuss these results in the next section.

DISCUSSION

Today’s business-to-business channel environment is increasingly dynamic and complex. Manufacturers serve different segments with different distribution channels, and dual distribution systems are increasingly common in many industries. In fact, dual designs are almost a given in many markets, but the question of how to manage them has received surprisingly little attention.

The primary goal of this paper was to go beyond considering the presence of a dual distribution system to identify its particular manifestations. Further, we were interested in the governance mechanisms that are available to firms that rely on such systems. We developed a conceptual framework which identified 1) three different forms of intra-brand competition, 2) two different governance mechanisms, and 3) a series of outcomes. A set of hypotheses was developed regarding the relationships between the different constructs, and tested empirically based on a study of distributors.

Surprisingly, the distributor’s perspective on channel issues is, with some exceptions (e.g. Heide and John 1988), poorly documented. In fact, most of the extant channels literature, including empirical studies, tends to take the perspective of the manufacturer or supplier. However, given the inherent competition in dual systems, and the possibility that such
competition may have dysfunctional consequences, it’s important to capture the distributor's perspective, both on 1) the specific nature of problems in question, 2) the supplier’s governance efforts, and 3) the possible outcomes, including the distributor's own actions and predispositions.

From a managerial standpoint, our findings point to the complex processes that manifest themselves within dual channel systems. For instance, we showed that intra-brand competition goes beyond the standard notion of competition for customers, to also include competition for resources and channel functions. Importantly, all three forms of competition are capable of inducing distributor opportunism. It is perhaps particularly noteworthy that opportunism can be induced by competition for channel functions. This particular result is a response to calls for research on channel functions (e.g. Frazier 1999).

Our findings suggest some ways in which the problems with dual systems can be managed. The most obvious candidate for action is perhaps the sources of competition themselves. For instance, suppliers can manage competition (and its consequences) by refusing to serve certain customers directly, and by minimizing their involvement in channel functions. It is noteworthy, however, that the effects of intra-brand competition aren’t entirely negative. Specifically, our findings suggested that while competition for customers is capable of inducing distributor opportunism, it actually served to enhance satisfaction at the customer level within certain ranges of competition.

Beyond the sources of competition themselves, firms have the opportunity to manage dual systems through their governance decisions. Our governance findings have interesting implications, because a single mechanism was found to have different effects across different channel outcomes. Specifically, formalization of order ownership had 1) a negative direct effect on customer satisfaction, and 2) a positive indirect effect on satisfaction (by virtue of
suppressing distributor opportunism). These findings point to some interesting channel management trade-offs, as illustrated in Figure 2.

As a starting point, a supplier is faced with a channel management decision involving an appropriate degree of formalization. Conceptually, this decision involves the use of rules which are designed to clarify order ownership and the on-going relationship between the two branches of the system. As shown in the left side of Figure 2, stringent rules are associated with a distributor-level effect, where the rules serve to alleviate a distributor’s concerns and thus suppress opportunism. Ultimately, this will manifest itself in the form of reduced transaction costs, as we showed empirically. Transaction costs, in turn, impact customer satisfaction. The specific source of this effect is the ability of rules to promote efficiency which in turn permits a particular channel to deliver customer outcomes.

As shown by the right hand side of Figure 2, formalized rules are also associated with a customer-level effect. Here, however, the ultimate effect on satisfaction is not positive. Rather, because the relevant rules serve to restrict customer choice (and potentially impose search costs), customer satisfaction may suffer. Under this particular scenario, channel effectiveness is actually diminished by the use of rules. Overall, our findings point to a basic trade-off between channel efficiency and effectiveness. In practice, firms may approach such trade-offs in different ways. Ultimately, however, we believe that a firm may purposely tolerate certain intra-channel efficiency losses, in order to promote effectiveness in the form of customer satisfaction.
It is noteworthy that our second governance mechanism, centralization, did not create a similar tradeoff. Specifically, centralization was found to have a negative effect on both of the outcomes in question. This suggests that the governance mechanisms that are available to a supplier possess fundamentally different properties.

Finally, our results highlight the need to differentiate among different types of intra-brand competition. For instance, while competition between the direct and the indirect channels increases the level of distributor opportunism, competition between different indirect channels, has the opposite effect. Fears of unfair competition are likely to lead to higher levels of distributor opportunism in dual distribution systems. These fears are less present when independent distributors compete with each other, versus competing with the direct operation.

From a theoretical standpoint, our study adds nuance to existing conceptualizations which have tended to view firms’ channel choices in categorical terms; namely as a choice between direct and indirect channels. For instance, despite recent extensions of the basic model to “hybrids” (Williamson 2005), extant transaction cost models continue to operate at a high level of generality, and implicitly assume choices among discrete alternatives. This, of course, is inconsistent with the very premise of a dual system, which combines different governance forms into a single design.

Furthermore, despite the considerable literature on governance mechanisms and their effects, we know very little about how particular mechanisms are used within organizational systems such as a dual channel, and how they impact different types of outcomes. Theoretically, dual channel systems raise fundamental questions about the interactions between organizational designs, on the one hand, and particular mechanisms, on the other. This study begins to shed some light on this important question.
LIMITATIONS AND FUTURE RESEARCH

Our findings must be viewed in light of certain limitations. First of all, our current study was limited to documenting the perspective of the distributor. While we believe that capturing this perspective is of importance, additional insights could be gained by obtaining the view of the manufacturer in question. For instance, valuable insights can be gained from matched manufacturer-distributor data sets which would reveal whether exchange partners have similar perspectives on channel problems, solutions, and outcomes. We note, however, that obtaining such data poses considerable challenges, given the sensitivity that surrounds dual channel issues.

Second, while we acknowledge interdependencies across individual channel types, our current conceptualization could be expanded to account for a broader range of processes. Theoretically, a dual channel can be viewed as a plural governance system (Bradach and Eccles 1989, Heide 2003), where different types of governance mechanisms are combined in different ways. Conceivably, the manner in which one particular channel is managed may influence the efficiency of the firm's governance efforts in another. For instance, the fact that a firm relies on formalized rules in a direct (company-owned) channel may legitimize their use in an indirect one, and thus the effectiveness of formalized rules as control mechanisms in the first place. Furthermore, the use of formalized rules in a direct channel may go beyond establishing legitimacy; it may enhance the firm's expertise in designing and using rules, which ultimately enhances a firm's ability to manage an indirect channel.

Third, the current study possesses inherent limitations by virtue of capturing channel relationships at one particular point in time. We believe, however, that dual systems have interesting dynamic properties which can be addressed through longitudinal research designs.
For instance, the manner in which a particular system is built, including the order in which channel types are added, raises interesting questions.
References


Kumar, Nirmalya, Louis W. Stern and Ravi Achrol (1992),”Assessing Reseller Performance From the Perspective of the Supplier,” Journal of Marketing Research, 29(May), 238-53.


Webster, Frederick E., Jr. (1976), ”The Role of the Industrial Distributor in Marketing Strategy,” Journal of Marketing, 40(July), 10-16.


### Table 1

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<th>V2</th>
<th>V3</th>
<th>V4</th>
<th>V5</th>
<th>V6</th>
<th>V7</th>
<th>V8</th>
<th>V9</th>
<th>V10</th>
<th>V11</th>
<th>V12</th>
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*p < .05

### Table 1 (continued)

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Table 2  
ESTIMATION RESULTS – Dual Distribution Model

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<td>-0.17 **</td>
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<td>-0.18 **</td>
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<td>0.18 *</td>
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<td>Distribution intensity</td>
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<td>-0.01</td>
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<td>R²</td>
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* p < .10  
** p < .05  
*** p < .01  
Significant results (p<.10) in **bold**
Appendix 1
MEASURES

Competition Between the two Channels for Customers a
How frequently do your own sales people and this manufacturer's sales operation compete for a particular sale?

Competition Between the two Channels for Resources b (Reliability=.81)
Based on Tsai (2002) and Luo, Slotegraaf and Pan (2006)
This manufacturer makes marketing and technical support people available to support our marketing efforts for this product-line (R)
We have access to the same manufacturer resources as its own sales organization (R)
We have similar access to product and service innovations as this manufacturer's own sales organization (R)

Functions performed by the manufacturer
We are interested in the role played by this manufacturer's sales operation throughout the sales cycle for this product line, for the bulk of the orders for this product-line sent to your organization. We are interested in the selling functions performed by the manufacturer for your customers. Please check all that apply.
(1) lead generation; (2) lead qualification; (3) pre-sales service; (4) negotiation phase; (5) closing the order; (6) customer retention activities

Formalization of order ownership b (Reliability=0.67)
Based on Sa Vinhas and Anderson (2005)
This manufacturer has established standard operating procedures for coordinating the actions of our salespeople with its own sales people when both interact with a particular customer for a sales lead
This manufacturer has developed restrictions which keep us and its own sales operation from contacting the same customer
When we inform the manufacturer about a sales lead, they have policies in place which ensure that we are the only ones pursuing that lead
At a given time, both our sales force and this manufacturer's own sales force know which of the two channels should pursue a particular sales lead

Relationship Centralization b (Reliability = 0.79)
Based on Olson, Slater and Holt (2005)
This manufacturer gives us wide latitude in choosing how to sell this product-line in this territory (R)
We are given flexibility in how we get work done (R)
We have substantial autonomy regarding how we market this manufacturer’s product-line (R)
Key decisions for this product-line are made by us rather than by the manufacturer (R)

Distributor Opportunism b (Reliability= 0.84)
Based on Dwyer and Oh (1987) and John (1984)
On occasion, we lie about certain things in order to protect our interests
At times, we overstate our difficulties in order to get more support from the manufacturer's sales organization
Occasionally, we shirk certain obligations with the manufacturer when we can profit from doing so
Sometimes, we promise the manufacturer to do things without actually doing them later

Transaction Costs b (Reliability=.77)
Based on Buvik and John (2000)
Our firm spends too much time and resources on this manufacturer and the marketing of its products
The management of our relationship with this manufacturer is too costly relative to the benefits we gain from it
The negotiations between our firm and this manufacturer about pricing and marketing are time-consuming

(R) Reversed item
a 7-point scale anchored by “the two rarely compete” and “the two frequently compete”
b 7-point scale anchored by “strongly disagree” and “strongly agree”
c 7-point scale anchored by “customer satisfaction is very low” and “customer satisfaction is very high”
d 7-point scale anchored by “minimum evaluation efforts” and “extensive evaluation efforts”
Appendix 1
MEASURES

**Customer Satisfaction**<sup>c</sup>
How satisfied do you believe the manufacturer’s customers in your territory are with the way in which you are serving them?

**Degree of manufacturer monitoring**<sup>d</sup> (formative indicator)
*Based on Stump and Heide (1996)*
Please consider the following performance criteria, and indicate the extent to which this manufacturer evaluates your sales operation on each of them on an on-going basis:
- Level of sales of this product-line
- Quality of your pre-sales service for this product-line
- Level of satisfaction of your end customers
- Leads generated by your sales operation
- Number of salespeople devoted to selling this product-line
- Resources devoted to the promotion of new products
- Quality of your post-sale service for this product-line

**Compensation for joint selling situations**
Does the manufacturer compensate you when a sale is made in situations of joint sales or technical assistance by this manufacturer’s own sales representatives and your sales operation?

**Distribution Intensity**<sup>b</sup>
*Based on Frazier and Lassar (1996)*
We are the only distributor in this territory that is allowed to sell this manufacturer's brand to these customers (R)
This manufacturer tries to keep the number of distributors selling its brand to a minimum (R)

**Competition at the manufacturer level**<sup>b</sup>
There is significant price competition between different manufacturer brands in this sales territory

**Ease of replacing distributor for manufacturer**<sup>b</sup>
If they wanted to, this manufacturer could easily replace us with another distributor without significant losses

**Degree to which customers buy the manufacturer’s product in a bundle**<sup>b</sup>
Our customers tend to buy this product-line as part of a bundle which includes other product-lines

**Relationship Length**
How many years has your distributorship been selling this manufacturer's product-line in this territory?

**Distributor Turnover**
Which of the following annual turnover categories did your business fall into in your last business year?
1. Under $500.000;
2. $500.000 to $1m;
3. $1m to $5m;
4. $5m to $10m;
5. $10m to $50m;
6. $50m to $100m;
7. more than $100m

**Distributor Adaptability**<sup>b</sup> (Reliability=.72)
*Based on Kumar, Stern and Achrol (1992) and Noordewier, John and Nevin (1990)*
Our firm adjusts its selling practices for this manufacturer's products according to trends in the market
Our firm is innovative in its marketing of this manufacturer's products
Our firm makes a regular effort to meet competitive changes for this product-line
Our sales operation handles change well

(R) Reversed item

<sup>a</sup> 7-point scale anchored by “the two rarely compete” and “the two frequently compete”

<sup>b</sup> 7-point scale anchored by “strongly disagree” and “strongly agree”

<sup>c</sup> 7-point scale anchored by “customer satisfaction is very low” and “customer satisfaction is very high”

<sup>d</sup> 7-point scale anchored by “minimum evaluation efforts” and “extensive evaluation efforts”
FIGURE 1
Conceptual Framework

Channel Management Mechanisms
- Formalization of Order Ownership
- Centralization of Decision Making

Forms of Intra-Brand Competition
- Competition for Customers
- Competition for Resources
- Competition for Functions

Channel Management Mechanisms
- Distributor Opportunism
- Transaction Costs
- Customer Satisfaction

H1.a.b
H2,H3
H4
H5.a,b
H6,H7
H8
FIGURE 2
Channel Governance Decisions in a Dual Context

GOVERNANCE DECISION:
Degree of Formalization

DISTRIBUTOR
LEVEL EFFECT:
Reduced distributor concern and opportunism

Transaction Costs

CONSUMER
LEVEL EFFECT:
Restricted choice, search costs

CUSTOMER SATISFACTION
Managerial Summary

The focus of this paper is on firms’ use of dual distribution channels in business-to-business (B2B) markets; namely the simultaneous reliance on vertically integrated (direct) and third-party (indirect) channels for the same product line in a single geographical market. Dual channels are integral parts of many firms’ strategies, and they offer distinct benefits. For instance, dual distribution allows manufacturers to both 1) serve the needs of a given customer base over time, and 2) accommodate the needs of different customer segments in an efficient and effective fashion. At the same time, dual distribution systems represent challenges. Some of these challenges follow from the intra-brand competition that such systems create among a given supplier’s channels. As a consequence, while there are inherent benefits in a dual design, pursuing such a strategy simultaneously raises important questions regarding on-going channel management.

Somewhat surprisingly, despite its importance, there exists little systematic empirical evidence regarding the multi-channel phenomenon. In particular, there is very little research that documents the reseller’s perspective on these channel structures. The general goal of this study is to begin to fill this gap. We outline the particular problems that characterize such systems, which pertain to various forms of intra-brand competition. An empirical test based on confidential, proprietary reports of 120 distributors belonging to six different industry associations provides good support for our hypotheses.

From a managerial standpoint, our findings point to the complex processes that manifest themselves within dual channel systems. For instance, we show that intra-brand competition goes
beyond the standard notion of competition for customers, to also include competition for resources and channel functions among the direct and indirect channels. Importantly, all three forms of competition are capable of inducing distributor opportunism.

Our findings suggest some ways in which the problems with dual systems can be managed. The most obvious candidate for action is perhaps the sources of competition themselves. For instance, suppliers can manage competition (and its consequences) by refusing to serve certain customers directly, and by minimizing their involvement in channel functions. It is noteworthy, however, that the effects of intra-brand competition aren’t entirely negative. Specifically, our findings suggested that while competition for customers is capable of inducing distributor opportunism, it actually served to enhance satisfaction at the customer level within certain ranges of competition.

Beyond the sources of competition themselves, firms have the opportunity to manage dual systems through their governance decisions. Our governance findings have interesting implications, because a single mechanism was found to have different effects across different channel outcomes. Specifically, the extent to which suppliers implement a system to clarify order ownership among the two channels had 1) a negative direct effect on customer satisfaction (as rules reduce customer choice and increase search costs), and 2) a positive indirect effect on satisfaction (by virtue of reducing distributor concerns leading to increased support of the supplier’s products and, as a consequence, to higher levels of customer satisfaction). Overall, our findings point to a basic trade-off between channel welfare and customer-level outcomes. In practice, firms may approach such trade-offs in different ways. Ultimately, however, we believe that a firm may purposely tolerate certain channel friction and potential decreased distributor support, in order to promote effectiveness in the form of customer satisfaction.
It is noteworthy that our second governance mechanism, the extent to which the supplier has *centralized decision-making* which regulates the on-going interaction between the supplier and the independent channel, did not create a similar tradeoff. Specifically, centralization was found to have a negative effect on both distributor opportunism and customer satisfaction.