University of Economics, Prague

# Master’s Thesis

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Title of the Master´s Thesis:

# Channel Marketing Management for the Industrial Manufacturer

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## Declaration of Authenticity

I hereby declare that the Master´s Thesis presented herein is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree programme.

Prague, December 12, 2018 Signature

**Title of the Master´s Thesis:**
Channel Marketing Management for the Industrial Manufacturer


## Abstract:

The Master thesis focuses on examining marketing channel management for the industrial manufacturer. The aim is to analyze how the manufacturer markets its products via distribution network and to suggest improvements, based on performed literature research and interviews with four distributors from Central and Eastern Europe. Areas such as channel performance, channel members' commitment and motivation, marketing planning, marketing programs and marketing support for channel partners are explored. The research showed that the company is successful in channel marketing management and in many areas is placed above industry standards. Several improvement areas were identified and a set of targeted measures to improve individual partners' performance was suggested.



## Key words:

Distribution channels, channel marketing, channel performance, B2B marketing, MDF, Partner programs, Channel commitment

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## List of Abbreviations

B2B Business to Business

B2C Business to Customer

CEE Central and Eastern Europe

CFA Channel Fullfillment analysis

KAM Key account manager

KPI Key performance indicator

MDF Marketing development fund

SME  Small and medium enterprise

VAR Value-added reseller

WTO World Trade Organization

# 1. Introduction

The route to the market for various products, from sourcing materials and manufacturing to distribution and sales, is often performed by multiple market players. Times, when the main competitive advantage was ability to manufacture the prodcut passed long ago, while the role of marketing and services has been increasing over time. Product can be marketed via direct, indirect or hybrid channels. Effectively managing relationships and processes in a new complex set up often become a source of new competitive advantage. Moreover, decison about marketing or distribution channels affect company's operations across functions, including marketing.

According to WTO, more than 90% of sales by SME in manufacturing sector is represented by indirect sales. In case of large manufacturing companies the share is still impressive - more than 75% os sales are done via indirect channels (World Trade Organization, 2016). As a result, managing marketing activities in distribution channels becomes an important part of overall marketing strategy for many companies. Marketing manager in such set-up takes on new roles, as become the one to align strategies of channel members to that of the supplier, take scare of support, motivation, and education of respective channel partners to ensure effective representation in the market, cooperates with partner to ensure market development and growth. For some manufacturers, success or failure is determined by how effectively and efficiently their products are sold through their marketing channels. Electronics manufacturer Dell is a famous example of how decisons on marketing channels can become one a part of competitive advantage at first, but later turn into disadvantage and require a profound change in distribution set-up. The shift is impressive: by 2020, direct-first Dell expects 60% of it revenue to come from indirect channels (Budd, 2017).

Employing distribution partners might be the only way to how to achieve global market presence, especially for SMEs. Therefore, manufacturers build international partner networks, consisting of different channel members to market their products. Channel partners do not only ensure distribution of product to the end customer, but also are involved in marketing and promotion activities, as well as after-sale care and service. Quite often marketing activities are also partially or fully performed by the part of the the external network. Moreover, in some markets manufacturers are only represented by their channel partners, and the marketing strategy in the region is entirely dependent on the channel partners, their activity and capabilities.

Indirect distribution, which includes intermediaries, brings multiple benefits, such as cost efficiency, access to market knowledge, local support, fast entry into new markets, wider choice of products and services available to the end customers, etc. On the other hand, managing partner network and aligning goals and strategies of all parties is a time-consuming and often challenging task, which requires to have a clear strategy. There are a lot of factors that should be addressed by a manufacturers to make sure that channel relations are functional and bring desired value. It is manufacturer's responsibility to ensure that partners are motivated and capable to bring the expected value to the end customer and communicate the right message to the market as a part of their marketing and promotion activities. Markeing management in distribution channels become a disciple by itself, requiring specific set of skills and knowledge from marketing professionals.

Speaking to various companies and being enrolled in different marketing classes throughout her studies, the author of the thesis found out that marketing management in channel setting is not commonly discussed. This caused her interest to further examine the topic and connect cross-functional knowledge on distribution, marketing, management and motivation theories to better understand channel marketing management.

The author cooperated with a medium-sized manufacturer of industrial equipment. The name of the company is hidden for confidentiality reasons, so the author will refer to it as Alfa. Alfa focuses on producing equipment for additive maufacturing and is relatively new to the industry. Alfa came to the market with an innovative high-quality product for affordable prices, making technology available for much broader customer group and reshaping the whole industry. Most of the end users of the company are B2B customers in engineering or medical fields. The company entered several CEE markets via distribution partners several years ago, and had double-digit growth in sales. However, in the last year the growth stagnated or performance declined in some regions. There could be multiple reasons for that, including new companies entering the market. However, the company is convinced that market potential is still high and looks for ways to improve performance across the organization. As a part of activities, aimed to reverse the situation, Alfa wants to improve its cooperation with sales partners in marketing. Opportunities for that are explored by the author of the thesis.

## 1.1 Method of research

The theoretical part consists of three parts. The first part describes distribution channels, their role and organization. The second part focuses on distribution chanel management, channel partners relations, motivation and performance measurement. Finally, the third part focuses on marketing in channel: marketing management and planning, marketing activities and B2B marketing tools.

The practical part consists of two main parts: (1) Case study of marketing channel management by a medium-sized manufacturer of industial equipment (2) Research carried out among four channel partners of the manufacturer from CEE region.

Findings from (1) and (2) were synthesised to create a recommendation for channel marketing improvement.

The practical part of the thesis is focused on studying the partner network, which includes distributors and resellers. Tha author aimed to analyze the current channel marketing strategy of the company and better understand the nature of manufacturer-reseller relationships in the network, as well as channel partners' motivation. The author was particularly interested in understanding the best practices in the channel marketing performance to create actionable recommendations for marketing channel management improvement. The research among distribution members was carried out in the form of the personal qualitative interviews. Four distributors in CEE region, covering more than twelve countries were interviewed for the research.

## 1.2 Research objective and research questions

This thesis aims to analyze current distribution marketing activities and channel marketing management practices of a SME manufacturer of additive manufacturing equipment. The author is interested to see how managing marketing in distribution channels is different from traditional direct B2B or B2C marketing, what are the specific activities and tools required for that and how companies approach managing indirect marketing channels in practice. The ultimate goal of the author is to create an actionable set of recommendations on channel marketing strategy for Alfa to drive growth in the selected markets and increase efficiency. The authors plans to achieve it primarily by analysing areas such as partner relationship management and motivation, marketing planning, marketing execution, and performance evaluation. The secondary (working goal) is do literature research on channel management and channel marketing management, mapping marketing activities, performance and attitudes of company's four distributors serving 12 markets and driving actionable insights from the performed analyses.

The main question of the thesis is «How successful is industrial manufacturer Alfa in managing marketing activities in its distribution network? What is done well and how marketing management can be improved to drive growth?»

There are five working questions the author aims to answer in the thesis:

Q1 How Alfa manages marketing in distribution network (relationship management, partner motivation, marketing planning and evaluation, marketing support), also compared to industry standards?

Q2 How else channel performance can be measured in distribution channels? What frameworks can be used for complex assessment to prioritize partners with the highest potential?

Q3 Are the distributors committed in marketing Alfa's products? What are the best marketing practices of distributors that can be spread to other channel members?

Q4 How well tier-2 distribution network is performing? Are all resellers engaged and motivated by distributors? What can be done for improving cooperation with resellers?

Q5 What are the suggested improvements to marketing management, based on the performed research, so the company can start growing in indirect sales again?

## 1.3 Research boundaries

Channel management topic can be broad. It includes various areas, such as deciding on distribution strategy, choosing network design, setting margins, recruiting partners, measure sales efficiency, ensure logistics efficiency, doing market research and creating market strategy, resolving channel conflict, etc. It is natural that there are certain interdependancies between the topic of the thesis and the mentioned areas. However, the research focus is limited to understanding marketing activities of distributors, challenges and best practices and also exploring marketing management practices of the manufacturer to see where improvements are possible. The author does not aim to suggest distribution network restructuring, new channel partners, major changes in logistics and channel design or carry out marketing and customer research for any specific market. The goal of the thesis is to analyze existing channel marketing management and marketing activities and suggest improvements.

Another limitation of the research is that distributors were aware of the author's cooperation with the manufacturer, so it might have affected them in a way that they decided not to reveal especially sensitive information that could potentially harm their businesses. For that same reason, partners motivation and commitment were researched indirectly and questions on commitment and motivation were not a part of the questionnaire.

Results of the performed primary research are presented mostly on aggregated level, no company names are used to protect companies' business interests and confidentiality.

# 2. Distribution channels

## 2.1 Distribution channels defined

A channel is the route, path, or conduit through which products or things of value flow, as they move from the manufacturer to the ultimate user of the product (Stern, et al., 1996). The term "distribution channel" is used today as a synonym to the term "marketing channel", marketing or distribution channel is *a set of independent organizations that connect the company and its customers* (Kotler, Armstrong, 2010, 363). Alternatively, a distribution channel can be defined as *an external contactual organization that management operates to achieve its distribution objectives* (Rosenbloom, 2004, 8). The term "marketing channel" is often used due to the fact that channel members are involved not only in physical distribution of goods, but also in marketing/placing the product to the market. Furthermore, Kotler and Keller stated that there are actually three types of marketing channels: communication channels, distribution channels and service channels (2008, 26), as channel partners become increasingly involved in added value activities.

Further analyzing distribution channels, researches define two major channel structures: direct and indirect. In direct channels, a company interacts and delivers goods to final customers directly, without intermediaries. In indirect channels, a company uses channel partners, or intermediates, to reach final consumers (Park, Keh, 2003).

Often, multiple channels are used by manufacturers simultaniously to bring products to the market. For example, customers often can buy goods or services both directly and via intermediates. Personal electronics manufacturers such as IBM and Apple started to use both distributors and direct sales force in the late 70-ties, combining the channels. Such distribution structure is called *hybrid channels* (Moriarty et al., 1990). Almost fifty years later, it is clear that indirect and direct marketing channels can co-exist and complement each other. Apple till now has its own branded stores as well as uses a network of external partners (Apple annual report, 2017).

To sum up, a company can use 3 possible channel structures in order to reach the end customer:

- Direct sales structure
- Indirect sales structure
- Hybrid or multi-channel structure

Every strategy has its advantages and disadvantages. For example, having multiple channels enables reaching higher amount of customers at a lower cost, but at the same time manufacturers give up a part of control over their products, branding and services to third parties. Decision about distribution channel is a part of a company's overall strategy. This affects all other aspects of business, including pricing, supply chain, marketeting and sales. Furthermore, choosing a marketing channel also means that a company creates relatively long-term commitments to other market players (Kotler, 2001).

The author will focus attention on indirect marketing channels for the purpose of providing relevant background to answer the research questions. In the next part the author will describe functions of distribution channels to better understand motivation of manufacturers for employing indirect marketing channels and the perspective of distributors.

## 2.2 Role of distribution channels

Companies use different channel structures, because a mix of channels is often more efficient than any single-channel system (Moriarty and Moran, 1990). Therefore, adding external market channels often becomes a more cost efficient solution. According to Kotler (2001), manufacturers choose to use indirect channels for several reasons. Apart from cost efficiency, indirect channels are preferred because manufacturers often have higher required rate of return than retailers, which means that they prefer to use external cheaper resources. Also, in some cases direct sales and marketing is not feasible – this can be illustrated on example of foreign companies that started selling in the Chinese market some years ago and needed to enter distribution agreements with Chinese companies. Another reason is connected with increasing complexity of managing a company, once it grows above certain size: manufacturers decide for indirect channel distribution instead adding additional departments and subsidiaries to get the work done. Moreover, many functions of marketing channels benefit from specialization. Stern (1989) mentions several further reasons for channel existence: channel partners increase market exchange efficiency, adjust produced quantities of goods with consumed quantities and also facilitate searching process by making information available at one place.

According to McCalley, there are four actions that are accomplished in the marketing channels: (1) Communicating, (2) selling, (3) shipping and storing, (4) providing product and customer service (1992, 3). According to Kotler and Armstrong (2010) functions of marketing channels today go beyond physical distribution of goods and also include communication and service layers. Channel members gather market information, communicate and promote products, negotiate with end customers, order goods/services from vendor, take financial risks, handle and manage stocks, collect payments from end customers and oversee transfer of ownership from one organization to another.

Marketing channels enable customers to buy products at place and time most convenient for them and make products available in different geographies and regions. Clearly, both SMEe and large corporations have interest in using indirect channels. In case of SMEe, indirect channels is probably the only way to achieve global presence, as such companies do not have resources, nor processes to expand their direct sales, communication and service forces across the world. Large corporations leverage indirect channels to decresase financial risk, decrease costs, benefit from partner's specialization and reach new customer segments. In IT industry for example, vendors often can go even further – and be enabled distributors and resellers to modify the core of the product – channel members that are certified by the manufacturer can change the basic product and create customized IT solutions for final customers. For many companies, marketing channels represent a competitive advantage. Access to marketing channels and long-term relationship with distributors and resellers could become a barrier of entry. Furthermore, SMEs and large corporations often do not have resources to understand every market well, so they leverage channel members to learn about market needs and trends (Frazier, Maltz, Antia, & Rindfleisch, 2009) (Li, Cui, & H., 2017).

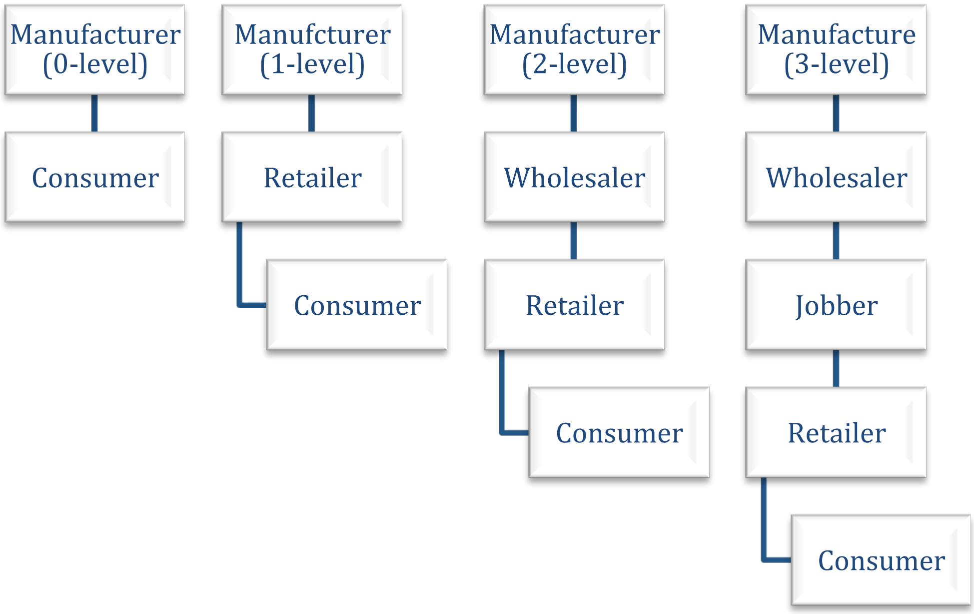
## 2.3 Marketing channel structure and channel members

Three main parties are involved in marketing channels: manufacturers, intermediates and end-users. The number and the characteristics of intermediates may vary. This depends on number of factors: B2C or B2B nature of business, company strategy, nature of products, etc.

In B2C, the marketing channel system usually includes the following operators: manufacturer, wholesaler, intermediary, and retailer. In B2B channels the structure is similar, but it employs sales agents and manufacturer's sales subsidiaries more often. The structure in B2B therefore will look like: manufacturer, representative or sales subsidiary of manufacturer, business distributor and business client. (Kotler, Keller, 2012).

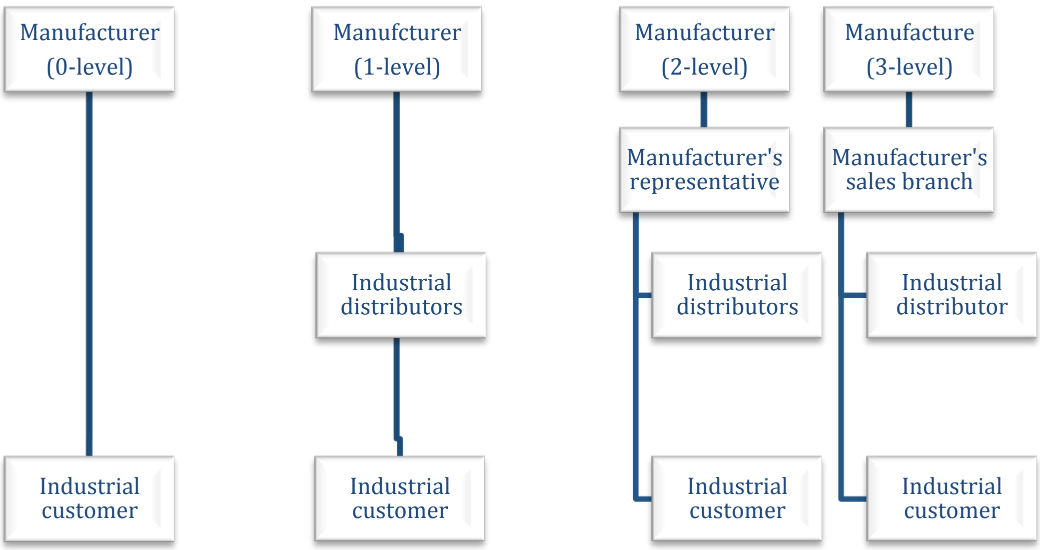
Depending on suppliers' needs, it is possible to employ different number of intermediates. One level channel consists only of one selling intermediary, whereas three-level channel can consist of distributors, wholesalers and retailers, as showed on Figure 1a and Figure1b (Channel levels can be also reffered to as tiers. Tier-one distribution means existance of one intermediary, tier-two distribution – two intermediaries, etc. Getting market feedback and information about final customers, as well as exercising control and policies becomes more difficult for manufacturers with the increasing number of channel levels. (Kotler, Keller, 2012). Therefore, manufacturers choose the number of layers based on extend to which they are willing to give up control over the channel.

**Figure 1a Consumer Marketing Channels**




Source: Kotler, Keller, Marketing Management, 2012

**Figure 1b Industrial Marketing Channels**




Source: Kotler, Keller, Marketing Management, 2012

Number of channel partners also depends on channel strategy of a company and customer preferences. Different customers request lot sizes, delivery time, convenience, product variery and service back up. In order to meet customer preferences as well as satisfy manufacturer's requirement for control, managers can decide to use exclusive distribution, selective distribution or intensive distribution, which differ by number of channel members involved. *Exclusive distribution* means limiting number of partners to the minimum, often exclusive dealership contracts are signed. This enables company to maintain higher control over seling process and markets and closer cooperation with channel members. Such approach is more often used in distributing exclusive and/or expensive goods and services, highly specialized and high-tech products. *Intensive distribution*, on contrary, makes goods and services available at as many places as possible and therefore such approach involves a very high number of channel partners. *Selective distribution* lies somewhere in between and allows to maintain higher control and lower cost than intensive distribution. It is typical for many industrial companies, similar to the one examined in the practical part of the thesis. Interestingly, companies are often tempted to move from exclusive distribution to intensive one, as it promises high short-term gains. However, this proved to be a big mistake for many companies that provide sppecialized or premium services or goods, as the value gets dispersed. In intensive distribution networks partners are often not motivated to invest into the brand, as there are multiple players in the market who can then get value from their investment (Kotler, Keller, 2012).

Employing tier-one and tie-two channel partners might be a way how to decrease competition in the market with multiple players and motivate tier-one partners to invest into the brand, as tier-one partners get part of profit once products are sold via their reseller networks.

## 2.4 Types of intermediaries

On B2B market, industrial distributors act as intemediates between manufacturer/ manufacturer's representatives and the end business customer.

There are diferent types of intermediates, with each type performing certain functions. Indirect channels can include independent reps, distributors, dealers and resellers. *Agents* work for commision and typically do not bear any financial risk; *brokers* are similar to agents, but represent multiple companies, ususally from the same or similar industries. *Distributors* work for margin, meaning they buy a product at discount and sell products from inventory. Their customers can be resellers, integrators, another manufacturers or the end users. Distributors are usually responsible for billing, collections and sometimes customer service. Depending on range of activities performed, there are *Value added distributors* (VADs) that provide services and support to customers, and *pass-through distributors* who focus primarily on physical product delivery. *Resellers* buy and resell a product, the difference between distributor and reseller is usually in size, additional services offered and support provided to other channel members. Special types of resellers are *value-added resellers* (VARs). Value added resellers provide additional services and products to final customer and therefore add value. They often sell product bundles and provide "one-stop" shop for end customers. *System integrators* are special form of VARs and usually provide technical support on complex, solution-oriented products. An example could be an IT reseller that creates a customized silution for the client based on the client needs, sourcing software from several companies. (Gorchels, et al 2004). Another less common type of a partner mentioned by Moran (2014) is *lead referral*, who gets paid for leads that turn into sales. Finally, Uysol (2017) uses another not common definition such as *unmanaged partners*. Unmanaged partners could have a significant share of sales in the channel network, however, these partners are not managed directly by channel managers and therefore there are no costs associated with such partners for manufacturers. Such partners usually source products from distributors. Unmanaged partners could be resellers that do not directly connected to manufacturers and in some industries manufacturers look for ways how to eliminate it, as it could lead to worsening relationship with the managed distribution network.

The boundaries between different types of intermediates are blurred (Gorchels, et al 2004) Manufacturers usually create their own hierarchies of partners based on complexity of tasks performed, specialization and added value. Margin often becomes a differentiator between different "levels" (Uysol, 2017)

# 3 Channel Management

Indirect sales chanells need to be managed by the manufacturer. Therefore, manufacturers have employees and teams who are responsible for managing channel partners. Depending on the size of the company and performed activities, there could be one person or a whole team, who supports partners in ordering goods, provides necessary information, technical and marketing support. These could be product managers, channel or account managers, marketing and technical support managers.

Channel or Partner management, according to researches, consists of seven decision areas: (1) formulating channel strategy, (2) designing marketing channels, (3) selecting channel members, (4) motivating channel members, (5) coordinating channel strategy with channel members, (6) assessing channel member performance, and (7) managing channel conflict (Rosenbloom 1987; Rosenbloom 1999). All seven areas are interconnected and important for channel performance and customer loyalty (Mehta et al 2000). Therefore, it is impossible to analyze a channel marketing in isolation, as it is interconnected with the company decisions on overall channel strategy, channel design, selection of channel partners, partners motivation and existing degree of channel conflict. One of the goals of this thesis is to suggest improvements to current channel marketing management in the short to mid-term horizon. Since there is no real opportunity to change the channel organization of the researched company, the author will focus her attention on (4), (5), (6) and partially (7) in her reasearch.

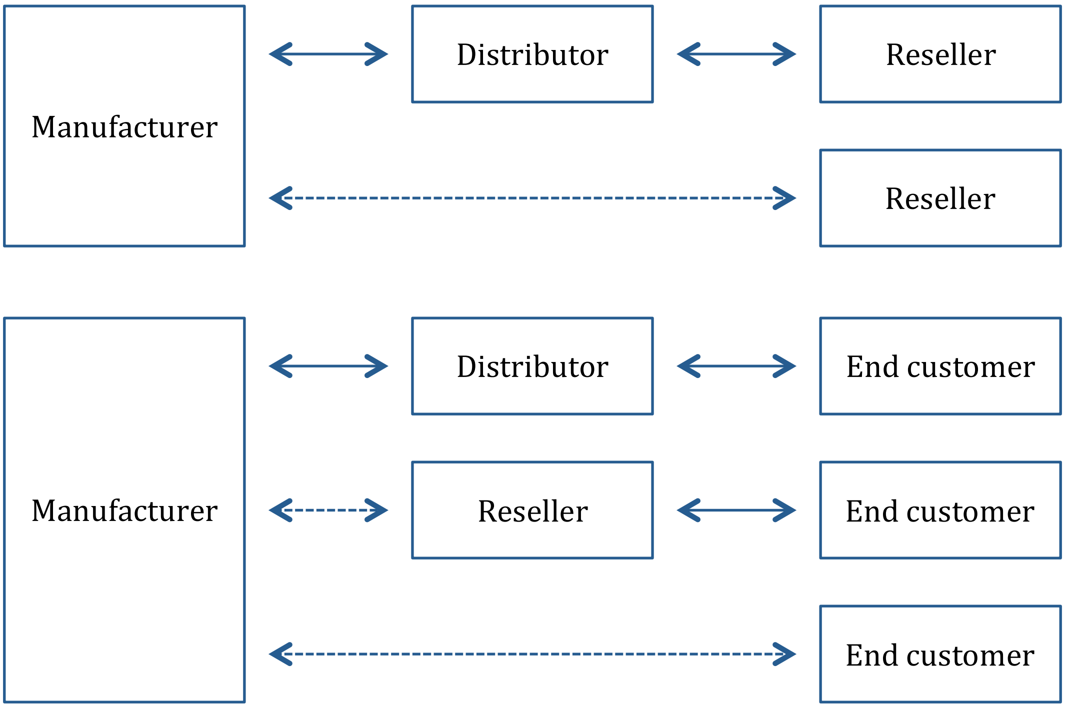
Firstly, the author will research literature to understand partner relations and coordination in channel networks, channel power and channel conflict. Secondly, the author will review approaches to channel performance measurement and channel partners assessment. Finally, discuss current theoretical findings on channel partner commitment and motivation.

## 3.1 Channel relations and satisfaction

Manufacturer–distributor marketing channels have changed a lot in recent years due to numerous factors, such as development of internet and e-commerce, pressure on cost-efficiency, decreasing margins and resellers consolidation. A sa result, distributors, including distributors of manufacturing equiment, are carrying an increasing number of products and brands. Due to mergers and acquisitions, channel partners are now larger and more powerful. Product line exclusivity is less and less common, the power of channel partners is increasing (Goodman & Dion, 2001). Clearly, the channel set up is dynamically changing and so do the relationships in the network. Therefore, managers responsible for channel relations now should adapt to increasing channel power of intermediates and more complex channel structures and learn how to become a priority product for their distributors.

Industrial product channels, as any other distributon channels comprise a network of partners with complex relationship, as discussed in Chapter 2. Even though there are only 2 types of intermediates in the channel structure of the company in focus, the number of possible connections, communication, good and financial flows is much bigger, as shown on Figure 2.

**Figure 2 Communication flows in Tier-2 distribution network**




Source: Author

There are multiple flows of information, goods, payments in the channel network, a great numeber of players to monitor, communicate, coordinate, motivate, evaluate and manage. Channel relationships play a crucial role in the network and affect all sides of channel network operation, ultimately having a big impact on the channel performance. One of the main goals of channel members is to ensure channel relationship help the business running. Ideally, parties should also try to make the cooperation beneficial for everyone, though it is not always the case in real life, as some channel members can have advantages over others and use it to their benefit. Still, this situations are also explained by channel relationship disclipline. Therefore, channel relationships have been an important area of research in marketing.

What areas are explored in terms of channel relationship? Definitely, channel power and channel conflict, channel partners' commitment and dependance, long-term orientation, partner motivation and trust are the important constructs of channel relationships. These dimensions affect channel members non-economic and economic satisfaction and performance (Geyskens, Steenkamp, & Kumar, 1999) (El-Ansary & Stern, 1975) (Frazier, 1983) (Goodman & Dion, 2001) (Brown, Lusch, & Nicholson, 1995).

## 3.2 Channel power

Concept of power probably comes from interpersonal relationships and politics. According to Morgenthau (1960), power is *anything that establishes and maintains the control of man over man*. Power can be also defined as an *asymetrical relation between the behaviour of two persons… how a change in the behaviour of one alters the behaviour of the other* (Simon, 1953). In a channel context, channel power can be viewed as the ability of a firm to affect another's decision making and/or overt behaviour (Wilkinson, 1974). Probably the most applicable definition for the context of creating a marketing strategy and managing relations with distributors and resellers would be the one by El-Ansary & Stern (1975): channel power is regarded as the *the ability to control decision variables in the marketing strategy of another member at a different level of distribution*.

Channel power depends on a number of factors, one of the most significant is (inter)dependance, motivational investments, availability of alternatives (El-Ansary & Stern, 1975). Generally speaking, sources of channel power can be divided into two groups: coercive (e.g. punishments, legal) and non-coercive (e.g. rewards, assistance). Importantly for application in real life, emperical research proved that the channel partner satisfaction increases, when non-coercive power sources are used (Hunt & Nevin, 1974). And in contrast, the fact that coercive power sources have much higher chances to cause a channel conflict was also proven by scholars (Lusch R. F., 1976).

What is even more interesting, especially in relation to Alfa, is the importance of power balance distribution between channel players. Even though one can think that having bigger channel power is desirable by channel players, as it would allow them to follow their best interests and influence the network in the way most beneficial for them, there are emperical findings saying that this is not black-and-white. Actually, researches recommend that channel partners with higher power should use it less to create a feeling of more power-balanced partnerships to succeed in the long-run and keep channel members motivated (Gundlach & Cadotte, 1994). What is more, the successful attempt to use the channel power enhances channel partners' ability to use channel power in the future. And, on contrary, when an attempt to influence another channel member was unsucessful, it erodes channel power of the party that attemped it (Brown, Lusch, & Nicholson, 1995). An implication for manufacturers would be that they should be very careful when exercising their channel power, better less power than more to be explicitely used. Furthermore, if there is a risk of loosing when negotiating problems with clashing interests, it is better to step back if the priority of the question is not the higest, as potential «defeat» in the argument could also have negative affect on future negotiations. Generally speaking, mainaining a feeling of a balanced or slightly higher channel power is a priority for channel members.

Low channel power, however, is a threat for non-performing suppliers. According to Brown et al. (1995), in case supplier's channel power is low, channel partners would be committed to cooperation only in case supplier performs well; otherwise channel partners would probably change supplier when opportunity arises. When a less powerful supplier tries to directly influence a more powerful channel partner with rewards or punishments or legal actions, more powerful channel members could be annoyed, antagonized or threatened by it, become less committed or even withhold from the relationship when opportunity arises. Therefore, in case a supplier has less power than a reseller, it should not use mediated direct power, but rather try non-mediated approaches: sharing expertise, information, references. The use of nonmediated power in this case would enhance channel relationship.

Ensuring perception of channel power balance for successful channel relationships comes hand in hand with further activities: signaling commitment to partners by employing well-trained personell, granting exclusive territories, investing in transaction-specific assets, providing training, etc.

## 3.3 Channel conflict and strategies to avoid channel conflict

### 3.3.1 Channel conflict defined

For manufacturers, major marketing-related concerns in multi-channeling include cannibalization and channel conflicts (Webb K. , 2002). Channel conflict arises when partners, while persuing their goals, are engaged in behaviours that are not aligned with another partner's interests. Channel conflict is defined by Stern and El-Ansary (Stern & El-Ansary, 1988, p. 285) as *a situation in which one channel member perceives another channel member or members to be engaged in behaviour that prevents or impedes it from achieving its goals*.

Channel conflict arises not only between manufacturers and a channel members. According to Palamountain (1967) and Kotler (2003) there are three different kinds of channel conflicts: vertical (e.g. manufacturer vs distributor), horizontal (retailer Avs retailer B) and multichannel (multiple channels compete for the same target customer), depending on levels of channel where conflict arises.

Channel conflict is typical to situations, when distributors and resellers represent multiple brands, in hybrid sales models. Companies today often choose to have hybrid or multi-channel structure to maket their products to customers. Even though such strategy often has positive outcomes for customers, e.g. product availability, improved performance, it often leads to a channel conflict between direct and indirect sales. Therefore, in some cases the channel conflict is the main reason why companies decide to stick to one channel only (Rosenbloom, 2007). For those firms that decide to go multi-channel, the management and avoidance of a conflict are crucial, if they want to enjoy the benefits of multi-channel set up (Steinfield, Bouwman, & Adelaar, 2002). Channel conflict is further enhanced by the development of internet marketing and internet sales channels (e-commerce). With this new channel added to traditionally offline businesses, the conflict rose due to the fact manufacturers now can go directly to customers, furthermore, it gave rise to multibrand online e-shops that often compete on price and not offer the quality service, but cannibalize businesses of oflline competitors.

Despite the fact, that the term channel conflict is used in a negative context, channel conflict cold actually have positive impacts on channel network, as it promotes competition. It happens only if the channel conflict is managed and stays at acceptable level for distributors and resellers and do not lead to disfunctional relations, decreased performance, complete demotivation of partners, price wars, etc. Understanding the main causes of channel conflict and learning how to use tools to manage it is important for companies who sell via multiple channels or only consider doing so.

### 3.3.2 Main causes of channel conflict and possible counter-actions

There are several major factors behind the channel conflict (Webb & Lambe, 2007), (Kotler & Keller, 2012), (Stern & Heskett, 1969), (Coughlan, Anderson, Stern, & El-Ansary, 2001):

1) Changing prices

If different channels offer identical or similar product for different prices, channel conflict arises. Conflict happens either because manufacturer does not offer fair conditions to everyone, e.g. gives discounts only to some channel partners, which becomes demotivating to other partners. Changing prices also could happen when manufacturers loose control of pricing policies and some channel partners decrease the recommended sales price, which potentially leads to a price war and decreasing margins of channel partners and their demotivation. There is evidence that, of all these conflict issues, pricing might be one of the biggest generator of channel conflict. (Webb K. L., 1997). Ensuring fair pricing to distributors, mainaining control over retail price, so it is kept at agreed levels, consistent and transaperent approach to promotions will help to decrease the channel conflict by manufacturers.

2) Goal incompatibility (goal divergence)

Goals of manufacturers are not always compatible with goals of distributors, more so, if there are also resellers involved. All parties are primarily interested in maximizing their profits, all parties are independent companies with their own ambitions and plans, which makes coordination difficult. Therefore manufacturers' priority should be finding partners with compaible goals, also in long-term. For managing the level of channel conflict with existing partners, it could be useful to set a common high-end goal, usually market- or customer-specific (so it is relevant for all parties), which will be accepted by all parties and later work together on achieving it.

3) Domain dissensus

Domain dissensus arises when roles and responsibilities are not clear, and one channel member believe that another channel member does not perform well within its domain. It could be doing the job in a wong way, not performing exact activities as expected or interrupting another channel member's business by selling to his customers. Domain dissensus also includes different perceptions of acceptable level of pre-sale and post-sale support: marketing effort, technical support and service activities. Furthermore, channel conflict can also arisewhen direct sales are introduced witohout a comprehensive structure and a clear market definition and outcomes for channel partners (Rosenberg & Stern, 1971). In order to clearly set roles and responsibilities, manufacture should describe 4 elemants of domain for iys channel partners: geography and customer base to serve, functions/activities to be performed and their quality standard, and technology to be employed.

4) Different perceptions of reality

Channel conflict can be caused by the fact that manufacturers and retailers could have different perceptions of the same situation. It can be caused by information assymetry, different habbits or business experience of channel members. For example, partners might have different opinion about what marketing activities should be performed or what marketing tools are the most effective, whether calculating ROI is necessary for good performance, etc. In such cases an adequate level of communication (too much communication could be as bad as too little) can help improve the situation and decrease the level of channel conflict by improving mutual understanding and sharing information (Mohr & Nevin, 1990).

5) Other factors

Certainly, there are more factors identified and described in academic literature, often these factors can fit into some of the categories described above. For example, Webb (1997) suggests that criteria, such as product availability, reward system, resource allocation, can cause channel conflict. In case of product availability, conflict arises when attractive products are available only in certain channels, or some channels have advantage to sell new products earlier than others. Reward system can cause channel conflict, when reward vreal or perceived value is different for different channel members. Resource allocation causes the conflict, when a company needs to prioritize certain activities/brands and products over other, because financial and manufacturing resources are limited.

To sum up, the more goals become incompatible, the bigger difference in prices exist, the more similar domains and the more different perceptions of reality channel partners have – the stronger the channel conflict becomes.

### 3.3.3 Appproches to managing channel conflict

There are multiple approaches that can be used for managing channel conflict. For instance, channel conflict can be decreased via more effective communication (Mohr & Nevin, 1990), better training of boundary spanning personnel to be sensitive to potential channel relationship trouble spots (Anderson & Narus, 1990), sharing rules of engagements with channel partners, including conditions on exclusivity, pricing, deal registration and protection of partner investment; regulating number of channel partners (Uysal, 2017), sharing data, introducing lead generation system to protect partner investments or providing compensations and incentives to improve channel collaboration. It is believed that monetary and non-monetary incentives are one of the most effective tools when managing channel conflict and aligning interestes of channel partners. (Coughlan, Anderson, Stern, & El-Ansary, 2001). Furthermore, channel conflict solving stragegies can be split into pricing, product, promotion and placing strategies used for managing and ultimately, decreasing channel conflict. However, there is research that state, channel conflict can not be approached standardly across different national cultures, so there is no "one-fit-all" approach, so channel conflic mitigation strategies should emerge as company enters new markets. (Mehta, 2011)

Pricing strategy may include integration of channel pricing strategy, when instead of setting individual prices, channel members use the unified price recommended by manufacturer. This helps to increase profits and avoid price wars. Channel integration pricing strategy enables to manage channels in a better way, more profitable for everyone than in case resellers set prices according to their considerations or dynamically reacting to prices set by other resellers. Channel integration pricing strategy requires clear and equal rules and policies for promotions and discounts. For example, volume promotions could put partners of different sizes in unequal position and undermine competitiveness of smaller partners, as it would become difficult for them to compete with bigger companies using volume discounts for decreasing retail prices. Manufacturers should not charge below retail price either, so customers do not switch from resellers to manufacturer's direct sales channel. (Yan, 2008) (Webb & Lambe, 2007), Another strategy could be setting higher price on internet than in resellers' stores to raise awareness of the product without competing with channel partners (Webb K. , 2002). Nike, for example, has the same prices online and at retail stores, but for online purchases customers should also pay shipping and handling fees, meaning that it becomes more expensive for customers to buy online. The same strategy is used by Sports Direct– there no incentives for customers who visited a retail store (except maybe for product availability) to order products online.

When it comes to product strategies aimimg to reduce channel conflict, there are several options available. For instance, a strong brand helps to decrease channel conflict, as manufacturer can find a fit into more channels and distributors and resellers can get more return on the brand. Furthermore, consistent messaging across all channels helps to reduce channel conflict (Weinberg, Parise, & Guinan, 2007). Another strategy is selling different products or product versions via different product-specific channels: introducing new products in indirect channels, while continuing selling older versions of products directly. This split would help to decrease conflict between channel and direct sales (Berry, 1997). Product bundles can be used in some of channels to add value to the end customer (Alba, et al., 1997): e.g. resellers can offer quick service and training as a part of sale, whereas manufacturer webshop cannot.

Promotion strategies aiming to decrease channnel conflict include, for example, providing uniform promotion content for channel partners and spending adequately on promotional activities across partners/channels. Moreover, since the lack of channel coordination could lead to ineffective sales promotions (Jeuland & Shugan, 1983), it is important that channel partners communicate and discuss promotion and marketing activities; currently it is quite common that manufacturers share relevant marketig collaterial and even complete pre-made campaings with their channel partners.

Place strategies mainly refer to managing channel partners and their geographic domains and protecting partners'sales via lead distribution systems. Channel conflict can be decreased when manufacturer's sales people are compensated for passing leads to channel partners, when it is beneficial for the potential clients and also positively affects margins of channel partners, decreases conflict in hybrid channel set-up. (Cohen, 2000)

### 3.4 Motivation and commitment

Channel partners often represent a large number of product lines. Given the ongoing consolidation in distribution networks (Horton, 2017), intermediates also often represent competing products within the same category. As a result, suppliers need to compete for channel partners' attention and try to persuade them to prioritize their products over other products in their portfolio. Vendors try to influence channel partners' behavior, motivate them to invest more in their brands and cooperate on strategy implementation. Since channel partners have their own agenda that may differ from that of a manufacturer, aligning goals, plans and control systems becomes one of pre-requisites of creating a market impact (Frazier, Maltz, Antia, & Rindfleisch, 2009) Moreover, intermediates have limited resources: time, capacity and budget, they priorotize vendors based on their preferences and set of criteria. Manufacturers' ability to energize downstream partners determine a large part of success in the marketplace (Hughes & Ahearne, 2010). Therefore, understanding criteria, which drive partner's motivation in allocationg their resources and commitment to certain vendors and products is necessary for successful channel management.

Commitment is «a desire to continue the relationship in the future and a willingness to make short-term sacrifices to maintain the relationship» (Anderson & Weitz, 1992). Morgan and Hunt (1994, p.23) see commitment as «an exchange partner believing then an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it». Commitment, as used in research papers, implies a deeper-level, more long-term relations. It might even mean that a company chooses to support its old partner despite other attractive opportunities in the market that offer a bigger short-term profit, but do not ensure long-term stability and continuity of the relationship. According to Brown, Lusch, & Nicholson (1995), commitment to a channel relationship can be based exclusively on external or economic factors: desire for reward or loss/punishment avoidance. This type of commitment is short-term oriented and shallow and can be called complience or instrumental commitment. In order to increase partners' commitment, external instruments, such as rewards and punishmens are mediated by vendors. Then, there are two other forms of commitment, which are based on intristic and non-tangible concerns, such as brand identification, similar or common values. These types of commitment persists longer, and defined as normative commitmant (can be distinguished identification and internalization commitment). However, most of the academic literature, researched by the author, reffered to normative commitment. Therefore, for the purpose of this study the author will apply the term «commitment» as intristic, long-term relationship. External instruments influincing channel relationsip will be explored when talking about incentive and partner programs.

Motivation is what makes people do what they do. Scientifically defined, *motivation* is a multidimensional phenomenon defined as the energy and intention behind an action (Ryan & Deci, 2000). In the channel context, partner motivation can be defined as the amount of effort a channel member expends on activities expected from its channel role (Price, 1991). To understand motivation in distribution networks, the author will use two approaches: firstly, try to understand the basics of motivation described in fundamental theory of motivation and secondly, have a look on literature and researches that examine motivation of channel participants in distribution networks, as well as their commitment.

It is believed that commmitments is associated with higher involvement and motivation (Mowday, Porter, & Steers, 1982). However, compared to the term «motivation», the term «commitment» is often applied to less tangible characteristics of channel partner behaviours in academic research, whereas the term «motivation» is used quite often to describe incentives towards short-term, one-off acts, sales promotions and incentive programs. Since these two concepts come hand in hand, athe author will have a complex look on what literature suggests in terms of increasing channel partners commitment and motivation.

Why motivation and commitment are important for channel relationships? The corelation between commitment and relationship performance, mutual satisfaction and business results is clear to many channel managers. Academic studies also confirmed that there is a positive relationship between commitment and business performance in buyer-seller and exporter-importer relationships (Skarmeas, Katsikeas, & Schlegelmilch, 2002) (Matanda & Freeman, 2009). Also, commitment facilitates better organization and coordination of common activities (Morgan & Hunt, 1994), which is an important «bonus» for channel managers, as it helps to operate more efficiently. Furthermore, commitment helps to build long-term relationships and create a competitive advantage by allowing to have a strong network of value added partners. (Dyer & Singh, 1998). Distributors who are commmitted to their vendors are induced to stay in the relationship, provide support and differentiate from competition (Anderson & Weitz, 1992). What is very important in cross-border relationships, commitment also leads to decreased transactional channel costs, as the partners; goals, plans and values are aligned (O'Reilly & Chatman, 1986). Therefore, understanding commitment and its drivers is important for creating a successful marketing strategy which comprises common activities with channel partners.

### 3.4.1 Drivers of commitment in distribution networks

Academic research on motivation and commitment in distribution networks, suggests a set of behavioral factors that appears to be similar across numerous studies. The most commonly researched factors of partners' commitment are *trust, communication and information sharing, interdependance and interdependance assymetry, idiosyncratic investments, long-term orientation/expectation of continuity, shared values, reputation, physic distance* and even *perception of a partner's commitment* (Kim & Oh, 2002) (Anderson & Weitz, 1992) (Yang, Fang, & Cai, 2014) (Morgan & Hunt, 1994) (Kumar, Scheer, & Steenkamp, 1995) (Skarmeas D. , Katsikeas, Spyropoulou, & Salehi-Sangari, 2008). In an setting of cross-international networks, *environmental volatility* and *cultural sensitivi*ty also become important drivers of commitment (Skarmeas, Katsikeas, & Schlegelmilch, 2002). Further factors are *brand identification* (Hughes & Ahearne, 2010) and marketing variables such as *product salability* and *ease of sale* (Goodman & Dion, 2001) proved to be of a similar importance like the behaviourial and other factors when motivating distributors' commitment.

Schultz, for example, also stresses the importance of market visibility, which can become a huge motive for partners to become engaged. (s 160). This could be especially relevant for new market players, for whom vendor's brand becomes a opportunity to enter the market and get necessary visibility. Introducing new products into the market can be also attractive to established players.
Market visibility iaccording to Schultze is a huge motive for partners to become engaged. (s 160)

This a long list of drivers channel managers should acknowledge and probably try to understand, what is the current position of their multiple partners on the scale of commitment. What factors drive the behavior and attitudes of a specific distributor? Hard to say, but having the potential reasons in focus could be helpful when creating strategies for higher distributor involvement. In practice, it is a mix of factors that influence distributor and vendors' behaviour. Even though studies have been carried on how strong these drivers are, the knowledge should be applied in the specific context. Clearly, it is difficult for a company to quantify the effects of each factor. However, the importance of such studies is that they create awareness and give channel managers ideas, where partner commmitment comes from and how can be influenced.

Factors, describe above, influence behaviour and attitude of all channel members and applicable both to resellers and manufacturers. Below the author will make an overview of several factors, such as XX, that are more complex than others and have a large influence on commitment. The factors will be reviewed mostly from manufacturer's point of view, though distributor's perspective would be also considered.

### 3.4.2 Trust

Trust can been defined as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (Mayer, Davis, & Schoorman, 1995, p. 712) or "the firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm. The strength of this belief may lead the firm to make a trusting response or action, whereby the firm commits itself to a possible loss, depending upon the subsequent actions of the other company" (Anderson & Narus, 1986). Compared to personal relationships, trust in inter-organizational relationships may be less intensive and entail less personal attachment, asit's the firm, not a person, who will potentially incure the loss. However, in case of small and family businesses personal and inter-organizational can might merge.

Trust is also interconnected to other factors, important for forming commitment, for instance communication. Trust enhances communication and communication leads to trust – different researchers proved different interdependancies, but it is clear that trust is a vital part of inter-organizational relationships (Anderson & Narus, A Model of Distributor Firm and Manufacturer Firm Working Partnerships, 1990). Therefore, trust apositively influences local market competence of a manufacturer. Moreover, the greater the trust between the channel members, the less likely is partner opportunism. Actually, some studies have proved that the effect of trust on local distributor opportunism and market compatence are stronger than those of formal contract, meaning that trust and relational «controls» can be more effective than formal contractual governance when managing the collaboration between channel parters (Wu, Sinkovics, Cavusgil, & Roath, 2007). Trust also decreases transaction costs, as parties share values and goals, whereas exchanges build purely on material benefits require formal and sophisticated control systems and experience higher turnover (O'Reilly & Chatman, 1986). Furthermore, trust enables development of flexible structures and plans (Zaheer & Venkatraman, 1995), which is an asset in dynamically changing markets.

### 3.4.3 Interependance and Interdependance assymetry

The firm's dependance on channel partners is defined as the company's need to secure and mainatin the relationship with partner to achieve its goals. There are several ways how dependance can be measured. The most commonly used is replacability, e.g. the firm's ability to replace an existing partner.

(Frazier, On the Measurement of Interfirm Power in Channels of Distribution, 1983). Also, the strength of dependance can be measured by amount of critical resources provided to another party (Casciaro & Piskorski, 2005). Alternatively, the dependance in channel relationships could be evaluated using 3 factors: importance of distributor's trade area to the supplier, the distributor's contributions to the supplier long-term growth and contribution of the distributor to sales and profits. The similar approach applies to evaluating distributor's dependance: suppplier's contribution to sales, profits and growth as well as overall importance to distributor are considered (Kumar, Scheer, & Steenkamp, 1995)

For channel relationship, this dependance is often mutual and therefore defined as interdependance. Manufacturers depend on distributors, as they represent the products in certain markets, are the one who fullfill sales goals and often take care of marketing and technical support. Distributors depend on manufacturers in terms of product quality and availability, support, credit terms, existing customers using the manufacturer's products, etc. Dependence also arises when the distributor deals with the "best" vendor offering higher returns than other manufacturers in the market (Heide & John, 1988). Total dependance is then a sum of both partners' dependance on each other. When the parties are equally dependant on each other, it means that their relationship can be characterized as symmertic dependance. The party that is more independent than has relative power over the other party, in such situation assymetric interdependance arises. Assymetric dependance is the difference between firm's dependance on its partner and partners's dependance on the firm (Kumar, Scheer, & Steenkamp, 1995).

Generally, interdependence has a positive influence on channel relationships and commitment. Interdependance decreases channel conflict and improve performance, motivates partners to work together (Gundlach & Cadotte, 1994) (Heide & John, 1988). However, it is important to realize that exessive dependance on channel partner could also be harmful and lead to drasticly reduced flexibility and taking "hostages", as described by Williamson (1983).

What is interesting about interdependance, though it is perceived positively from the commitment standpoint, interdependance assymetry could be both a positive and a negative thing. On one hand, such assymetry can motivate "weaker" partners to work more for preserving the relationship, but at the same time significantly decrease their portion of benefits accuring from the exchange and increase uncertainty (Casciaro & Piskorski, 2005). If a distributor is a "stronger" party with relative power, it will get more benefits, as vendor would be more committed and willing to preserve the relationship (Frazier, Maltz, Antia, & Rindfleisch, 2009). However, if a distributor is a "weaker" party, it could, on one hand, comply more with vendor's requirements (Gu, Kim, Tse, & Wang, 2010), but on the other hand be unwilling to share strategic information (Frazier, Maltz, Antia, & Rindfleisch, 2009). Moreover, the "weaker" party would probably suffer from such inbalance, as it restricts it in achieving its goals. Researchers found out that increasing assymetry can lead to bigger divergence in the goals and creates imbalances (Subramani & Venkatraman, 2003). Different goals might lead to opportunistic behaviour. As interdependence asymmetry becomes bigger, relationships get worse and trust and satisfaction decrease (Lusch & Brown, 1996). Though there are evidence that interdependance assymetry affects channel relationships at a diminishing rate and increased dominance of one party can make the relationship stabilized (Lawler, Ford, & Blegen, 1988), if we look at the situation from the standpoint of overall success, such assymetry can harm relations and mutual satisfaction.

Another concept described in literature is perception of mutual dependance. One thing is actual interdependance, another thing is channel players' perception, which can be different from the reality. Such perceptual differences play an important role in forming the image of counterparts and affect trust and relationship performance. The study found out that hat most sub-resellers underestimate their dependence on their supplier, but tend to overestimate the vendors' dependence on them, which increases trust. (Vosgerau, Anderson, & Ross, 2008). Managing partner's perceprtion might be a good strategy for companies that suffer from interdependance assymetry.

In terms of management strategies, less dependent firm can engage in different influence strategies. It can ask partner to act on its behalf or doing desired activities via requests, ask for necessary information. A more dependent firm, on the other side, should look for ways to add value or reduce costs for its partner at acceptable cost for itself. Also, more dependant firm should try more to protect its investments into relationships. (Anderson & Narus, A Model of Distributor Firm and Manufacturer Firm Working Partnerships, 1990).

To summarize, interdependance probably leads to the best cooperation and channel relationship when high, but balanced and close to equal, as it promotes more productive, cooperative and satisfying relationship for all parties involved. (Morgan & Hunt, 1994).

### 3.4.4 Transaction-specific investments

Transaction-specific, or idiosyncratic investments by distributors or resellers may have a number of different forms, e.g. purchasing specialized equipment, opening stores and advertising them, give brand better shelf-location, participating in product-specific trainings, etc. For manufacturers that would mean investing into support and materials for distributors, training them, co-funding joint activities in the market, preparing advertising strategies for markets, etc. These investments represent nontransferable assets that support a given transaction (relationship). Transaction specific investments are usually very specialized and almost impossible ro redeploy elsewhere, to alternative exchange (Heide & John, 1988).

According to researchers, transaction-specific investments by the importer or distributor positively affect their commitment (Skarmeas, Katsikeas, & Schlegelmilch, 2002). This happens for two main reasons. Firstly, such investments and assets acquired by them provide support and create conditions for successful cooperation, enable channel partners to save time and smoothen their collaboration (Kim & Frazier, 1997). Partners would like to get benefits from these investments and therefore try to utilize them, which leads to greater relationship performance. Secondly, such investments are only valuable if the cooperation persists, as most of the time, these investments are not reversible and are not valuable outside of partner relationships. Therefore they represent sunk costs for partners and become voluntary "exit barriers", binding importing companies to the channel relationship with a vendor (Anderson & Weitz, 1992).

For channel managers, the positive relationship *idiosyncratic investments of distributos* -> *distributor commitment* gives a signal for action. Channel managers can react by creating opportunities and programs that give opportunity to distributors to invest into the collaboration. Co-funding such programs from a vendor's side can bring long-term benefits. Moreover, it has been also proven that there is another positive relationship as *idiosyncratic investments of vendors -> distributor commitment*. This is because investments by vendor are considered a proof of long-term intentions and give a channel partner more certainty in continuious relationship and is willing to share risks with channel partners (Jap & Ganesan, 2000). Examples of programs that promote both types of investments could be organizing events for channel partners to join, implementation of knowledge sharing programs and joint working tools, getting more marketing, sales and tech people on board, promoting purchasing demo units by partners, etc.

In order to protect such investments, which is especially relevant for less powerful partners in the network, it coud be recommended to direct such specific investments into building relationships with the end customer. Moreover, channel partners can also use diversification to lower the risk of working with one more powerful counterparty by adding more partners as well as try to get exclusivity rights for certain geographies to get a feeling that their effort and investments are more protected (Heide & John, 1988).

### 3.4.5 Communication and information sharing

Successful cooperation between partners requires meaningful communication. Communication can be defined as formal and informal sharing of timely and meaningful information between companies (Anderson & Narus, 1984). Communication, information sharing, trust and commitment go hand in hand, since commited and trusting partners are more open to disclose external and internal information, such as information about industry, market conditions, competitors, as well as firm information and information about the firm's important decisions and plans. Knowledge transfers and learning are also positively perceived by channel partners and improve channel commitment and performance, as the knowledge can be transformed to resources to invest in foreign markets, with both distributors and vendors benefiting from it (Hada, Grewal, & Chandrashekaran, 2013).

The importance of information sharing and communication is greater than ever before. According to Ganesan (1994) and Nguyen & Nguyen (2010), many companies are moving from transactional exchanges to relational exchanges with the growing role of communication, information sharing and learning. For marketing, information about markets and customers is critical and integration of marketing information across companies is a matter of company's strategy (Nakata & Sivakumar, 1996).

Communication and information sharing are considered to be one of important drivers not only for commitment, but also for overall channel performance (Wang & Zhang, 2017), also as it is used for more efficient and knowledge-driven operations (Li &

Lin, 2006). The significance of impact on performance depends on what data are shared, how they are shared and who are the partners in exchange. (Holmberg, 2000)

Even though communication and information sharing are potential drivers of higher commitment and better performance, distributors quite often do not show interest in sharing information with vendors (Frazier, Maltz, Antia, & Rindfleisch, 2009). According to exchange theory, channel partners decide, whether they are willing to share internal and external strategic information based on a simple cost/benefit analysis and selection of a option that brings the best long-term outcome (Blau, 1964). This happens for several reasons: firstly, distributors have constrained resources and multiple vendors they work for, so the perceived costs and effort of sharing information are high; secondly, distributors do not often see the direct benefits of sharing information like increased sales and customer satisfaction, grateful suppliers willing to give extra bonuses (Blau, 1964), so the perceived benefits are low (Frazier, Maltz, Antia, & Rindfleisch, 2009); thirdly, such information is often perceived as confidential and sensitive by distributors and they see the possibility of sharing it as a risk that might lead to irresponsible opportunistic behaviour of a counterparty (Wathne & Heide, 2000).

Another important problem that arises in channel relationships is information assymetry. Information assymetry happens, when one partner has more information than another and therefore the ability to mitigate opportunism risk is limited (Kirmani & Rao, 2000). Even though that information assymetry exists in all relationships, as information exchange is not perfect, high information assymetry can have negative effect of partner commitment through the increased opportunism. On the other hand, a study by Frazier et al (2009) found out, that distributors, who actually perceive themselves as being in position with higher relative power, are more willing to share information with their suppliers. Furthermore, when transaction-specific investments are high, partners are more open to information sharing.

As can be noted, information sharing is closely connected to other drivers of commitment, such as trust and transaction-specific investments. These factors can improve information sharing. Another drivers of commitment are shared vision and commitment of top management. Supplier uncertainty negatively affects information sharing between channel partners because of high perceived opportunism and insecurity of the relationship in the long-term (Li & Lin, 2006). Environmental uncertainty, in comparison, negatively affects only internal information sharing, but has no effect on external information sharing. (Frazier, Maltz, Antia, & Rindfleisch, 2009). Communication should become an integral part of planning process – both on stage of plan creation and on the way towards the progress objectives. When cooperation results into achieving or exceeding planned objectives, communication indirectly leads to higher trust, satisfaction, and commitment (Anderson & Narus, 1990). What is more, using computer technologies or other tactics can be used to mitigate the costs of information sharing (Frazier, Maltz, Antia, & Rindfleisch, 2009). Finally, strategic approach is needed, as it is impossible to gain all information possible, vendors should priorotoze what information has the most strategic sense to have and can actually be utilized with the highest benefit. The missing information could be gained from other sources (Frazier, Maltz, Antia, & Rindfleisch, 2009).

### 3.4.6 Environmental volatility

*Environmental volatility* describes the extend to which the environment goes thorough changes, *high environmental volatility* means that changes are coming very quickly. This driver influences channel relationships in a number of ways and both positive and negative effects are described in the literature. Researches admit that environmental volatility, or market uncertainty, has no or little direct impact on commitment, but rather affects it indirectly (Skarmeas, Katsikeas, & Schlegelmilch, 2002) (Matanda & Freeman, 2009). However, it is also stated that the effect of market uncertainty depends on companies' motives and how channel partners respond to such uncertainty, given their strategies (Hada, Grewal, & Chandrashekaran, 2013). For the purpose of this research the author would treat environmental volatility as a threat, which can influence channel relationships both in a positive and a negative way.

Market volatility makes it difficult to make predictions, as demand and supply change unexpectedly (Achrol & Stern, 1988). Uncertain environments also can increase friction and conflict among channel members as well as information assymetry, also due to the fact that interfirm difficulties can prevent distributors to provide nacessary help to vendors (Achrol, Reve, & Stern, 1983). Clearly, uncertain environment also influences such drivers as long-term orientation, as in uncertain, changing markets, there is a higher chance of discontinuity of relations, also described in academic research (Kumar, Scheer, & Steenkamp, 1995). What is more, changing environment prevents companies from setting up stable routines that help to develop good relationships and require more adjustments to their relationships, processes and even products. Moreover, market volatility can influence distributor's behaviour indirectly, as often, market volatility increases vendor's opportunism, as vendors start to look for opportunities to improve their performance numbers and might behave opportunistically (Heide, 1994). Vendor's opportunism, in turn, decreases channel partners' commitment.

On the positive side, there are also studies that confirmed the positive effect of market uncertainty on commitment. This happened, when channel partners are mobilized and approach the difficulties caused by market uncertainty in a productive manner: increased their cooperation, information sharing and problem solving. (Noordewier, John, & Nevin, 1990). This often leads to worldwide learning and knowledge exchange that increases channel partners commitment. Furthermore, resources scarity increases the motivation of partners to cooperate and coordinate strategic actions; in host countries, where lean environment is valued, attepmt to increase efficiency positively influences channel commitment (Park & Mezias, 2005).

Given the current market conditions and faster speed of changes in the XXI century, adaptability and cooperation are important for channel partnerships to survive market turbulences. This might require less formalized processes to allow quick adaptation.

### 3.4.7 Culture and commitment

What is interesting, cultural context can change the importance of these factors. On an example of Japan and USA Kim and Oh (2002) showed, that even though majority of the reviewed factors can be applicable in both countries, the correlation between the factors and marketing performance can be stronger or weaker depending on the country. Some factors do not have effect on commitment in one country, but have a significant influence in another, due to institutional and cultural set up. As an example, information assymentry in Japan does not influence distributor commitment, whereas in US it affects it negatively. The similar situation applies to supplier control, which has a positive effect on distributor commitment in the US, but not in Japan, where long-term orientation of relationshops in institutionalized. This is an importnat consideration to have in mind, when applying findings from academic researches to specific cases and geographies. Skarmeas et al (2002) also indicated that vendor's cultural sensitivity is associated with commitment both directly and indirectly, via partners' opportunism. This is because the commitment is perceived differently across cultures, and close and valuable relationships with foreign partners can not be developed without good cultural sense. Therefore it is importnat that companies are aware of differences of doing business in different cultural settings and they address these differences in their strategies and actively manage their relationships, taken the context of culture into account.

### 3.4.8 Motivation theories applied to channel relations

If we apply some of the foundamental motivation theories to the distribution networks, we could get interesting results. The author decided to focus on two quite well-known theories on motivation: Maslow theory of motivation and Herzberg theory of hygiene factors. Maslow (1955) stated that humans have two basic set of needs: the first is deficit needs (e.g. safety); the second is growth needs (e.g. self-actualization). The first group of needs exist to ensure survival and fullfilling the basic needs, avoiding or eliminating negative life situations ; the second group is about working towards getting better, positive life situation and self-realization. Striving for the second group goals builds on the foundament of the achieved basic survival needs from the first group. Herzberg (1966) developed a theory of job motivation. According to this theory, thare are two categories of job factors: hygiene factors and motivators. Hygine factors, such as, job security, acceptibale working conditions and renumeration, company policies, interpersonal relations, also called extrinsic factors, are essential of existing of motivation at the job place. They do not lead to positive satisfaction long-term, but if there are absent, employees are dissatisfied. The second group of factors is the one that leads to long-term satisfaction, if fullfilled. However, their fullfillment becomes relevant only after hygiene factors are in place. Motivational factors are inherent to work, e.g. recognition for accomplishments, sense of achievement, growth opportunities and responsibility. Even though this theory has a number of limitations, it is broadly accepted.

Once we transer the findings of these two theories into distribution channels, we can say, that in order to motivate channel partners, vendor should ensure that their «basic survival needs» are fullfilled. Such «basic needs» could be the size of margin to enable partners to make money on given products, necessary logistics and service support, good relationship between account/channel managers and channel partners, clear policies, product attractivity to final customers, etc. When the «basic needs» are fullfilled, then vendors can build on it and motivate partners to grow with them and work together on common marketing and promotion strategies to accomplish more ambitious goals.

What is interesting, researchers, who focus on chnnel relations and channel management, offer a similar framework to those of Maslow and Herzberg applicable to organizational environment: motivational factors in channel relations can be split into two groups: loss-avoidance and rent-seeking factors (Gu, Kim, Tse, & Wang, 2010). First, companies aim to ensure basic needs, avoid losses: examples could be ensuring product availability, optimum amount of products in stock, sustainable margins and costs under control. Rent-seeking factors are those that enable companies to go an extra mile, examples could be help in creation of a new campaing, participation in promo program to reach new customers, educating marketing and sales staff, etc.

### 3.4.9 Motivational considerations of channel members

Motivating channel members goes boyond the efford needed to motivates manufacturer's own employees. This is because channel structures are looser and advantage of central direction is not there. Also, the reward and punishments systems are not as precise and much more difficult to affect. The total effort is often diffused because of uncoordinated planning and realization of activities. Moreover, relationships in a channel network are less formal than stereotypical superior-subordinate relationships (Little, 1970).

Manufacturers are primarily interested in creating brand awareness for their products, persuading a customer of its benefit and getting the customer to buy and use the product. Channel partners, on the other hand, are concerned with the success of their organization and its increasing role and performance, which is one of the basic causes of a channel conflict.

Intermediate's willingness to undertake promotional activities within the channel could be different. It would be a major mistake to think that manufacturers can realize their marketing plans via partners unconditionally. In some channel structures that might work, but definitely not in all. Often, intermediates hold veto power over manufacturer marketing plans and it is up to them, what marketing activities would be happenning as well as what marketing strategy realized. According to Stern (1989), several factor affect intermediate's desire to undertake marketing and promo activities.

1) Consistency of marketing programs with intermediate's objectives
   Logically, distributors and resellers prioritize their own business over interests of vendors, especially if they cooperate with a big number of vendors each having a limited channel power.

2) Gain/cost analysis performed by intermediates to prioritize among products and brands for focused activities. As any rational market player, intermediates take into consideration possible revenues and costs, available promotional budgets, availability of marketing materials, etc to choose what campaigns they are running. Manufacturers can assist them by providing ready-to use material, co-funding some activities, providing training and demonstrations, doing pull marketing, making samples available, etc.

3) Number of competitors in the market. The higher is the extend of the competition in a market, the less motivated are the intermediates to invest into product marketing. Intensive distribution increases chances of such events as price undercuts, unfair practices, lowers margins. Dual distribution with the use of direct and indirect sales, could also prevent a partner from expanding much effort into product promotion.

4) Margin. Logically, the higher the margin, the more willing are intermediates to do an extra effort. This is especially true when companies have multiple products in their portfolio and focus more on short-term financial gains.

Clearly, a manufacturer should work as a enabler to help its partners to achieve their goals. Apart from relationship building, this also requires providing resources and support needed to make campaings for the vendor's brand attractive to channel partners. Even though we focus on marketing only topic now, but any inconvenience or problems occured in vendor-intermediate cooperation that threaten intermediates' relations with their own customers – being logistics, product reliability, product availability, information accuracy - decrease the willingness of the distributor to invest and promote the company. Therefore, it is important for a manufacturer to be aware of these risks and actively manage them to avoid customer dissatisfaction.

McCalley (1992) created a ranking of motivational considerations for channel members, showed in Table 1. Even though that this table has become outdated in modern business due to rise of client -orientation, as will become clear from the interviews with distributors performed in the practical part, it gives a good understanding of what kind of factors create a basis for channel partner motivation. As opposed to drivers of commitment, motivational factors are more practical oriented and shorter-term. In this list more tangible, «hygine» factors like profit, product availability and credit terms are mentioned. Clearly, such factors are important for distibution network functioning and if absent, become demotivators for channel partners. The importance of factors and expectations are also dictated by industry norms.

**Table 1 Motivational considerations for channel members (listed in the order of importance)**

| *For wholesalers* | For retailers | For Product users |
|---|---|---|
| Profit | Product availability | Product Utility |
| Credit/Terms | Profit | Value received |
| Marketing programs (incl. Tech support) | Credit/terms | Credit/Terms |
| Competitiveness | Marketing programs | Retailer Service |
| Policies | Competitiveness | Use information |
| Training | Training | Guarantees |
| Legal/regulatory | Legal/regulatory | Legal/regulatory |

Source: McCalley, Marketing Channel Development and Management

It is clear form the table that main motivational considerations are different for distributors, resellers and end users. What have changed since the time when the work was published, is that the gap between users' and sellers' motivational considerations almost disappered. Today businesses are increasingly focused on delivering value and services to the client, especially in b2b setting, which leads to the fact that users' motivational considerations are now high on the channel members' agenda.

## 3.5 Incentives and partner programs

### 3.4.1 Incentives and their role in channel management

An incentive is a tangible, objectively recognizable form of compensation designed to compensate an independent agent for executing specified activities or achieving pre-established goals (Holmstrom & Milgrom, 1994). Such compensation could have different forms: monetary, such as rebates, discounts, comissions, bonuses, and non-monetary, e.g. selling and support tools and compensate the effort indirectly (Gilliland D. I., 2003). Historically, monetary incentives were among the most common ones. But, given the changing nature of markets and increasing role of product knowledge, after-sale customer service, customer demand for value added solutions instead of a number of separate products, old incentive schemes, focused primarily on transactions and turover, are not satisfying anymore. Therefore, companies to come up with different and innovative ways how to design an incentive portfolio (Accenture, 2014).

Incentive programs by companies also have further roles: for example, incentives are used as a governance tool as well as a relationship maintaing tool. Because incentive programs help to reduce opportunism (Stump & Heide, 1996), support customer service objectives (Chu & Desai, 1994), help to better identify end customers needs (Challagalla & Shervani, 1996), channel partner programs improve the ability of vendors to control the channel and achieve high performance. Interestingly, in some case only a potential of reward could be as satisfying to channel partners as the realization of that potential (Gaski & Nevin, 1985). From marketing standpoint, incentives aim to encourage channel partners to market and sell more aggresively on behalf of the vendor (Wollan, Naveen, & Heald, 2013).

Theoretical perspectives on incentives vary, depending on theories and subject areas. View on incentive in agency theory is different than that in social psychology or contarct law. Gilliland & Kim (2013) published a short overview of academic positions in their work *When do incentive work?*. The overview is informative and provides several valuable insights. Firstly, there is a significant difference of incentive perception in different academic disciplines: as an example, agency, transaction costs and stewardship theories provide conceptually different views on incentives. Agency theory implies that partners usually have different goals than vendors and therefore a principal-agent conflict arises. Incentive are viewed as corrective tools to change the behaviour of channel partners. In transaction cost theory incentives are meant to compensate the costs of performing tasks for vendors to partners. Stewardship theory sees channel partners as stewards with similar  objectives and values, not agents. According to the stewardship theory channel partners act as stewards, vendor's and channel partners' goals are aligned, need for control and monitoring is reduced. Partners share risk with vendors and there is less information assymetry in such relationship. Incentives in such relationship have more intristic nature, than in agency theory, because partners strive for the same goal.

Motivation to perform can come from high-powered incentives (usually monetary), asset ownership and freedom from managerial control (Holmstrom & Milgrom, 1994). Academics also argue that goal allignment is crucial, in case there is no goal alignment, agents prefer to add more vendors than engage in supplemental activities with uncertain outcomes from existing vendors, even if promoted via incentive programs. (Williamson O. E., 1991). This means that decreasing the risk of uncertain outcomes for channel partners might be a good way to incentivize desired performance, for example by sponsoring supplementary activities.

Extrinstic and intrinstic incentives are also perceived differently by researchers. For example, in agency theory, intristic incentive would be a fear of finishing business relationship; at the same time, partners are mainly motivated by extrinstic incentives. In social psychology theory, on contrary, extrinstic behaviours are considered as manipulation and are seen more negatively. Extrinstic incentives in this case can even decrease companies' intristic motivation. Therefore it is difficult to conslude with confidence, which type of incentive is better working, choosing right types of incentives depends largerly on a character of channel relationship, partner commitment and goal alignment. Therefore, different types of incentives are used by companies in business. Testing incentives first might be a good way to find the most effective ones for the specific players.

Furthermore, incentives should address partners' concerns. Since concerns are different, there is no «one-size fits all» approach to creating an incentive plan, as it might be of a little use to channnel partners. Therefore some authors suggest offering customized incentive schemes that change with changing concerns of channel partners. If a distributor is concerned about economic performance, suppliers should probably consider options like temporary infusion of cash, better credit terms, low-interest-loans or increased margin opportunities. When distributors are concerned about conditions and abilities to meet suppliers expectations, flexibility in control attempts might be helpful. In case channel partners' main concern is stability and long-term orientation, a strong adherence to territory domains, low conflict relationships and cooperation-specific bonding long-term investments (trainings, visits, ride-alongs with distributors' dales reps) are recommended to keep channel partners satisfied with the cooperation (Kim S. K., 2017).

### 3.4.2 Incentives dillema and possible solutions

Quite often incentives are offered, but do not bring the desired results. Given the fact that channel incentives at high-tech companies typically represent from 3 to 5% of revenues, this is a considerable problem. The situation, when incentives do not lead to increased performance is sometimes indicated in the literature as incentives dilemma. According to the research by Accenture and CSO Insights, only 10 % of the researched companies (with revenues over 1$ billion) believed that their incentives programs managed to lead precisely to the desired behaviour (Accenture, 2012). Gilland & Kim (2013) suggest that the effectiveness of incentives is determined by the channel partner's evaluation of the specific incentive: 1) how the incentive contributes to the bottom line (instrumental evaluation) 2) the extend of strategic allignment with channel partner's goals (congruence evaluation).

From the vendor's perspective, incentive should promote desired behaviour and outcomes. Actually, incentives can lead to two different situations: either complience or active representation by channel partners (Gilliland & Kim, 2013). The later is far better for the results and partners' engagement, whereas the first can have little or no effect on performance. Academic research showes that its very difficult for a vendor to differentiate between these two outcomes (Gibbons, 2005). Monetary incentives can lead to complience, but they will have little effect in motivating active representation if goals of the companies are not aligned. Nevertheless, authors recommend using moneraty incentives in cases when the channel conflict is very high, no other forms of governance are available and when following the rules incentives apply to is crucial to channel functioning (Gilliland & Kim, 2013)

There are also certain risks associated with incentives. Incentives could also have even a negative effect on performance: monetary incentives could be seen as demotivational or causing lower intristic motivation (Ryan & Deci, 2000) or lead to anti-productive activities by promoting wrong behavior (Baker, 2002). Furthermore, if there are not efficient controls in place, incentives could become an expensive, but not fully useful mechanisms to stimulate performance (Aklerof & Kranton, 2005). As much as 10% of the typical high-tech company's indirect channel partner incentives are overspent or generate inefficient return on investment according to Accenture report (2014). This happens partially because of infrastructure limitations (no ad-hoc data collection, data systems integration), partially bacause of communication problems and weak management of incentive programs. Another two difficulties, identified are complexity and decentralization of incentive programs. Complexity means that incentive programs become difficult to explain not only for channel partners, but also for internal employees. A risk for vendor is that instead of trying to understand what incentives a partner can apply for, partner can simply give up or even choose another vendor over the current one. Also, such complex programs are expensive to manage (incentive processing, partner management, reimbursement processing, controlling and reporting, etc). Decentralization leads to the situation, where there is no person responsible for controlling incentive programs and no company overview is available, as incentives are handled by different business units, etc. In case of a bigger company, because of decentralization, duplicate programs and payments can happen. Even dominant firms have problems with structuring their incentive programs for channel mambers, as reported by Kesmodel (2008) in the Wall Street Journal. Finally, some incentives loose their strength, when channel partners are in dependant situation and when industry volatility is high. (Gilliland & Kim, 2013). Introducing incentives to partners in certain situation should include contextual knowledge.

So, what could be done to ensure that incentive program is up-to date and achieves its goals? As for acknowledged best-practices in terms of incentive program management, Accenture (2014) mentions that having a strategy for incentive program is crucial. Generally, it is good to start with «the end» in mind. Furthermore, data consolidation and performance measurement are highly important. Companies should strive for integrating all relevant data like program characteristics, sales, spending, ROI statistics for each program. Once data are gathered at one place – management can compare, adjust and prioritize their marketing spendings. Also, to keep channel partners motivated, it is good to demonstrate partner how they are earning money. That could be done through «rewards-statements» (Accenture, 2014) or via partner portal, where partner can see their progress life-time. Moreover, programs should be «user-friendly».

Another technique that is used for enhanced motivation is peer participation. Though it is more common to see peer comparison on an individual level, some companies use peer experiences in promoting their joint sales programs with channel partners. Distributors can learn about their peer participation in programs from formal and unformal sources (Gu, Kim, Tse, & Wang, 2010); vendors can actively share such information via social networks or partner portal. The fear of «missing out» could help manufacturers to attract more channel members to participate (Banerjee, 1992). Moreover, the correlation between peer participation and ex-ante commitment of a distributor was proved to be especially high for distributors twith high dependance on their vendors. In any case, peer participation strengthenes manufacturer's market position, ease market uncertainty for channel members, and encourages others to join (Gu, Kim, Tse, & Wang, 2010).

Most importantly, incentives should be relevant for partners: their participation in the design phase is highly recommended. One of the best pre-indicators of incentive program performance is goal alignment, therefore, only if partners share vendor's goals and strategy, incentives schemes will lead to both complience and active representation (Gilliland & Kim, 2013). Finally, it is good to keep in mind that every company and every vendor have their own vocabulary for incentives, bonuses, rewards. Therefore making a clear guidance and clarifying terms is an important step some companies might forget about, especially in respect to resellers in multi-tier networks.

When introducing incentives to channel partners, a careful pre-work should be done to ensure that the incentive structure would be clear and organized, well-expleined for partners, easy to follow for all participants, require minimum effor for information search, incentives would play the expected role and actively managed and evaluated on ongoing basis.

In the end, as research shows, marketing incentives have a positive influence on business performance. Moreover, such companies tend to spend less time on gathering data, make greater use of marketing funds because of better visibility of returns, better focus marketing activities to segments and customers that are most marketing and promotion-sensitive, use data and tools for consistent approach. (Wollan, Naveen, & Heald, 2013). More small and medium-sized companies, incentives most often help to drive performance in terms of profitability and decrease in time spent (43% of respondents agreed) (Accenture, Promotion Optimization Institute, 2011)

### 3.4.3 Types of incentives

There are several categorizations of incentives described in academic literature. Understanding underlaying factors for such differentiation can help choosing right portfilio of incentives suitable for specific purposes of a company. The author has discussed intristic and extrinstic, monetary and non-monetary incentives already. Furthermore, some researchers distinuish between instrumental and congurent incentives.

Instrumental incentive contributes directly to bottom line and could affect both revenue side (margins, discounts, volume sold) and costs (cost savings) (Gundlach & Cadotte, 1994). Such incentives provide channel partner with clear bond between an activity and a reward. According to Williamson, (1991) instrumental incentives work the best when are unambiguos and easy to calculate. Incentives that have a weak instrumental characteristics are often seen as less interesting by agents (Gilliland & Kim, 2013). However, such incentive scheme should be used limitedly in appropriate situations to avoid inefficient spending and depreciation of such incentives by channel partners. For example, Gilliland and Kim (2013) suggest to use these type of incentives in situations when 1) folowing rules by partners is crutially important and can't be ensured otherwise 2) other mechanisms and data are not available, channel partners can be characterized as low-dependant 3) in case channel conflict is particularly high. Congurent incentive motivates agents by being alligned with their own goals and strategies and have high «customer-relating capability» (enabling channel partners to better serve the customers and solve their problems) (Day, 2003). If strategies aligned, less control is needed and such incentives are quite well perceived by companies who work towards the same goal. These types of incentives, however, might require higher variancy, as channel partner's goals might be different across different industries and geographies (Gilliland & Kim, 2013).

Also, there are some other frameworks offeting a different perspective on possible categorization of incentives. For instance, John and Weitz, (John & Weitz, 1989) divide channel incentives into 1) out-come oriented – incentives are based on achieved outcomes, like sales performance and 2) behavior-oriented – incentives that reward desired behavior, not outcomes. Examples of behaviour oriented incentives in marketing could be rewarding partners for publishing blogs, creating user stories or participating in global marketing or promotion campaings. Such incentives can help to promote the desired behaviour, when channel partners face uncertainty, as they do not know, whether such activities would bring desired outcomes in form of won opportunities and sales. Therefore, without being incentivized, some partners might decide to invest their limited resources into different activity with more certain outcomes. Input incentives are used when outcomes are not easy measurable. In contrast, output incentives are more often used in situations, where inputs are unclear.

Challagalla & Shervani (1996) distinguish between output, activity and capability incentives. This categorization is similar to the one from John & Weitz. The difference is, that instead of behaviour-oriented incentives, author introduce another two categories: activity and capability incentives. Activity incentives reward partners for performed activities, whereas capability incentives promote learning and increasing capacity to serve certain products by distributors and resellers. Examples of capability incentives could be bonuses given to companies for completing training and learning programs, bonuses after getting certificates and having a certaing number of trained employees onboard. This type of incentive is more «forward-looking»: vendors encourage channel partners to invest into education and training, which creates long-term value both for channel partners, vendors and customers.

When it comes to the form of channel incentive, the most commonly used types of channel incentives are the following (Accenture, 2014):

- Partner compensation or sales incentives – e.g. sales incentives calculated as a % of revenues and awarded to partners based on whether sales goals have been achieved, in-kind incentives and rewards (demo products, samples, marketing objects, rewards for certain achievements, etc).

- Deal registration incentives – vendors reward partners for registering individual sales opportunities. The value for vendors would be opportunities and business development of specific market segment, or acquiring new accounts previously served by competition, sales funnel visibility , value added solution sales, protection of pre-sale investments of partners and their motivation, etc

- Market development funds – financial resources given to partners to spend on developing their markets, usually proof of execution or performance metrics required

- Cooperative advertising – co-funding of marketing campaings and activities by vendors

- Sales promotions – incentives for promoting new product launches, or push excess inventory, usually for special conditions

- Access to dedicated account manager – often offered from certain level of sales. Benefits include individualized approach and better opportunities for cooperation, account managers often act as advisors for channel partners (Smith, Moore, & Rosin, 2015)

Most of the partner programs used by manufacturers are performance-based (Channelinsight, 2014). It seems like activity- or capability-based performance incentives are not among the most commonly used. This represents untapped potential across industries. The limitation factor is probably difficulties to monitor and control such input incentives.

Usually, various types of incentives are combined into portfolios and offen offered to partners as a part of a partner program.

### 3.4.4 Partner programs and their elements

A partner program is a business strategy vendors use to encourage channel partners to recommend or sell the vendor's products and associated services. Partner programs are used by major IT and electronics vendors like Cisco, Dell, Vmware, Hewlett Packard Enterprise (HPE), IBM, Microsoft, Salesforce, and Oracle among others (Smith, Moore, & Rosin, 2015)

Partner programs offer channnel partner various benefits, incentives and resources. Often partner programs have several tracks, depending on type of partner (distributor vs sub-reseller, VAR, sales agent, ettc, industry and competence). Alternatively, partner program differentiate between different tiers of partners – segmenting partners and giving them different set of bonuses and different access rules. Tier program has a set of criteria specified that partner can achieve to enter the tier. It could be sales targets, number of dedicated professionals, accomplished certifications, technical capabilities, etc. An example of tiered programs can be the Dell EMC Partner Program, which uses Authorized, Gold, Platinum, Titanium and Titanium Black tiers. (Smith, Moore, & Rosin, 2015).

Typically, partner programs have the following offering:

- Technical training – could be online courses or in-person trainings on vendor's or partner's location, essencial for technical support and customer service. Enables partners to bring more added value to customers and decrease waiting time for resolution of technical problems

- Sales training and enablement materials – training could be held online or in-person; sales enablement materials enclude product sheets, sales scripts, sales presentations, white papers, competitive comparisons, etc. Sales enablement materials help sales representatives to access information easily, have the overview of product advantages at hand and prepare for engagements with end customers

- Certification programs – certification programs award partners with certificates after completing various trainings and learning programs with defined learning paths and objectives. Certificates have positive effect on channel partner's capabilities, credibility and reputation and act as enablement and knowledge sharing tool

- Incentives and discounts – as described earlier, the most common is sales performance incentives, other rewards and recongitions at events, could be performance- activity-, capability- and objective-specific, like rewards for increasing companies customer base, growing positions in new markets, etc.

- Deal registrations – partners can register deals in a system to protect their pre-sales investments and provide manufacturers visibility into sales funnel and deal status, common for industrial sales for large corporations

- Marketing assets – various tools, resources and materials that enable partners to run their marketing campaings. The most common is asset library, which comprises graphics, sales brochures, case studies and other marketing materials created by vendor. Recently companies started to add web-based marketing pre-maid content, e.g. campaings for social media

- Partner portals – most of interaction today, especially for larger companies, happens via web-pased partner portals. Such portals comprise all sorts of information, training, resources as well as enable communication between vendor and channel partners via forums, chats, etc. Portals can also assist channel partners in registering and tracking leads, visualize their sales progress, etc.

- Marketing funds a co-programs – channel partners get targeted (co-op priograms) or untargeted financial support for performing marketing activities for the vendor

- Knowledge sharing programs – education programs that often go beyond beyond certification programs, sharing best practices with channel partners, discussing industry news, joint trainings, webinars, etc.

### 3.4.5 Creating a partner program

In order to create a right motivation program, vendors should consider both short-term and long-term effects, distinguish between «hygine» and motivating factors, reflect their knowledge of channel partners, channel partners' goals and needs, consider cultural differences, evaluate potential complience or active participation effect, create right ex-ante expectations, create mechanisms for partners' engagement, monitoring, evaluating performance and follow-up throughout the program. Quite a lot of imputs to keep in mind and consider while creating a partner program. Will one size fit all? Should there be more programs for partners to choose? On one hand, there is no partner program that would address needs of all channel partners precisely, on the other hand – managing customized programs can be too expensive and complex and do not bring the desired results. In practice, vendors often launch several programs, trying to address more needs of partners.

Creating a program might be a complex process, but it can be siplified to a three main steps. According to Rosenbloom (1990),  a framework for motivating channel partners is the following:

1. Finding out the needs and problems of channel partners;
2. Offering support to the channel partners that is consistent with their needs and problems; and
3. Building a continuing relationship (partnership)

This is a simplified framework, however, it points out one important factor: vendors, when motivating their partners, should their finger on the pulse and understand the context in which channel partner operates. For some partners, additional short-term motivational programs are needed; for other – only smoothless marketing support and availability of resources.

Other important factors to be considered are: including testing incentive programs before launch both on historic data and with partners, designing a program with real-life visibility into program performance, setting clear goals to evaluate, making goal attainable, whether they are being achieved, monitoring success of separate programs, identifying underperforming programs to be improved or terminated, ensuring payment of incentives in timely manner (Model N, 2018) (Channelinsight, 2014). Furthermore, link incentives to objectives, and metrics, where partner participation and alignment needed the most. It is better to concentrate on three or four things at a time to get things running smoothly (Wollan, Naveen, & Heald, 2013).

In order to keep channel partners informed and motivated throughout the program, it is good to provide them insights how the whole network/ their peers are doing. Manufacturers often share news and successes of peer network, as well as statistics of new companies joining the program, as it brings more interest and attention. There could be formal and informal ways to do so. In any case, peerparticipation encourages other channel partners to join the program not to «miss out» (Gu, Kim, Tse, & Wang, 2010).

### 3.4.7 Role of brand identification

Since the success depends on work of sales and marketing employees of distributors and resellers, some vendors approach the partners' employees to motivate their behaviour directly. In such cases, brand commitment of channel partners' employees and salesforce could become an asset for a vendor. However, this strategy might have different affects on overall results. Firstly, in case of small and medium businesses, such incentive programs would be closely monitored and evaluated by channel partner management. Secondly, even if approved by management, such incentive programs can be both effective and not.

According to Hughes & Ahearne (2010), in case the organizational interest and channel partners' controls are in in line with the incentive program objectives, motivating partners' employees directly can increase the overall performance. This is because financial or other incentives would support the exertion of effort on a particular brand. Brand identification of partners' employees would have a positive impact on results, as the effort expended against a brand would be higher. This happens regardless of whether distributor control systems support the brand. However, thare are two scenarios possible: if a distributor suports the brand, the self-interest of sales people would be acting according to the company's controls and aligned to their brand identification. However, if organizational plans and controls of distributors are the opposite, there would be a conflict between a person's brand identification and institutional identification. In such case the effect on sales performance would be weakened, especially when channel partners' employees have higher institutional identification with their companies than with brands sold.

If organizational identification leads to higher employee adherence to controls, brand identification increases salespeople effort extended towards a specific brand, and ultimately improve brand performance, even in the face of control systems to the contrary. Therefore, vendors can try influence the channel members sales force by strengthening the psychological connection with their brands (Hughes & Ahearne, 2010).

## 3.6 Channel performance and channel partner assessment

Channel performance can be defined as *the degree to which supplier's relationship with a dealer contributes to fulfillment of the supplier's objectives* (Gaski and Nevin 1985). Often, suppliers have similar long-term goals: they want to grow their markets, increase market share, successfully compete with substitute products, etc. However, in a shorter term a supplier's focus can be more specific to meet short-term marketing objectvies and bridge the gap between marketing planning and real results – for example, introducing and creating awareness of a new product, react to specific actions of competition, reaching quarter's sales targets, etc. Knowing vendor's marketing objectives is a pre-requisite for measuring channel performance.

Schmitz and Platts (2004) stated that performance measurement has several functions: it forms and specifies a company's strategy, provides information to management, ensures vertical and horizontal communication, enables decision-making and resourses allocation, helps to better coordinate business, motivate and learn from experience. Vendor's role is to ensure that partners marketing objectives are aligned, partners have necessary knowledge and resources and are motivated to work towards goal achievement. Furthermore, channel partner assessment can enable a manufacturer and channel partners to build more trasparent relations with clear expectations. Structured approach to assessing partners can also be the first step to benchmarking partners and marketing activities to better allocate resources as well as identify which partners to reward (Lubieniecki and Desrocher, 2003). Partners that invest into the supplier's brand and show commitment should be noticed and supported. Furthermore, partner assessment can help to better shape channel marketing management and create more individualized action plans. A manufacturer is then capable to provide necessary addressed support to partners to help them to improve and build competences in specific areas.

To understand how successful the channel relations are in reaching suppliers' objectives, it is important to have a framework for monitoring and evaluation of partners' performance. What is interesting, some researches noticed that a formal framework can even have positive side-effects on performance itself. A study by Bello and Gilliland (1997) among U.S. manufacturers found out that distributors' performance is positively correlated to the efforts of monitoring performance indicators, such as revenues or share of customers in new markets. According to the researches, this is probably to the fact that once distributors know they are monitored on certain metrics, they tend to put more focus and resources on achieving results. Also, such monitoring enables vendor's feedback to be received, which can positively affect future performance of a channel partner.

A recent study (Kan, 2018) examined channel performance drivers described in empirical channels literature and specified factors that drive channel performance. The study consluded that (1) *leveraging key routines and processes embedded in marketing channel relationships is critical to improve channel performance* (2) *more targeted effort to manage channels in different markets may improve the efficiency of channel performance enhancement* (3) *comprehensive performance assessment process is necessary to avoid biased estimation of performance drivers.* These findings highlight the importance of structured targeted approach to partner evaluation in the light of efficient channel management practices.

### 3.6.1 Theories behind choosing performance measures

Marketing performance in distribution channels is closely connected with sales and verall performance. Therefore, the author decided to research the approaches to general channel performance first to see «the big picture» and later focus on specific marketing performance measures in a chapter devoted to channel marketing activities.

How is partner performance is evaluated in practise? "Perhaps no other concept in marketing's short history has proven as stubbornly resistant to conceptualization, definition, or application as that of marketing performance" (Bonoma and Clark 1988, p. 1) Even though the statement is 30 years old, there is still no agreement between researchers, nor a universal measurement tool to answer the question.

There are several theories mentioned in literature that try to explain marketing metrics selection:

- Control theory – performance metrics are used to plan milestones and compare actual performance with planned one. Identified variances help to take corrective actions and ensure that final objectives are reached
- Institutional theory – there are certain cultural norms in different industries and sectors, environment influences decisions on performance indicators
- Orientation theory – management chooses performance metrics based on the company orientation: market oriented company will use market matrics (market share, competitive position, etc) more than internally, product/competency oriented company
- Agency theory – involves two levels of management, where marketing function suggests certain metrics to top management and a choice of metrics can be explained by agency theory (Ambler et el, 2001).

The four theories described overlap to certain degree. All approaches imply that performance metrics chosen by companies show, apart from other information, what managers believe is important. However, only few theories can help to determine, which individual metrics should be chosen.

Another theory that gives more practical tools to work with is typology theory (Valos et el, 2006) This theory is the less developed from the list and do not include emperical study, however, suggests an interesting approach based on results from previous research. In this theory, companies choose metrics based on their core competences and strategy. There are three strategy types: Prospectors, Defenders and Analysers. Prospectors are companies driven by innovation and often are first to enter the market with innovative products. On the other side, there are Defenders, who are much less innovation oriented, but compete by focusing on efficiency. Analyser strategy is a combination of both. In terms of performance metrics, prospectors would have more adaptive, flexible, loose, decentralized, externally focused and organic performance measures. Tight or mechanic metric are inapropriate for such companies as they would be in conflict with company nature. Prospectors use reward-systems, participative decision making and operate in changing dynamic environment. Defenders, on contrary, would prefer more comprehensive, structured and tight controls as they heavily rely on detailed plans and predictable future. The types of performance measure suggested for Prospectors and Defenders is showed in Table 2.

**Table 2 Proposition of channel performance metric guidelines for Miles and Show strategy types**

| Prospector | Defender |
|---|---|
| Subjective | Objective |
| Non-financial | Financial |
| Frequent | Infrequent |
| Behavioural | Output |
| Product quality | Cost |
| Qualitative | Quantitative |
| External | Internal |
| Strategic | Tactical |
| Long-term | Short-term |

Source: Valos, Michael J; Vocino, Andrea. *An integrative marketing channel performance measurement framework. Journal of Database Marketing & Customer Strategy Management*

As many other theories, this theories strengthens the fact that performance measures should be aligned with company's strategy to achieve successful marketing implementation.

### 3.6.2 Tools and frameworks for partner assessment

Depending on a company's goals, performance metrics can vary. Traditionally, *financial* metrics were used to measure channel performance, such as revenues and profitability. However, financial metrics are not strategic, nor multidimensional. Later, starting from the 1980s and 1990s, performance metrics got a broader understanding, for example firms started to include *non-financial* metrics such as evaluating customer satisfaction and innovation, brand equity and loyalty (Valos et el, 2006; Ambler et el, 2001). Frazier and Howell (1982) also state that success measures can be classified as either financial or non-financial. In the last decade, the role of non-financial performance measures incresed. Companies started to pay increased attention on value added services in the value chain (Uysal, 2017). Another way to structure performance measures is dividing them for *«outcome based»* and *«behaviour-based»* controls (activites are recorded). Traditionally, the first ones were more often used because they are easily available as well as understood by both manufacturers' and partners' management. However, the coordinated use of both can benefit business and help reach marketing objectives. (Celly and Frazier 1996).

Furthermore, controls can be formal and informal. Formal controls need existing written marketing plans, usually management initiated. Informal controls are initiated by workers and influence behavior of professionals in respective units (Jaworski 1988).

Performance assessment comes hand in hand with reporting, as manufacturer requires certain data to be reported by channel partners. The question, whether obtaining extensive information from partners is an effective policy has been discussed by scholars. Although collecting some information might be necessary, collecting to much information can lead to decreasing quality of relationship, high transactional costs and shift from intristic to extrinstic performance priorities, decreasing internal motivation (Obadia, 2015), so companies should be careful to find the right balance.

### *Key performance indicator (KPI)*

Key performance indicator is a basic tool for every manager. KPI represents certain «characteristics» that can be measured and later tracked by management. KPIs can be applied to both financial and non-financial metrics. Some examples of KPIs are: revenues, profits, ROI, number of customers, averge response time, number of campaigns per quarter, number of newly registered customers, number of webpage visits, cost per lead, etc. There is literary an infinite number of KPIs that can be set, so the most important task is KPI prioritization and elimination to the necessary minimum. The most widely used KPIs are revenues and profits (Marr, 2012).

Some KPIs specific to channel management:

- Direct/Indirect revenue share – to understand importance of channel business
- Distributor managed/ resellers managed revenue - to understand channel split
- Partner rank-based revenue share – for comparing partners' dynamics
- Active/Inactive partner per distributor (Uysal, 2017)

Marketing KPIs are usually derived from marketing objectives. Uysal (2017) groups marketing targets into 4 categories: *what to sell* (target product mix), *how to sell* (includes sales and marketing activities, communicated message to customers, participation in tradeshows, completing education or certification and adgering to vendors' standards, personal selling or e-shop sales, etc), *when to sell* (influenced by length of sales cysle, seasonality, schedule of product launches, etc) and *who to sell to* (target customer segments – size, industry, posession of certain complementary products, etc).

Examples of qualitative (non-financial) KPIs that build on marketing objectives:

- Number of prospecting online campaings to attract new customers is increased to 2 per quarter
- Marketing manager completes an obligatory course on usage of vendor's marketing matterials in Q1 2018
- Build a customer database with specified segments

Qualitative measures are often linked to quantitative measures as performance indicators are linked to a company's marketing strategy. Therefore, it is common to have certain allignment of quantitative and qualitative performance measures, where possible to better allocate resources and develop sustainably. For example, if a financial performance indicator is revenues from new customers, than non-financial performance indicator such as number of online campaigns to reach new customers makes sence: both indicators should motivate behavior that leads work towards the marketing goal.

### *Channel fullfillment analysis (CFA)*

A very effective and often used tool is a Channel Fullfillment Analysis (CFA). The advantage of this tool is that it is specific for channel management and enables vendors to see the full picture on how their channels perform. Moreover, this tool is adjustable to channel needs and can be used in different variations, though it is typically focused on main financial indicators, like sales. CFA is useful both for evaluating the historical channel performance and formulating channel strategy for future periods (Uysal, 2017). For marketing, this tool can give important insights into performance of channel partners and help to determine which industies/segments and which partners should be considered top priority, which partners might need additional attention and support. Below is an example of CFA table, filled with relative sales done by types of partners by customer segments. Alternatively, the table can also have absolute sales numbers or list distributors and resellers instead of partner types for a specific region.

**Table 3 Channel Fullfillment Analysis (example)**

| Customers | Total Sales | VARs | Resellers | System integrators |
|---|---|---|---|---|
| Healthcare | **20%** | 10% | 0% | 0% |
| Education | **30%** | 28% | 0% | 0% |
| Government | **50%** | 17% | 22% | 13% |
| **Total Sales** | **100%** | **57%** | **30%** | **13%** |

Source: Author based on Uysal, Channel Playbook: An insider guide to channel management, 2017

In the example used, CFA table analyses a company that sells via VARs (Value-added resellers), resellers and system integrators to customers in three customer segments: healthcare, education and government. The biggest customer group is government, as it makes 50% of company sales. Within government sales 22% are done via resellers, 17% via VARs, and 11% via system integrators. Overall, 57% of sales are done via VARs, 30% via resellers, and 13% via system integrators. VARs is the only channel serving healthcare and education, resellers are the strongest in serving government sector, etc.

Such kind of analysis can help companies to see, how different customer segments are performing and how different types of distributors are successful. It might be also useful to follow how number change overtime to see how the channel landscape is changing. This tool can help to prioritize channel partners as well as customer segments based on their performance and identify performance gaps.

### *Channel matrix*

Channel matrix is a tool similar to CFA, which can evaluates partners on a broad scale of both financial and non-financial measures. The advantage of such tool is a possibility to see multiple partners evaluated next to each other, literally on one piece of paper. This can also help to immediately identify underperforming partners and take corrective actions. The tool is easy adjustable and can be designed based on vendor's marketing objectives and priorities.

Channel matrix consisits on a list of partners on the left and a number of categories the partners are evaluated upon at the top of each column. Evaluation happens by allocationg points from a certain scale (e.g. 1 to 3) to each partner for each category, specified in a column. The disadvantage of such tool is that allocating points can be subjective, more so if several people are involved into evaluation. To mitigate this negative effect, it is possible to set very specific guidelines for scoring – detailed text description for each score. In order to make the channel matrix even more precise it is possible to rely on real numbers and data to derive the score (Uysal, 2017).

**Table 4 Channel Matrix (example)**

| Partner | Online marketing | Work with influencers | Trade shows | Participation in training | Communication and reporting | Total |
|---|---|---|---|---|---|---|
| **Partner A** | 3 | 2 | 3 | 2 | 3 | 18 |
| **Partner B** | 3 | 1 | 1 | 2 | 3 | 12 |
| **Partner C** | 1 | 3 | 3 | 2 | 3 | 20 |

Source: Author based on Uysal, Channel Playbook: An insider guide to channel management, 2017

### *Channel members performance framework by Goyal and Mishra*

The framework suggests an approach for complex measuring of channel partner performance in distribution network and can be also used for evaluating marketing performance. There are multiple measures that can be applied to access performance of channel partner, starting from channel partner behavior and commitment, to measuring channel partner operation efficency and financial performance. Although academic literature accepted that channel partner's performance is a multidimensional it provided no guidelines for identifying and measuring the key dimensions in a structured and systematic way (Richard, 2008) (Goyal, 2016). Goyal and Mishra attemped to come up with a framework to solve this problem. The framework was developed, based on the theoretical foundations of salesforce control systems and organizational performance and attemped to put different performance measures in one comprehensible tool.

The framework (Goyal, 2016) suggest that channel member performance can be assesed on three distinct dimensions:

- Ouput performance (financial and other results)
- Capability performance (resources and capabilities of channel partners)
- Activity performance (activities, behavior, complience)

Initially, the criteria for evaluation were suggested for complex channel partner assessment. Navertheless, the same framework can be used for marketing performance measuring. Output performance will reflect real sales results (e.g. Sales, sales growth, resellers' sales and growth, assessories and materials attachment rate, ROI, market share and coverage), capability performance (e.g. partner's knowledge and experience in marketing, size and competence of marketing team, marketing software and tools used, the amount of investment in marketing activitie) and finally, activity performance (e.g. amount of time devoted to the brand, level of accuracy and timeliness for manufacturer's requests, degree of cooperation and support, degree of commitment, number of self-initiated sales and marketing activities, level of complience to manufacturer's requests).

The framework has high practical value: standard performance measures, focusing solely on performance numbers (revenues, growth), provide little advise to channel manager, how the performance can be improved. In contrast, the framework suggested by Goyal and Mishra allows to identify drivers behind output performance: partner activity and partner capabilities, which allows to come up with actionable plan how to tackle the performance bottlenecks. Clearly, the framework has multiple applications, right from managing the day-to-day channel activities to steering the channel strategy. For example, if a partner underperforms because of lack of knowledge or experience with email marketing or PPC campaings, manufacturer can focus it resources on helping the partner to aquire the necessary knowledge and as a result, increase output performance. In case the problem is in partners' inactivity, than actions to increase partner engagement, to provide better suppport, improve motivation and commitent can be taken.

# 4. Marketing in distribution channels

## 4.1 Channel marketing defined

Marketing is *the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large* (American Marketing Association, 2013). As for cannel marketing, Cambridge dictionary defines channel marketing as *the job of providing product information and marketing materials to channel partners,* while Business dictionary defines channel marketing as *directing of promotional efforts at specific links or levels (distributor, wholesaler, retailer) in a channel of distribution*. In other words, channel marketing is about finding new partners and building better relationship with them.

Comparing to traditional B2C or B2B marketing, marketing in channel networks has its specifics, mainly because multiple partners are involved – distributors, resellers, agents, etc. The route to the market is not direct for manufacturers, so they rely on channel partners when performing marketing activities. Partner marketing is a specialization within the overall discipline of marketing that focuses on communicating value to, with, through, and for partners.

- *To-partner-marketing* is about promoting the company to channel partners. The aim of to-partner-marketing is to persuade partners in the importance of the manufacturer-channel cooperation and explain the value behing the cooperation. It is also about building a strong and engaging marketing image for partner organizations and their employees to drive commitment to the brand. To-partner marketing can have form of integrated dashboards and reports showing the financial impact of cooperation, partner onboarding, training and certification, partner enablement tools, partner newsletters, program incentives, engagement on social media, organizing common events. Apart from that, partner marketing is often realized via partner portals, as well as via email and personal communication (Moore, 2015)

- *Through-partner-marketing* is when a manufacturer amplifies its brand and voice in the market by using its partner network. The aim of through-partner-marketing is to help partners in doing marketing for the brand by providing support and materilas as well as bring consistent message to the end customer via all channels. To promote through-partner-marketing, vendor make available marketing collaterial and content (catalogues, white papers, user stories, etc.), sometimes even the whole pre-maid marketing campaings to channel partners. Partners then often have an opportunity to adjust messaging of a vendor or to change some part of the campaign, so they ensure pre-maid materils and/or campaings fit their markets. Channel partners use the content from vendors or create their own marketing materilas by utilizing their market knowledge and established relationships with the end customers (Conick, 2017). Furthermore, modern forms of marketing cooperation between manufacturers and distribution network include, for example, marketing automation modules for campaing execution. Partners can then execute marketing campaings (email, social media) from manufacturer's portal just by uploading the list of campaing recipients, which helps to fasten the process and make it more autonomous (Impartner, 2018). The tool however has its limitations, as it becomes less valuable in multi-language environment, newly GDPR affects the adoption of the tool. Additionally, partner trainings on how to sell product can be offered by manufacturers to support the sales process and improve consistency of communication.

- *With-partner*-marketing is another form of cooperation when delivering marketing messages to the end customer. As opposed to through-partner marketing, with-partner marketing includes more communication and cooperation between the parties to achieve common goals. It could be, for example, a joint marketing activity which is created and executed by the channel partner, but which is directly supported by the manufacturer (e.g. financially). Or it could be a joint marketing event aiming to attract market attention to the partner's brand by utilizing a strong brand image of the manufacturer. Other examples could be joint participation at tradeshows; joint presentations and trainings, etc. (Conick, 2017) With-partner marketing is more situation- and partner-specific and requires specific dedicated resources from the manufacturer. Therefore, with-partner marketing is usually restricted, compared to through-partner marketing and applicable only to certain types of partners/products.

- *For-partner marketing* is about doing marketing activities for partner's benefit, for instance when manufacturers use their tool to generate leads and then share them with the channel partners. This form of partner marketing is very popular among channel network, as they get ready results. For-partner marketing is used by manufacturers, when they have better opportunities to gather leads because of their visibility or better capabilities for marketing campaign creation and promotion (Conick, 2017). However, for-partner marketing might also become a source of channel conflict, if manufacturer creates additional opportunities and support only for some players in the maret. Furthermore, the situation, when channel partners need to share their customer database with manufacturers can also be a cause of channel conflict, as distributors and resellers are often very careful with sharing their customer data, as they often represent their main competitive advantage.

Having marketing in distribution networks in mind, it is useful for managers to understand that there is not only customer marketing (B2B or B2C), but also partner marketing aimed to influence channel partners. Furthermore, there are different options how manufacturers can engage and cooperate with channel network when doing marketing activities for the end customers.

## 4.2 Specifics of B2B markets

Understanding B2B markets and implications of B2B market specifics for marketing is important, given that majority of the end customers of Alfa are businesses. Decent knowledge about B2B marketing can help to sucessfully support partner network.

B2B goods are those goods which are sold to other companies, institutions or government for incorporation into their own products, to be resold or used within their operations. Demand for B2B goods is derived from the demand from B2C goods, which makes planning and forecasting harder for B2B marketers (McDonald, 2009). Furthermore, business buyers have different motivations for purchasing goods and services than general consumer market. Business buyers as well as institutional buyers typically look for the way to increase their profits. This can be done either by decreasing costs or by increasing revenues. Furthermore, often such players need to meet government regulations, corporate standards or avoid negative PR, which can also affect their purchasig decisions (Zimmerman & Blythe, 2013). These factors should be considered when creating a market proposition for business buyers.

Certainly, given the different nature of business and consumer goods markets, there are conceptual differences in marketing as well. Zimmerman & Blythe (2013) name twelve major differences, that are divided into three groups:

1. Internal to company
    a. *Interdependance of departments* (business products are more technical than customer products and more departments are involved in product creation, modification and promotion strategies)

    b. *Differences in product management responsibilities* (often product managers have technical background, they need to coordinate all changes in marketing communication with multiple stakeholders and even do customer visits, etc.)

    c. *Marketing strategy equals corporate strategy* (there are longer lead times of industrial goods, cooperation across company is needed, even small changes in product/communication involve involvement of tlarger part of organization)

2. Customer/marketing
    a. *More rational decision of busness buyers* as the decision should be explained to and supported by other members of the team, very limited emotional or spontanious decisions typical for some B2C products

    b. *Narrower customer base than in consumer goods* ususally a very small percentage of businesses account for the majority of market opportunities, less players in the market requires dealing with more powerful customers

    c. *More buying influences and locations, more complex buying process* - typically there are more stakeholders involved in the final decision for business buyers, moreover they could be located on different sites, which makes communication and decision making lengthy and more complex

    d. *Different segmentation* as opposed to typical demographic and psychographic B2C segmentation, B2B segmentation is usually made by industry, product appications, firm size, importance of product to the firm, etc.

    e. *More markets and channels*, as there are more possible ways to market business goods, more possible types of intermediates involved, which also affects marketing strategies

    f. *Personal customer contact more important* as opposed to consumer goods. Marketing is closely tighted with highly technically skilled sales force, which is usually the most important point of contact for sofisticated business customers

3. Uncontrollables/environment
    a. *Technology* used by businesses as well as its knowledge by sales people is crucial; marketing becomes responsible for presenting technical information

    b. *Derived demand from other markets* – business marketers should forecast the trends and demand coming from the end consumers of products

    c. *Less user-info available* – less information on sales and customers is available, compared to consumer markets with its detailed statistics and market surveys

An interesting trend on B2B markets is increasing role of SMB (Small and medium businesses) in the global economy, which are typically the clients served by distribution networks. This segment has a significant buying power, but many companies have overlooked it, partially bacause of its fragmentation. Furthermore, SMB segment is different from big corporations, deals are usually smaller, business owners have a lot of decision power, SMB might be also more price-sensitive as it behave much more like B2C; often vendors need to develop a special offering and pricing for SMB (Wollan, Naveen, & Heald, 2013).

## 4.3 Marketing tools in B2B

Marketing programs for B2B are different from those for B2C, even though the same tools can be used in both. Major differences would be coming form the market specifics: in B2B marketers should make sure thay create enough content and credibility to support the rational decision making of business customers. Furthermore, since personal communication is far more important in B2B, marketers typically take care of sales enablement materials as well and participate in preparation of professional events, confrences and trade shows.

There is also a difference between B2B and B2C marketing communication, as the use of media and their type, the format and length of sales and marketing messages, customer targeting, style of communication and content differ. On B2C markets communication is short and punchy, spread across mass media, aimed at product buyers, targets their feelings, often focused on getting customer attention in an environment, overwhelmed by marketing messages, etc. On B2B markets communication aims to target multiple participants of the decision process, usually via industry-specific media, the content is required to bring additional information value is made available for potential customers, who seek for it more actively than in B2C markets (Zimmerman & Blythe, 2013).

B2B marketing tools can have different forms, the most frequently used are listed below (King, 2015):

1) Brand awareness
    a. Media and analyst relations
    b. Social media
    c. PR
    d. Influencer marketing

2) Demand generation
    a. Website and mobile
        i. Website and navigation

ii. Responsive web design
iii. SEO optimization
iv. Landing pages
b. Email
c. Content
i. Case studies, user stories
ii. White papers
iii. Ebooks
iv. Videos and podcasts
v. Webinars
d. Trade shows and events
e. Direct mail
f. Advertising
g. Retargeting
h. Lead nurtruing

3) Organizational enablement
a. Sales enablement
b. Customer retention and loyalty
c. Creative services
d. Editorial services

Manufacturers usually aim to cover more of the ares to support their channel partners, but the use of certain tools depends a lot on the channel members' preferences and experiences, as will be described in the practical part.

## 4.4 B2B buyer journey and relevant marketing tools

According to King (2015), marketing tools are often relevant to different steps of a typical B2B Buyer Journey and should play their roles depending on the stage of sales cysle. Each step has slightly different touch points for a customer, as well as different information is being searched. The idea is to accompany a buyer in a systematic way to provide the necessary content via the relevant channel at any specific point of the buyer's journey. Companies should plan their marketing tools and activities, so they "cover" the whole sales cycle and do not loose clients due to inappropriate marketing support. Figure 3 shows a typical buyer journey with touch points most relevant for each step.

Apart from different touchpoints, each step in a buyer journey requires specific content: in the beginning, more general, topical content is needed, so the company is found by the potential customer. Typical messages at the first stage would be "introduction to ABC" or " Why ABC method is a good idea". As the buyer progresses in his journey, content becomes more product and corporate oriented

“How ABC solves the problem” or “Benefits of ABC solution comparing to competition” (Step 2: researching solutions) and then technical and reference oriented: “ How client A benefited from the solution”, “Why client B chose our unique capabilities” (Step 3: evaluation of vendors). At the point of sale (Step 4: Decision to purchase), client looks for answers to questions about scalability, financial return, product support, legal and pricing conditions. Content, such as contracts, SLAs, technical certificates, ROI calculations, support and training options get the interest of the client and can help the client decide whether to proceed with the purchase.

**Figure 3 B2B buyer journey and points of contact**


Source: Author based on Zimmerman & Blythe, Business to Business marketing management: a global perspective (2013) and King, Complete Guide to B2B marketing (2015)

With the changing nature of content, goals of content creators also change. At first, the goal is to get visibility and get found; then it becomes important to be considered and preffered by the customer. The aim would be to both stand out in comparison with other prodcuts, explain product benefits, but also to create a certain reputation and credibility, so the customer choses provider/vendor. This is especially relevant in B2B technical sales. Ultimately, the goal is to be chosen by the customer, taken into account all further aspects, described above. In the end of the buyer journey demo products are offen provided, so the customer can make the final decision. Typical content for each stage is showed in Figure 4.

**Figure 4 B2B buyer journey and marketing content**

| Awareness | Researching solutions | Evaluation of vendors | Decision to purchase | After-sale |
|---|---|---|---|---|
| • Press releases<br>• Social and blog posts<br>• RSS feeds<br>• Presentations at industry shows<br>• Articles<br>• Information briefs<br>• Videos | • Blogs<br>• Whitepapers<br>• E-books<br>• Guides<br>• Reviews<br>• Videos | • Product webinars<br>• Case studies<br>• FAQs<br>• Product literature<br>• Head-to-head checklists<br>• Product reviews<br>• Analyst reports<br>• Lead nurtruing<br>• Awards | • Testimonials<br>• Buyer guides<br>• Case studies<br>• ROI calculator<br>• Checklists<br>• Samples, demo<br>• Roi data | • Documentation<br>• Newsletters<br>• Product updates<br>• Educational videos and materilas<br>• Technical manuals<br>• Trouble shooting tools<br>• Special offers |

Source: Author based on King, Complete Guide to B2B marketing (2015)

Marketing channels as website, mobile, e-mail, content marketing, trade shows and events, direct mail, online and offline advertising can be used to deliver content to the potential customer. Effective management of each channel could become a challenging task. Do companies use the whole potential the various channels provide?

In a case of a website, for instance, beautiful design, user friendliness, easy navigation and up-to date and relevant content are important, as website which often becomes a foundation for majority of online activities. Also, website should have the necessary SEO optimization to be found via search engines. Information on the website should be easy to find on the website, meaning different filtering ang grouping options could play a big role The importance of a good fast website is understood by many firms, however, what could be omitted are call-to-action buttons or engagement tools, such as chats, placed on web pages to assist customer and encourage him to start a dialogue with a seller. Another frequently un-used tools is a lead generation forms, which enable companies to get customer data in return for content. Landing pages are often hosted on websites. New technologies can use website activity of customers to score leads and identify, when a prospect is ready for a sales conversation. This is done via lead scoring and lead management tools that use data from the user activity on the web page and identify type of actions and content user consumes. Even if the channel used by majority of companies, not every company utilizes the channel to the fullest.

When it comes to coordination of activities and messages across channels, there are some general accepted practices: when there is a campaign to be designed to fulfill a certain goal, companies should think of it as a multi-touch, multi-offer campaing delivered via multiple channels. Demand generation and brand awareness are not just one-off actions (King, 2015). Even though the message and brand experience should be consistent across channel, companies try to get into as many channels as possible, often with a different content. Such approach got name *360 degree marketing,* meaning that companies seek presence in multiple place, so customer gets marketing messages from various sources at certain time period.

Since the goal of this thesis is to analyze marketing management practices and suggest improvements to the general management and marketing strategy, the author will not focus on deep analysis of every channel and activity. However, understanding the portfolio of tools and activities available is important for mapping current practices of Alfa and its distributors and seeing, whether there is a potential for improvement.

## 4.5 Marketing planning

### 4.5.1 Marketing planning

Planning is an essential part of every business. Even though it might be seen as step by step and easy process by many, in reality this is more complex, cross-functional activity that influences the whole organization. According to Mcdonald (2009), *marketing planning is a planned application of marketing resources to marketing objectives*. The process of marketing planning requires setting the objectives and afterwards formulating plans for their achievement, including scheduling and costing.

Marketing plans contribute for commercial success and are used for a number of purposes. They provide information to non-marketers, help identify and ensure resources and support needed, force a coordinated approach, set objectives and strategies, and, which is very important for a channel management – help to gain commitment from parties involved (Mcdonald, 2009).

What makes the process difficult, especially in channel, is bringing all information together and creating a coherent coordinated plan. In order to achieve that, certain formal procedures are often needed, which could be problematic for large networks of partners., as would require similar processes and approaches to planning to avoid big transaction costs. Another difficulty could be political, cultural and organizational differences (McDonald, 2009), especially since the channel includes multiple players on multiple markets. Taken that into consideration, cultural and organizational fit is also very important for successful marketing planning.

### 4.5.2 Strategic and Tactic marketing plans

Before formulating a marketing plan, it is good to define, whether a long-term strategic plan or a tactical short-term plan is needed. In marketing, both plans are important, however they are used for different purposes. *Strategic plans* cover periods longer than one year, usually 3-5 years and produced on a rolling basis, depicts company's ambitions, strategic plans and vision. *Tactical plans* are more detailed plans, which are created for a period of one year or shorter. They have information about specific planned actions and activities, people in charge, budgets, etc.

According to McDonald (2009), which devoted much of its academic career to researching marketing planning, also in industrial setting, a company with an effective strategic plan will survive, even though the tactical plan is ineffective. A company with an ineffective strategic plan will die, even though it has effective tactical plan. The concept is illustrated on Figure 5.

**Figure 5 Marketing planning and effectivity matrix**


Source: McDonald, Marketing Plans: How to Prepare Them, how to Use Them, 2009

The concept described above leads us to one crucial conclusion: marketers should not underevaluate the importance of long-term marketing planning. According to the theory, marketing planning should start from the strategic level, when company's objectives are set and later proceed to a tactical level, when tactics are created to achieve the strategies formulated in the previous step. For many companies strategic planning played one of the key roles in the success and differentiated them from less successful competitors.

Plans can be also categorized by the part of the organization they are created for. A hierarchy of plans can be observed,  starting from the corporate plan, which is typically more broad and less detailed, going down to business units, business segments plans and even to account plans. Business units, segments and account plans are the most detailed and specific.

However, when the distribution channel set up is in focus, there are more players involved.  A vendor would create a marketing for its different geographical markets , segments and often partners. At the same time, channel partners normally also have their own plans for their companies and portfolio.  Importantly, vendors and their partner should be able to identify common goals and touch points to make the collaboration effective for mutual satisfaction.  To do so, communication and collaboration is important. Alternatively, manufactureres with high market power can dictate conditions, but, taken in account rapid market development and increasing competition as markets mature, that might become a very short-vision strategy. Merging marketing plans of different organisations into one might be one of the biggest challenges of marketing channel managers.

### 4.5.3 Marketing planning cycle

The process of creating a sound marketing plan has a set of secuential steps. Different literature sources  (Kotler & Keller, 2012) (Zimmerman & Blythe, 2013) (McDonald, 2009) (King, 2015) describe the process of marketing planning to a different level of detail as well as strategic focus. The common elements to the process of creation of marketing plans describes by Kotler & Keller 2012) are the following: (1) external and internal enviroment analysis,  (2) goal formulation, (3) strategy formulation, (4) tactical plan formulation, (5) implementation stage, (6) feedback and control loop, and then the planning process goes back to phase (1).

Zimmerman and Blythe also use such term as *Marketing audit,* which is hapenning prior to goal formulation. It analyses current marketing activities of a company in focus. Marketing audit could be done periodically and fit in the process of marketing planning, e.g. in the feedback and control loop, to help understand if the progress has been made.  In different situations, marketing audit could be done ad hoc,  for example to see the outcomes of a certain change. As with any type of business controls, it is important to compare the resources needed for audit to the expected benefits of marketing audit to make sure there is a positive effect. Depending on the market situation, companies can perform audit less or more regularly. What can influence it, for instance, is market volatility: when market uncertainty is high and situation is constatnly changing, more often controls could be preferred.

Another part part of planning, which is important for channel sales, especially in B2B environment that is characterized by a small number of bigger accounts, is *account* *planning*. Account planning should be done prior to the execution period. Account planning creates account-level plans that typically include both marketing and sales objectives. According to Uysal (2017), account planning alows to get the most from accounts from business perspectives by combined set of actions. From a vendor's point of view there are two types of account planning: end user account planning and partner account planning. The source suggets that account planning should be done in a written form, consize and to the point. The process for account planning is similar to the overal planning proceses: there should be targets and strategy specified; program and tactical plan created to schedule work and allowing  minor adjustments to the strategy; regular checkpoints to follow the progress and take corrective actions, where needed and a back up plan, allowing flexibility and decresing time to correct responce in case of major plan fails.

### 4.5.4 Difficulties in B2B channel planning

B2B markets are more complicated for a marketing manager to work with, even though the basic marketing priciples apply in the same way. This happens for several reasons.

Demand for B2B goods is derived from the demand for consumer goods, which adds a lot of uncertainty to planning process and makes decision making more difficult and. Moreover, the further the vendor gets from the final customer, when involved in multi tier channel structures, the more diffiult it becomes to predict the demand and get up to date and detailed information about internal and external factors impacting the market. Finally, as oppossed to consumer goods markets, data about market, segments and market share development is more difficult to gather in B2B, even if being present in the market(McDonald, 2009). The partial solution would be close cooperation and frequent communication with channel partners, visiting events and talking to market players in respective markets to keep a hand on pulse.

Another problem with marketing planning could be approaches of partners to marketing planning. Most of the partners of Alfa are small and medium businesses. Often, they do not have formal approaches and processes to marketing planning, execution, and marketing performance evalution. Such companies are typically privately-run and therefore processes depend on an partner marketing manager's personal approach and previous experience. The most common drawbacks are: short-term plans with no medium or long-term strategies; limited financial and human resources; lack of defined structure for business and budget; experience only in limited number of marketing tools and processes; no organizational culture oriented towards exploring and implementing more progressive, new managerial and marketing tools; effort made on plan creation is partially lost due to implementation and evaluation inefficiences (Author Interviews, 2018) (Negricea & Edu, 2013). Close cooperation with channel partners decreases chances for the most typical planning mistakes that happen like setting not realistic targets, setting targets without consulting key stakeholders or not sharing targets and expectations with the team (and channel partners) (Kotler & Keller, 2012)

### 4.5.5 Marketing performance evaluation

When it comes to evaluating marketing performace, companies can take different approaches stated that there are there criteria for evaluating metric systems: first is comparison to internal expectations, e.g. plan, and second is comparing marketing performance to the external market and competitors, and finally, short-term results need to be adjusted by the change in marketing and brand equity (Dekimpe & Hanssens, 1999).

Comparison of actual results with the marketing plan is the most commonly used way of assessing marketing performance. Other two mentioned methods are more complicated: for competitive (external) comparison market research and comparable data from competitors are needed, which is hard to get and ususally requires further investments. According to the study of most frequent measure categories by Kokkinaki and Ambler (1999), only minority of respondents used external benchmarks on a regular basis, except for market share. Clearly, for SMB like Alfa with fragmented international markets this approach is hard to implement. Brand equity is also difficult to quanify, especially if evaluation of marketing performance on the level of each individual distributor and reseller is needed.

Existence of the marketing plan is one of the prerequisites for measuring marketing performance. Plans provide the most frequent benchmarks of financial and innovativeness measures, where used. (Thomson Learning, 2003) Moreoever, it is certainly difficult improve something that is not measured, nor recorded. Therefore, good marketing plans include measurable indicators (KPIs), which enable performance tracking and evaluation.

In channel marketing control of the vendor over marketing planning is somewhat limited. Vendors often do not have direct communication with all the subresellers, which means that vendors rely on their channel partners for interim marketing performance measurement and often can control and monitor only aggregated numbers and results. This, of course, is very company-specific and depends on a channel set up. However, one can assume that channel performance evaluation is not the same as interorganizational perforance evaluation due to numerous parties involved and inperfect information. For instance, sub-resselers might not share their customers contact detils, state of sales funnel and marketing campaigns results with vendors. In an ideal world a vendor would get information both about marketing performance from its partners. In real world that is a challenge, since transactions costs are high for collecting all information from all channel partners. In order to increase the amount of data gathered without dramatically increasing transaction costs, marketing automation tools and shared portals can be used, which will allow monitoring partners' acitvity and performance. If outputs can not be easily controlled, manufacturers can also try to monitor and incentivize inputs (e.g. campaing creation).

Finally, companies can be compared on three dimesions: performance, activities and capabilities, as described in Chapter 3.6 to get a complex view on current effort and performance as well as better identify opportunities for improvement.

## 4.6 Other important considerations

### 4.6.1 Price and non-discrimination

Managing marketing for multiple partners with different organizational, cultural and financial backgroud could be a challenging task. However, attention should be paid, so a vendor stays within a legal acceptable area when trying to make the most from his channel relationships.

As an example, such part of markeitng as setting pricing by manufacturers is regulated by law in may countries. In the US, there used to be a a number of federal legal acts, regulating competitive and channel relations in term of markets, price discrimination, and even exclusive dealing in the end of XX century. Deregulation of industries,as financial services, telecommunications and transportation had a huge influence on its ddistribution channels. (Stern, El-Ansary, & Brown, Management in marketing channels, 1989, pp. 52-55). Currently in European Union there is a set of competition rules hat can effect distribution networks. Suppliers can not dictate prices, which should be charged to the final customer, as it is prohibited by law.

What is probably even more important, is fair treatment of partners by vendors, as it is observed by the whole partner network. Vendors, who treat their partner fairly are positively percieved. Channel partners would disaprove any kind of discrimation or unfair behaviour, which could damage a vendor's image significantly. A manufacturer with a bad image and references would have problems hiring good distribution partners. According to the research by Anderson and Weitz (1992), intermediates are also much more conscious of a vendor's reputation when entering collaboration than other way around. During the cooperation, the vendor's reputation has a significant impact on channel members commitment.

### 4.6.2 Discount dillema

Another interesting question in multi-tier networks is giving discounts. Vendors have a global price lists, usually based on end user prices and then offer products to intermediates at a fixed percentage level. However, in many industries further discounts are given, either to increase margins or to offer discount to the final customer. Even though the focus of the thesis is not discussing pricing or margin policies, discount question is tightly connected with promotion strategy.

Should discounts be given? On one hand, discounts are good promotional tools that could help channel partners to drive sales and persuade the prospect to finalize the deal or additional funds used for other business development activities. Also, in certain industries both channel partners and end customers are very used to getting discounts. If a company does not have a leading position on the market, it should decide, whether to adjust its policies to the expectations. On the other hand, discounts could be harmful to channel relationships and put partners' commitment in danger, they are also much more difficult to manage. Discounts might firstly, cause «unfairness» perception, when treating channel partners differentlty and could discriminate smaller partners in case of volume discounts. Furthermore, it might lead to price wars, which in turn would start  decreasing partners margin, unless the product would become unattractive for them. Discount policies and rules should be set and followed to keep control over pricing (Uysal, 2017).  On the positive side, according to Wollan et al (2013), today is far more important to focus on delivering value to the client than being the cheapest.

# 5. Analysis of channel marketing management of Company Alfa

## 5.1 Company introduction

Alfa is a technology developer, a manufacturer of additive manufacturing equipment, which entered the industrial market in the last 10 years and is quite new to the industry. There are several core products in the company portfolio, as well as a number of assessories and materials. The company also works on expanding into other product segments in the nearest future. Currently, it has several offices worldwide, with products manufactured and assemled on 3 continents and continues to grow the business having more than 200 employees. The company has entered Central and Eastern European (CEE ) market 2-3 years ago via distribution partners.  In this thesis the author will focus attention on exploring cooperation with four distributors that operate in more than 12 countries (primarily CEE): Poland, Croatia, Slovenia, Serbia, Romania, Bulgaria, Czech Republic, Hungary, and some others.

Speaking about the market dynamics and competitive landscape, additive manufacturing equipment started to be used in industry around 30-40 years ago, but the era of increasing adoption has come just recently. Estimations by global agencies state that the market for the industry will grow at 20% average rate in the upcoming years. The market dynamics is favorable, as more and more businesses consider using additive manufacturing in their operations. Clearly, Alfa operates in a very attractive business environment. However, the development of technology is happening, too. Along with a couple big established companies, new players enter the market, including local manufacturers. Furthermore, all companies try to constantly innovate, enter into different kind of arrangements to launch new products and become more attractive to the customers. Since the competitive landscape is dynamicly changing, it puts higher requirements on Alfa about how to protect their position in the market and be successful in their growth ambitions.

On a positive side, Alfa  already has a good brand awareness and an established position, despite the fact that it is relatively new to the industy. The firm has been quite successful in building the band worldwide, primarily due to innovative product offering, effective marketing and attractive pricing. Partially the success was caused by the fact that unlike other industry players, who are, as well as Alfa, are B2B companies, Alfa focused much more effort on marketing, communication and customer experience. This was also confirmed by distribution partners, so repeatedly mentioned that they have the biggest marketing support from Alfa, compared to their other partners from the same or related industry. The company distributes a lot of customer-targeting marketing materials, proactively engages users online via forums hosted on their webpages, has its product presented at numerious events, including non-core industry events, such as technology and innovation conferences, etc. Clearly, the company marketing has much in common with B2C companies. In my view it is one of of the important factors that enabled the company to grow that quickly and build its brand image and get awareness quickly.

## 5.2 Company distribution set-up, channel relations and potential challenges

Globally, Alfa has a hybrid sales model. However, in CEE it sells excusively via its partner network, which is a positive fact for marketing management due to a smaller channel conflict. Apart from having an indirect slaes channel only, Alfa also proactively manages channel conflict in the distribution network by hiring a limited number of channel partners. Managing tier-2 distribution network, it typically has 1-2 bigger distributors in the region and then a small network of value-added resellers (VARs). This is also one of strategic choices Alfa made: only sign up resellers that can bring additional value to the company and to the client, including selling complementary equipment and software, as well as providing training, customer and technical support and dedicated personal. No companies operating as online shops and selling hundredrs of various products without adequate support could potentially become resellers.

Every distributor has 3-9 resellers, which makes the network quite big for managing, given that CEE region represents just a part of the global business. Therefore, Alfa chose tier-2 distribution model, which enabled the company to get sufficient market coverage, but also is manageble with less resources. Alfa communicated directly to distributors and typically is not in touch with individual resellers. Instead, distributors take care of resellers, making sure that they get shipments as well as sales, marketing and technical support. Distributors and resellers share margin for selling the products.

There are certain areas in distributor-reseller relationships, where the manufacturer is engaged, for example, Alfa has a final word when deciding on new resellers to make sure that resellers would become added-value partners and will not increase the channel conflict in the network. Also, Alfa can suggest termination of  a reseller, in case the reseller has poor performance for a long period of time without any positive trend. Furthermore, in some cases Alfa directly participates in reseller onboarding and training, helping the distributor. The last is not a rule, but generally has a positive effect on the network relationship and commitment.

Evaluating the degree of the channel conflict in the network, I would say that it is low in CEE, based on the distribution network set up, studied literature and the interviews with the channel partners. Surely, it is impossible to completely avoid channel conflict, giving free movement of goods between certain countries and also the fact that there are several players selling in the same region. Generally speaking, Alfa has been succesful in managing the conflict by limiting the number of partners in the region and having specific industry split for partners in the same region, so the competitions within the channel network is illiminated. Recommended price and strict discount policies deincentivize price competiton and further decrease the channel conflict.

After entering the market 2-3 years ago, Alfa growth rates were rather high in the region. However, lately the growth slowed down and some geographies even showed decline in sales numbers. For Alfa, it is cricual to undertand, how to manage the network of partners in a way that would motivate them and bring growth to the company. Therefore the author will focus its attention on diagnosing «pain points» and looking for recommendations in terms of actions to be taken to improve managing marketing activities in the channel network.

What is interesting, a situation of manufacturers expanding abroad via partners and facing similar challenges is described in Harward review (2000). Harvard review states that the main reasons for stagnating performance of local partners in emerging markets after the initial successfull kick-off is actually choice of partners. Partners that already have a big customer base and strong position in the market are chosen. After the launch, successful period of growing sales come. However, after some time the sales effort should be done to support the growth, the existing customer base is not eough anymore. But here the frustration comes: partners that were chosen by manufacturers for specifics reasons, now are not suitable for sustaining sales growth for the same reasons. Now at first place comes strategic match between the partners, willingness and flexibility of channel partners to work for the brand, ability to go beyond existing way of doing things, importance of looking for new customers, new methods, adjust to changing conditions and do an extra effort. Unfortunately, some partners are not willing to change.

## 5.3 Channel marketing management

Alfa is a truly marketing-oriented company, which makes it stand out among many other indistrial firms. Since high marketing orientation is not the industry standard, a lot of distribution partners are used to different scope of activities. Often they get only a few marketing-related requests from their suppliers. In that sence, Alfa still has a way to go in order to change the partners' perspective on marketing cooperation, especially in traditional industries, as well as motivate their partners to be envolved in marketing activities more often than they are used to. On the positive side, Alfa performs very well in terms of availability of marketing materials and marketing support, according to the interviews with distributors.

Being a B2B company, Alfa is still inspired by Apple – a giant in consumer electronics and «guru» in marketing – in certain aspects. This definitely provides an interesting insight into marketing startegy and marketing vision of Alfa. Innovative companies in B2B environment become incresingly marketing- and customer-oriented. This is one of the main reasons, the author found it so interesting to analyze marketing management of Alfa in CEE. Firstly, it could become a great learning point for other companies and secondly, interesting learning can come out of this work, as in certain areas the boarders between consumer, business and industrial manufacturer become to erase. The author's initial hypothesis was that Alfa' approach is still uncommon in the industry, therefore it enables Alfa to have above average marketing performance and makes the brand attractive to the market.

Marketing management at Alfa is mainly performed by Marketing Channel managers, who are responsible for allocating marketing budgets to channel partners, coordinatng of marketing materials creation, maintenaning Partner marketing portal, reviewing marketing plans with distibutors, creating campaigns and preparing product launches, etc. Moreover, the marketing activities are also supported by the Key account managers (KAMs), who are in much closer contact with the distributors, know the markets and subresellers well and have an overview of the planned activities. Account managers add value and are especially helpful with ad-hoc marketing planning, as they can suggest distributors suitable marketing support based on what is currently happening on the distributors' side, even if distributors in unaware of such opportunities. Marketing channel managers, in contrast, are in less frequent contact with channel partners and involved more in quarterly marketing planning and more technical marketing questions.

### 5.3.1 Marketing planning

Marketing planning is performed by Alfa together with distributors, and the process is organized in the following sequence of steps: 1) Distributors share their marketing plans prior to the beginning of the quarter together with an MDF (Marketing development fund) request 2) Alfa reviews the plan as well as MDF requests, add comments and approves the requests when all data are present (target audience, expected performance and results of the activity are shared)

3) Marketing channel manager has a call with each distributor to discuss upcoming quarter, suggest improvements and/or offering support on some parts of the plan, plan is finalized 4) At the the end of the quarter channel members do a follow-up and report actual campaign results, submit invoices if necessary, etc.

There are several advantages and disadvantages of this approach. On the positive side, distributors come up with the marketing plan themselves, based on their knowledge of the market, their needs and existing capabilities. This means the plan is much likely to be implemented due to its «fit» into market as well as partners' buy-in from the start. Another positive aspect is that Alfa and distributors have a quarterly call to discuss marketing activities and that Alfa knows what kind of marketing planning is done by distributors, has an opportunity to suggest new ideas and activities. According to the interviewees, such marketing cooperation this is not a standard in the industry, distributors appreciate the support they get form the manufacturer.

The current «pain point» of the process is resellers lower engagement in the planning process. Generally, distributors are responsible for discussing marketing plans with resellers. However, it turns out that out of four interviewed distributors only one distributor includes resellers activities that do not require funding into the marketing plan, other distributors only do so if MDF funding is requested. Other than that marketing plans of resellers do not reach Alfa, nor discussed with distributors. Clearly, multi-tier distribution creates certain diffculties in getting the full picture and having transparency of what is happening in sales, especially when it comes to resellers's activities and marketing effort. According to Alfa experience, offering MDF funding to resellers is a well-performing tool that brings at least some transparency into marketing activities hapenning in the channel. Alfa has come with a way how to decrease the information assymetry by offering MDF financing to resellers. The completeness of information still remains the challenge, but this measure significantly improves Alfa's knowledge about activity of resellers in the market.

Another problem the author encountered was a gap between strategic and operational marketing planning. Channel partner typically create an annual plan, where they include all major events and conferences they participate in, as well as other events they organize. Then the plan is split into quarters and several high-level activities are planned for each quarter. Still, the plan stays pretty much on an operational level. Interviewed distributors seemed not to have a strategic vision for Alfa brand. I think this a signal to Alfa to create its strategic vision for the regions together with the channel partners and start communicating the vision more actively to help channel partners to see the high-level strategic ambition, and not only focusing on routine marketing activities and quick-wins. This is clearly a challenging activity, but longer-term strategic programs can provide additional value and ensure sustianable growth in the future (e.g. cooperation with universities).

### 5.3.2 Performance evaluation

There is a framework for evaluating channel partners at Alfa, similar to CFA (Channel fullfillment analysis) described in the thoretical part. The main KPI for sales and marketing are units of hardware sold, and complementary KPIs used are partner's growth, share of sales from resellers vs distributor's direct sales and some others. The sales numbers are split by partners (distributors & resellers), georgaphies and industries, which follows the best practice described in literature and allows the manufacturer to get valuable insights on where the growth is coming from.

Given the main challenge of non-transparency and information assymetry in multi-tier distribution networks, Alfa definitely shows best practice by gathering sales data on industry and reseller level, as it brings better understanding of the channel. Some distributors complained that Alfa requires more reporting on average then other companies they work with. The author believes that it is a clear win for Alfa, which decrease information assymetry and gives Alfa a better overview of the channel. The better reporting could be probably possible in exclusive relationships, where manufacturer is the only partner and though has very high power over the channel and majority of deals is registered at deal registration systems. In a current set up the author does not see such step as feasible for Alfa, so reporting os sales data is probably as good as it can get.

Nevertheles, there could be still space for improvement. Some authors say that financial objectives, even though being important measures of the desired company, are of little practical help, as they do not tell anything about how to achieve results (McDonalds, 2009). Additionally, when approaches to measuring channel performance were analyzed, it was found out that some authors recommend to evaluate partners' activity and capabilities, as these are prerequisites for financial success. So having some non-financial marketing KPI would be helpful for Alfa to undertsand how successful the partners are, what activities perform well and what should Alfa focus on to stimulate channel sales growth. Therefore, I would suggest that Alfa also evaluates channel partnes by mapping activity and capabilities of distributors and resellers in addition to measuring their performance in terms of sales numbers. The general framework for evaluating channel partners based on three criteria: performance, activity, capabilities has been already described in Chapter 3; The author believes such multi-dimensional evaluation should be carried out continiously to effectively prioritize areas for marketing improvement and have more targeted actions to help channel partners perform better in their marketing activities. For measuring activity, information of performed and planned campaings, number of Marketing Portal visits and downloads, submission of marketing plans can be used. For measuring partner capabilities, research based on marketing planning data can be done. In this thesis, the author combined this approach with interviewees to map current capabilities of distributors. When combining all three perspectives: performance, capabilities and activity a better targeted and actionable strategy for each player can be suggested and interim results can be tracked.

Traditional marketing KPIs, as well as activity and capability KPIs are usually closely related to sales KPIs. This is logical, because marketing capabilities and activities of partners are in strong corellation with their sales performance. However, compared to sales KPIs, marketing KPIs are much harder to get to, as these figures are rarely reported. Marketing planning and performance evaluation at Alfa are tied to quarterly submission of marketing plans and MDF requests, which I believe is a showcase of good practice when it comes to marketing management, as it enables Alfa to get more detailed data about marketing activities of channel partners. In order to be provided with an MDF funding, the channel partner applying for a fund is required to estimate potential impact on sales and to forecast the results of the campaing, for instance in a number of leads. This allows manufacturer not only allocate marketing funds in the most efficient way, but also provides a solid overview of planned activities by channel partners and their expected effect. The marketing plan is also a great source of information about upcoming activities and opportunity for manufacturer to offer its expertise where necessary. The limiting factor of marketing plan submission and MDF request submission for performance measurement is the fact, that the follow up is not done on a regular basis, it is also time consuming for both parties. Furthermore, reporting is usually unpopular among channel partners, and finally, ROI is difficult to measure for many activities. Interviewed companies do not do ROI calculation for majority of the activities, especially carried out offline.

Another performance evaluation tool, Channel Matrix, descibed in the Chapter 3 would be a good way how to monitor non-financial measures of marketing performance: such as number of executed Facebook and Google Adwords campaings, articles, blogs, workshops, participation at events and tradeshows, cooperation with influencers, email campaigns, etc. Reporting such activities, is, however, extremely time-consuming for channel partners and according to channel managers of the manufacturer, it would be very hard to implement such detailed reporting. Some marketing-related activity, however, can be till measured based on quarterly marketing plans, MDF requests, or discussed during quarterly calls. Another great opportunity to measure activity would be tracking download from the Marketing portal, for that the marketing portal should also become available for resellers.

Some channel partners included into their argumantation against reporting that they know what activities to perform, as it is in their best interest to invest into activities that perform well. However, this does not solve the problem of different capabilities of channel parteners or different objectives of channel partners that might not necessarily 100% aligned with objectives of Alfa. Therefore, Alfa should continue discussing marketing plans with channel partners, keep records and require submission of marketing plans by distributor, because this is the only way how it can track, support and improve channel marketing performance.

Given the fact that most of the reported activities are the ones that require funding, MDF funds now work as an incentive to motivate partner to do marketing planning and reporting.

### 5.3.3 Partner programs

Partner programs are popular among industrial and manufacturing companies. Alfa certainly uses various elements from partner programs, such as partner portal with marketing collaterial and support documents and information, enables getting and MDF funding (process runs outside of the marketing platform), recently started with marketing training for partners and certification. Also, there are a couple of programs channel partner can apply for to get additional bonuses/financing, when, for example, organizing certaing types of targeted events, such as paid workshops for professionals or when representing company on a big event or tradeshow. For example, customers, attending such event, can be offered additional benefits, accessories or consumables for purchasing the equipment during/right after the event. Such programs suport channel partners in selling the products, ensure equal treatment of all channel partners without implementing promotions, which are more dangerous for the brand and can also cause channel conflict.

However, one can notice several differences, comparing the Alfa program to other established partner programs in the market. Firstly, the is no differentiation between MDF and Co-funding, as both require approvement from the manufacturer's side. Also, partners do not have insight into funds they already spent and available budgets for them in a certain period. Funds allocation happens on-request. Secondly and most importantly, Alfa does not have a formal way to distinguish between partners at the same level of distribution network : e.g. all resellers and distributors have the same status, no matter what value they bring to the company. There is no «tier» classification used by other companies as «silver», «golden», or «platinum». (Other manufacturers use these tiers, for example, based on level of partner's activities, responsibilities, and/or performance). Thirdly, functionality of marketing platform is limited to collaterial distribution only, marketing funds allocation is done via online shared documents, , all communication is run via emails or calls. Finally, no deal registration tool is present, though manufacturer does not see into the partners' sales pipeline.

### 5.3.4 Marketing enablement tools and support

Marketing enablement tools and support are either available on request or via Marketing portal.

Examples of on request support include, for example, provision of sample parts or display kits (sets of sample parts). Furthermore, Alfa can provide partners with resources for creating a customer case study (e.g. filming/writing an article on a customer success story), a joint PR campaign, loan of product units for product testing and reviews by third parties, product launch pre-maid campaings, free supply of consumables and/or accessories for promotional or marketing events, other event support (assessories for product presentation, product samples, customer stories, banners, etc.). Other tools and materials available via the portal are described below.

### 5.3.5 Marketing portal

Marketing portal is an important channel for communication with channel partners. Started with a shared drive with marketing materials, Alfa moved its collaterial to its own Partner marketing portal, hosted on its website. Distributors have access to the portal after entering their username and password. Resellers do not have access to the portal at the moment. Mainly, the marketing portal is used for sharing collaterial with distributors. Distributors later share it with their partnesr via own shared drives or on request.

In terms of marketing collaterial, there is a wide choice of documents procided for partners, such as white papers, case studoes and user stories, ready dlaes materials (flyuers, catalogues), product sales sheets, product videos, product information and high-resolution photos, technical documantation, standard files for tests/samples, tutorials for end-users, guides for specific applications, etc.
Clearly, the company offers a wide range of collaterial, covering multiple topics, the materials are also regularly updated. Partners can use the materials they need, however, costs of translation is the major limitation factor for using materials in CEE markets.

Partner marketing portal also contains section relevant for Channel management: templates, such as Marketing plan and MDF requests, archived partner newsletters, links to webinars, slaes sheets, etc.). Lately the company also introduced a section that contains information on desirable marketing programs partners can participate and get support, list of available event and showroom resources, recommended reading list, toolkits for product launches, SEO and SEM guidelines, Website best practices, Brand and Graphic guidelines, and etc.

As one can notice, there is plenty of information stored om the portal. However, all distributors mentioned that portal is very difficult for navigation and search of relevant materials. The reason could be the missing clear structure and visuals to guide the portal visitor.

Currently, marketing portal welcome page looks the following way: there are 4 folders of materials placed on a «home» page (Sales-ready assets, Product information & Photos, Marketing resources and Partner relationship management). Materials from each folder are listed on the home page as well, there is also a feed with featured articles on the right-hand side. The home page is very text-heavy and not intuitive in terms of navigation. In case a partner does not know the platform well, it will be a challenging mission to find the desired materials. Many partner, who are short on time, wold not even try that. Better developed categotization (e.g. introducing 6 categories instead of 4) as well as adding pictures and enabling previews; adding search by keywords and navigation not only by type of material, but by also by user's need (e.g. «Campaing creation» - a) «Pre-maid campaign» b) «New campain» - i) FB premaid campaing ii) Google ads pre-maid campaign iii) Email pre-maid campaign, etc.) would help to leverage the portal to its fullest. Also, sending portal updates and introducing new materials/features to channel partners could ba a good tool to increase partners' engagement and activity on the portal. Last, but not the least, tracking materials downloads can provide valuable information about partners' activity, as well as help identify the best peforming pieces of content to further optimize manufacturer's offer.

### 5.3.6 Software used

Alfa does not use any special channel marketing or channel management software, except for the Marketing portal, hosted on the company website together with the Support portal. Marketing planning and MDF requests are completed in shared documents. Recently, Alfa also launced marketing online trainings for partners, which is also hosted on the company website.

Sales performance is tracked in Cloud CRM software. For project management and delegation of marketing-related tasks to other departments (graphic designers, sample production, etc.) Asana project management application is used. According to marketing managers, it makes project work and task assignment much more efficient across the company than email.

### 5.3.7 Partner onboarding

Partner onboarding is a part of channel management and marketing at Alfa. The total number of partners is limited by territory to avoid channel conflict, so onboarding training do not happen often, but they are important tools for the initial network set-up. The aim of the onboarding training is to communicate the most important information about the product and the company, introduce best practices in sales and marketing, provide technical training, show how to get access to materials and tools, as well as explain marketing cooperation possibilities with the manufacturer and distributor.

Apart from that, personal onboarding helps to get to know the partners better as well as start building better trustful relationship with them. This is especially important for manufacturer-reseller relationship, as they do not come into a direct contact in day-to-day operations, so this meeting provides a unique opportunity to start building commitment. Personal onboarding also helps to achieve better transparency within the network, manufacturers get to know who talks to their end-customers.

Geneally speaking, visiting resellers personally or meeting them at events represents one of the best practices for Alfa. Personal onboarding enables both better to-partner (relationship & commitment building) and through-partner marketing (marketing enablement aimed at the end-customers).

### 5.3.8 Commitment, motivation and incentives

Motivation of channel partners and their commitment are certainly one of the most important considerations for a company with a channel network. Alfa invests into partner relationships by providing each distributor a KAM (Key account manager), organizing trainings, giving certifications, sharing marketing materials, creating marketing programs, providing MDF and putting high focus on maintaining good relationship with partners. Alfa proactively organizes opportunities for meeting with channel partners in person (e.g. partner dinner at industrial tradefair, personal visits of KAMs, events at Headquarters for partners, supporting partners' at their events and tradeshows). The company is also open for feedback and discussion with the partners, in case any issue or concerns arise.

Considering partner motivation, marketing funds, Partner marketing portal with collaterial, quarterly marketing planning and regular support by KAM are the main instruments the company uses. On contrar, use of monetary sales incentives is limited. Alfa don't use traditional incentive schemes, such as volume discounts, as they are not fit well to its channel network with many newly joined smaller partners without a certain level of turnover or serving developing markets. Interestingly, such incentive was tested, but later abandoned, as it did not help reaching company's goals and made it more difficult for smaller players to grow. Also, it created unhealthy market dynamics.
Alfa does not have differentiated partner «tiers», nor incentivise employees of its channel partners. In author's opinion it helps to keep rules simple and transparent for everyone and the system easy to administrate. Furthermore, introduction of tiers would be potentially problematic due to various industries served by channel partners and different level of engagement by partners in these industries. Furthermore, since Alfa tries to keep the channel network small, so sometimes there are only a few partners in a country and additional tiering might not be that useful in CEE. Giving some sort of certification is however perceived well by some partners, as it could have some positive promotion affect due to the end-customers perceptions.

Strategic desicion about incentive schemes are important for marketing management, but activities performed by partners spread beyond marketing organization also to sales, logistics, technical support and customer service. In order to keep partners motivated and committed, all departments should work together to serve and support partners and develop integrated incentive schemes, if possible. Alfa invests into technical training for partners, constantly works on improving partner support, provides a number of materials via partner portal, streamlines and further digitalizes ordering process via B2B platform to replace part of email communication when placing orders and decrease transaction costs for partners, and so on. On the other side, partners are commited to keeping a certain level of stock, reacting to customers' requests, providing an adequate level of technical advise, etc. Therefore incentives should be designed on organizational level, as the aim of incentives would be to allign interests of partners across business functions to the manufacturers' objectives. The number of incentive progrmas should not be high due to higher perceived value by partners, controllable admin costs and trackability.

### 5.3.9 Partner and marketing support prioritization

For manufacturers, prioritization is important for two reasons. Firstly, prioritizing right marketing activities to meet needs of the highest amount of B2B partners while optimizing resources allocation: e.g. if hardly any partners are active in producing content for Youtube, Youtube kit is not the first priority for the manufacturer channel marketing managers. Secondly, prioritizing is important in terms for choosing partners who need targeted assistance or support the most. The main criterium for such prioritization is a cost/benefit analysis and expected return.

The author did not learn about any formal prioritization mechanisms at Alfa, it is possible that channel manager allocate their effort based on current needs and experience with partners. However, creating more formal framework could be a useful tool how to improve control over the market and focus activities on the channel partners with the highest potential.

When prioritizing partners one can look at several factors:

1) Market size and estimated untapped potential. Market size or market concentration are not that easy to estimate, but in case of Alfa, market limitations should not be the main problem given the high industry growth rates. Also, market potential can be estimated from demand generated by different B2B/B2C companies. Usually Sales managers have a good overview and can provide valuable inputs to marketers.

2) Market performance of partners – it is important to continue supporting partners categorized as top performers; usually good performance is correlated to the amount of effort invested into the product by the partner. Most often, such partners would appreciate new ideas from the manufacturer and would be grateful for additional recognition, but might lack time expanding the portfolio of their activities. Partners, whose performance is decreasing or stagnating might need different type of support, which would depend on further criteria: partner capabilities and partner activity

3) Partner capabilities – is an especially important factor when identifying areas that need support the most. Mapping partner capabilities can help to point out "weaker spots" and focus energy on giving valuable addressed support to the partner. For example, sharing with partners best practices for PPC campaings, SEO or email follow up scenarios after a tradeshow. This information can be provided personally or via Partner education portal. Combining theory with practical exercises can be useful to make sure the skill gets implemented (e.g. after passing e-learning on PPC, create a small PPC campaing, then optimize it; tsome costs could be covered by the manufacturer or by the realization of a marketing campaign participant could earn points needed for completing the course).

4) Partner activity and commitment determine how engaged partners are, how much effort they invest into the marketing for the brand. If partner activity is high, support from Marketing department would probably bring much higher effect than in case partner activity is low. Active partners should be prioritized to achieve the fastest results. When it comes to inactive partners, manufacturer could choose different tactics, depending on the reasons behind the partner's inactivity. If partners are inactive because they lack capabilities – manufacture can start educating the partner; if partners lack resources – support in form of pre-made campaings, case studies, landing page templates could be provided. In case partners lack commitment and motivation, manufacturer should first find the reasons behind it and try address them, but if it is not a functionable relationship in the long run, such cooperation might need to be terminated.

# 6. Research Methods and Results

## 6.1 Approach and metodology

In order to examine marketing channel management of Alfa in more detail, a set of interviews with four distributors from CEE region was conducted. Firstly, the goal of the interviews was to analyze channel marketing needs and challenges from the channel members' perspective to suggest most relevant support for partners. Secondly, the goal of the interviews was to understand partners capabilities and capacity better, to come up with the better performance evaluation scheme and a tailored marketing management strategy, which would ensure partners' learning objectives and capabilities are taken into account. Thirdly, distributor-reseller relationship was examined. Fourthly, distributors were asked to compare Alfa with other companies they work with in terms of marketing support, marketing programmes and available resources and tools. Finally, the interviews goal was to map partner's overall satisfaction with Alfa channel program to identify pain points and suggest potential improvements.

There are several possible research methods. The author chose qualitative interviews due to only a limited number of distributors in CEE region as well as due to importance of qualitative assessment of relationships and attitudes in the network. Furthermore, personal semi-structured interviews allowed much greater flexibility in terms of real-time prioritization of questions and enabled to have a discussion beyond the pre-determined questions, if proved necessary. Given the width of the researched problem and significant differences between distributors, semi-structured interview was chosen as the one that can bring the most interesting insights into the problem, while making sure that the key topics are covered during the interview. Furthermore, given the role of channel power and channel conflict that have a big influence on channel relations, personal interviews provided much more space for reading between the lines and understanding underlying context better.

Each interview lasted for minimum 60 minutes and consisted of a number of closed an open-ended questions split into 7 major topic areas: 1) company and marketing team background 2) Criteria behind brand prioritization for marketing effort and investment 3) Relationship with resellers 4) Online and offline marketing capabilities/activities performed 5) Marketing software used 6) Attitude towards Alfa marketing management processes and tools 7) Total satisfaction and feedback. Depending on the interview flow, certain topic and questions were prioritized over others for in-depth discussion to meet the time constraints. The notes were made during the interviews to be further analyzed.

The channel conflict as well as channel power were not directly examined during the interviews, due to significant research limitations: channel partners were first approached by Alfa managers, so they were aware of the interviewer's cooperation with the company and objectively would not share certain views and concerns with the interviewer, as it could be potentially misinterpreted by Alfa or even negatively affect the current relations. Therefore, such categories were examined indirectly, via analyzing product portfolio of the channel partner, approximate share of Alfa product sales by the partner, its engagement in sales and marketing activities with Alfa, overall involvement, etc.

Relationship with resellers were examined indirectly in interviews with distributos for several reasons. Firstly, Alfa itself is not in direct contact with resellers, so the author could not directly contact resellers without the distributors' agreement and assistence. Otherwise, it could bring tensure to manufacturer-distributors relations, who might have thought that Alfa want to speak with resellers behind their backs. Secondly, the author's attemp to get in contact with resellers via distributors was not successful, as it was explicitely or non-explicitely declined by majority of distributors. There true reasons could be multiple, but this fact serves as an indicator of a limited channel network transparency, which the author would like to address in the recommendation part.

Online marketing activity of distributors was also examined by browsing through their webpages, social media pages and checking their website SEO, speed and traffic using free online services, such as SimilarWeb (www.similarweb.com) and Neilpatel (www.neilpatel.com). This was a tool how to measure online capabilities and performance and speed up the interview process, focusing on questions that are more specific to the company that can not be researched by the author herself without distributors' inputs.

## 6.2 Profile of interviewees

The interviewees were employees of the four distributors from CEE region, operating in more than 12 countries: Poland, Czech Republic, Slovak Republic, Hungary, Bulgaria, Romania, Croatia, Slovenia, Serbia, Montenegro, Greece and some others. Most of distributors had exclusivity rights for their geography. All interviewees were marketing specialists and worked for the distributors' companies for at least 6 months.

Below the distributors profiles are presented in a summary table:

| Company | Company profile | N of employees | Years since established | Size of marketing team | N of brands represented | Number of subrelleres (countries) |
|---|---|---|---|---|---|---|
| **D1** | Distributor & reseller | 5-10 | 3-5 | 2 | ~ 13 | 14 (7) |
| **D2** | Distributor & reseller | 10-15 | 5-8 | 2 | ~ 9 | 7 (1) |
| **D3** | Producer, distributor & reseller | 50-100 | >30 | 3 | > 25 | 12 (10) |
| **D4** | Distributor & reseller | 10-15 | 3-5 | 2 | ~ 11 | 5 (3) |

## 6.3 Questionnaire

The questionnaire was split into 7 major topics, with a number of questions for each topic, arranged by priority. Since the semi-structured interview was chosen by the author for the reasons described earlier, prioritization of certain questions and/or topics or adding follow-up questions during the interviews was possible to probe initial participant responses. Furthermore, if certain aspects were brought in by some interviewees, the author then included these additional questions into the interview structure for the remaining interviees to further explore the question and check whether it is also relevant for other distributors.

Question were developed by the author based on thesis goals. There was no questionnaire in the studies reviewed that would be appropriate for the situation and the thesis goals. Primarily, because such categories, such as commitment, channel power and channel conflict described a lot in the literatire could not be directly researched due to the reasons described earlier. Therefore, the questionnaire primarily focused on examining distributors' capabilities and activities, set up of the marketing team, top performing marketing programmes and campaings, relationship with their resellers, attitude towards materials, processes and support provided by manufacturer as well as overall satisfaction with the cooperation and space for improvement. Channel partners were also asked about marketing support they get from their other suppliers to understand how Alfa performs comparing to the industry standards. The full version of the questionnare is placed in the Appendix.

## 6.5 Evaluation of results

Results were evaluated by mapping individual distributors across categories/topics and comparing the initial standpoint. Furthermore, additional questions and concerns of the distributor, originally not in scope, were analyzed individually to be added to the picture, where relevant.

As result, an overview and comparison of resellers across 8 topics was done to present results on an aggregated level with the actionable implications for channel marketing management.

## 6.6 Overview of the main findings and discussion

In this part the findings from the interviews are analyzed and possible improvement strategies are discussed. There are six main areas explored: (1) Criteria used by channel partners for prioritizing brands for marketing activities, (2) Marketing function and use of external agencies by partners, (3) Cooperation with resellers on marketing activities (4) Offline and online activities of distributors and best practices (5) Attitute towards Alfa marketing management processes (6) Total satsfaction and feedback

### 6.6.1 Criteria for brand prioritization

Distributors were asked about their criteria for brand prioritization in marketing: how decision on activities to be performed are made, given the multibrand portfolio they offer in the market. Understanding decision making process is important for every company that tries to get more devoted time and resources from the channel partners.

According to literature reasearch performed, there are multiple criteria that affect channel partners decision making process where to allocate their promo/marketing activities. The main ones are 1) Consistency of marketing programs with company's own objectives 2) Gain/cost analysis (marketing budgets, availability of marketing activities, possible revenues and costs) 3) Number of competitors in the market (connected with channel conflict) 4) Margin. Other authors also mention more «hyginic» criteria such as 5) Credit/Terms, 6) Product availability are important. Furthermore, 7) Marketing programs and Technical support 8) Product competitiveness 9) Policies 10) Training 11) Experience with other suppliers are the factors that affect channel partners motivation to invest in the product. For customers value received, product utility and guarantee are important.

Looking at what the interviewed distributors have mentioned as their main criteria, when deciding on what brand to focus their activities on, one can see that distributors are more value- and customer-oriented today. This is clear, because the shift towards custmer orientation happened in the last decades. Nevertheless, the research is still aplicable to the current decision-making criteria: for example, any inconvenience with technical support caused by a product result in lower customer satisfaction and increased costs for the distributor. Therefore, based on gain/loss analysis (cost of fixing the equipment) and comparing its own business objectives to the result (e.g. being #1 partner for the customers, providing superior level of services and high-quality products vs threatening relations with customers by selling the equipment that broke down and interrupted company's operations for a week), distributors decide, how much they are willing to invest into certain product.

The table 5 shows the finding from the interview, describing criteria used by four distibutors when deciding what brands to focus. Clearly, product attractiveness and potential is the highest in distributors' priorities, as well as relationship and long-term orientation of the cooperation with the manufacturer. As expected, financials still play an important role: firstly, margins should be high enough to make business sustainable; secondly, financial, marketing and technical support from supplier motivate distributors to engage into activities.

Table 5 Distributors priorities when choosing brands to invest into

| Priority | D1 | D2 | D3 | D4 |
|---|---|---|---|---|
| **#1** | Product market potential for the future/ product attractiveness | Current product attractiveness and popularity | Good partner relationships | Product quality, best in class product |
| **#2** | Financial sustainability | Current situation: Upcoming events & new launches | Gain/Loss or Financial attractiveness (margins, financial sponsoring, speakers, little tech support needed) | Trust and confidence in long-term orientation in cooperation with supplier (indirect channels only, exclusivity, etc.) |
| **#3** | - | Marketing plans, balanced representation of main partners | Product attractiveness (current high interest) | Technical support, Interest in the market, Sustainable margin |

Source: Author based on interviews with four distributirs

Definitely one of the advantages of Alfa is supplying a top product into the market, the disadvantage could be that the product line has not changed for some time already, so potential «Buzz» about new prodcuts could be helpful to get distributors' interest. Furthermore, Alfa provides very decent technical and probably best-in-class marketing support, as accessed by distributors. Furthermore, Alfa invests into building good relationships with distributors by providing them with key account managers, organizing distributor events and trainings, giving personal visits and being in regular contact.

Concerns regarding prioritization of Alfa that some distributors raised were: (1) Not enough trust in the relationship, a lot of reporting and extensive bureaucracy required while distributor would rather invest time into marketing itself, (2) Missing confidence in long-term committment to indirect sales by the supplier (3) Large amount of time spent on technical support (caused by both machine failures and clients' mistakes). E

Each of these concerns was addressed by only one company, since distributors are used to working with different type of suppliers and equipment under

different terms, it is quite normal that there are different expectations on certain aspects. Nevertheless, if Alfa decides to address the issues, it could be done by
(1) Streamlining some processes, e.g. simplifying MDF requests and allocation, but stating clear rules and cases where MDF is applicable
(2) Increasing transaction-specific investments, decreasing number of players serving the territory, providing legal commitment to the relationship for a couple of years if all conditions are met; making sure policies are similar across geographies, as concerns rose from cancelling distributors in another geography
(3) Making sure employees of distributors are well-trained to provide product training to the final customer to avoid technical problems caused by lack of knowledge of the end-customers; launching a self-service mobile app in the long-term, enabling to send request to distributor or reseller, offering express replacement services if technical problem arises to ensure customer operations are running, compensation partners for extra technical support, if caused by increased failure rates.

### 6.6.2 Internal marketing function and role of external agencies

Majority of activities is performed by distributors inhouse. External agencies are used either for irregular specific activities like PR or catalogue creation or used to be purchased from external agencies (e.g. managing social networks, blog), when the company was small and there were no marketing people in it.

The major reason why companies prefer to use internal marketing is the fact that B2B technical sales are quite specific, and good industry knowledge is needed for creation of relevant marketing campaings.

### 6.6.3 Relationship with resellers

Relationship with resellers is one of the most interesting topics discussed with the partners. The question will probably require a deeper accessment in the future by also engaging resellers to the discussion and getting their perception.

Distributors were asked, how much time they devote for marketing activities aimed at the end customer compared with how much time they spend on reseller-related marketing. All distributors had difficulties quantifying this, since channel marketing and end customer marketing are not separated form each other, the split is influenced by a lot of factors, including seasonality, also depending on resellers' activities and needs. Nevertheless, the conclusion resellers are quite independent in their marketing activities. 2 out of 4 partners mentioned that they get in contact with resellers, only when any questions/

requests arise on resellers side. Another 2 players communicate with resellers more often, and only 1 distributor mentioned sharing of ready-made FB and email campaings with some of its distributors (mostly subsidiaries). Marketing planning is also done by resellers independently and then submitted to tha manufacturer via distributors. However, only a few resellers submit quarterly marketing plans on a regular basis. Marketing onboarding training, ensuring access to Marketin portal with marketing materials and pre-maid campaings, practical Partner Academy with hands-on taks to complete, setting automated reminders about marketing plan submission and connecting the process with additional margin/opportunity to get MDF financing could help to engage resellers more into marketing planning process.

Another interesting finding from the interviews is that in situations where distributors serve the same geographical market as their resellers, certain level of competition between distributors and resellers can occure. This is an interesting observation, as it might mean that distributors who actively sell products to final customers might lack motivation to support their resellers. This happens in situations, when they operate in the same territory and offer similar products, there is no a significant difference between distributors and resellers in terms of size and key activities. Manufacture should make sure distribution set-up promotes cooperation between distributors and resellers; so they do not compete directly with each other. This requires training and setting clear rules and expectations in terms of tier-2 distribution, spreading even beyond marketing cooperation. For marketing, one application could be for example enabling resellers to use translated materials 3 months after distributor introduces it to the market, if the tramslation was financed by the manufacturer.

Manufacturer mentioned that it faces a problem of less engaged resellers, e.g. when applying for Marketing Development funds. The reasons for that could be the following: 1) Resellers are not used to working with marketing development funds 2) Resellers are not proactively offered to use marketing development funds by distributors 3) Resellers are busy and often do not have their own marketing department to do marketing activities that can be financed from MDF 4) Resellers do not have access to marketing portal, though campaing creation becomes more time consuming for them, as necessary materials should be requested from distributor

The mentioned limitations can be solved by 1) Providing adequate training to resellers and reminding them about the opportunity to use MDF 2) Offering specific pre-maid campaigns resellers can use; encouraging distributors to involve resellers more, e.g. by sending them translated materials/campaings or allocating part of MDF budget to resellers 3) Offer good-quality adjustable pre-maid campaings by manufacturer that would only require small changes (mainly translation); making materials in certain language available for all partners after translation into local language financed by the manufacturer; creating a list of quick marketing activities resellers can start with; providing marketing training to resellers 5) Offering access to marketing portal to resellers, with resellers-specific section featuring quick marketing information and campaings resellers can do themselves (a section with short blog-type content/news which is a very popular content format among smaller companies) 6) Offering sales bonuses and higher margins, as starting with low volumes is not that attractive for resellers, so they often do passive sales and waiting for the end customers to find them

If Alfa want to be able to improve marketing activities across all levels in the channel, it needs to find better ways how to engage resellers better, but not increasing complexity on their side. Acces to marketing portal, automated notification about new campaings or materials, or existing white papers and case studies could become a good tool. Also, giving access to partner to education tool could be helpful. Resellers can be motivated to complte the program to get MDF support for activities discussed at online classes, etc. Another tool how to engage resellers could be via social networks, where major news will be announced; however, ensuring cooperative moo on social media is important, given that some resellers might come from the same territory and compete with each other.

### 6.6.4 Offline and online activities

Distributors were asked to indicate, whether they did activities from the list in a past year. One list included most common online activities an the second list - offline marketing activities and campaings. Distributors were also asked to rank their top 3 best performing marketing activities, so best practices can be compared and analyzed, whether some of the campaings can be potentially spread to other partners in the network. Furthermore, distributors were asked what kind of activity has a high potential and would be performed, if there were additional time and financial resources to see, whether the manufacturer can help the metwork with overcoming resources constrains.

Distributors capabilities were mapped in order to help better understanding of importance of each activity in a distribution network as well as enable better comparison. This mapping can also help to indicate potential topics for learning and improvement, e.g. via partner university and offering other targeted support.

Below you can see the result of the mapping of online activities in table 6 and offline activities in table 7:

**Table 6 Overview of online activities**

| Company | FB posts | FB ads | Google ads | Online influencers | White papers /content | Email campaings | SEO | Webinars | Landing pages | Re-marketing | Youtube | Other Social media (Twitter, LinkedIn) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| D1 | ● | ● | ◔ | ○ | ◑ | ◔ | ◑ | ◔ | ● | ○ | ◔ | ◑ |
| D2 | ● | ● | ◑ | ◑ | ◑ | ● | ● | ◔ | ● | ● | ◑ | ◑ |
| D3 | ● | ● | ○ | ○ | ○ | ● | ◔ | ○ | ○ | ○ | ◔ | ○ |
| D4 | ● | ○ | ● | ◔ | ● | ◑ | ● | ◔ | ● | ● | ◑ | ● |

● Activity performed often/core activity ◑ Activity performed less often, important ◔ Non-core, rarely performed activity ○ Not performed

**Table 7 Overview of offline activities**

| Company | Direct sales | Trade shows /Conferences | Self-organized events /workshops | PR | Paid offline advertising (Journals) | Leaflets, booklets, samples |
|---|---|---|---|---|---|---|
| D1 | ● | ● | ◑ | ◑ | ◔ | ● |
| D2 | ● | ● | ◔ | ◑ | ◑ | ● |
| D3 | ● | ● | ● | ○ | ◔ | ● |
| D4 | ● | ● | ◔ | ◑ | ◑ | ● |

Source: Author, based on interviews with four distributors

Looking at the results, one can see that there are a lot of similarities in online and offline activities performed by channel members. All partners mentioned the importance of direct communication with the client – either via direct sales, or during the events. Also, all partners use leaflets, booklets and samples to display the product to the client. Nevertheless, marketing orientation of the companies differes: some do primarily face-to-face meetings, workshops and events (D1, D3), while others do 80% of their marketing digitally (D4) or choose a combination of activities (D2). The discussions with partners showed that their approaches can differ, depending on how established they are in the market, what is the primary industry they serve, what they believe are the most effective measures, what capabilities they have inhouse and what is their personal and professional experience with certain tools.

One thing that has a strong affect on the marketing strategy is the industry focus of distributors and their existing image and customer base: for instance D3 is well established and known in the market, being present there for more than 30 years and can afford being less visible in online and offline space, as it does not need to aggressively gain customers. It results in lower digital marketing focus and digital marketing capabilities: company does not use remarketing tools, landing pages, SEO, web advertising, does not focus on creating online content to be found by potential customers. Furthermore, its orientation on medical sales requires much more personal contact and experience sharing, so marketing is tightly connected with sales, as company sell directly to the customers. The sales people, who go to visit potential customers, actually become the most important channel. Another core activity is organizing events and educational workshops and participation in congresses and trade fairs. Only after that online activities such as facebook and mailing come in the company's priorities.

Three other distributors: D1, D2 and D4 - are more similar in terms of the size, company history and focus industry (manufacturing and engineering). The main difference between the three distributors would be number of markets and sub-resellers served, which determines the different balance in resellers compared to end-customer-oriented activities. In terms of marketing activities performed by three distributors, there are certain differences both offline and online.

What is interesting, the importance of personal experience of marketing team has a huge effect on performed activities, as companies are very small. An interesting example of importance of personal experience could be the following: one of the distributors rarely use PPC campaings, because the Marketing manager never clicks on the display/search ads and believes that they are not effective. At the same time, some other distributors heavily rely on online advertising. How such differences are possible? Of course, the difference can be also caused by difference in cultural environment and focus customers segments. However, this is definitely an indicator that personal preferences and views play extremely important role in marketing. This is true for channel members that have only a few marketing employees, if at all, as they are privately owned or family businesses. Comparing such distributors to bigger companies and corporations, one can see that bigger companies often tend to be more rational and increasingly data-driven when deciding, what they invest they marketing money in. There could be multiple reasons: bigger companies have bigger and diversified marketing teams, they listen more actively to the market best practice and can afford using help of external agencies, which all helps to make marketing more diversified. As a result, it becomes quite clear that manufacturer's engagement into supporting marketing activities of smaller companies in its distribution network is extremely important.

### Online advertising and lead capturing

Facebook and PPC (pay-per-click) are the most used online advertising tools. However, while certain distributors (e.g. D1, D2) rely primarily on Facebook, other companies use it less or do not use it at all (D4), because Facebook proved to be not a good tool for reaching their target audience and actually was ranked by them as the least successful. In contrast, D4 does more on SEO & performance marketing to promote its content. D3 and D1 use PPC only occasionally. Re-marketing represents one of the opportunities for growth, as not used by everyone, but all players expressed interest and positive attitude to this tool.

On of the reasons why D4 invests into performance marketing is bacause it invests original content creation, which proved to be an efficient tool to attract new customers. One of the best practices observed is creating short case studies in a form of interviews that describe applications of the technology at local companies and created value/ benefits. This activity proved to be one of the most effectve for the distributor, as experience of local companies can be easier applied by peers compared to case studies from abroad. Also such a short interview, if done with an existing customer, is relatively easy to do, especially in written form. Furthermore, the company also publishes available case studies from abroad on its website, usually translated or with subtitles (if a video). D3 and D1 publish content and white papers, but compared to D4 they produce less original content themselves, but instead leverage existing materials, primarily shorter news/articles or use cooperation with 3rd parties to get some content created and published.

All three companies have experience in using landing pages for lead generation activities, though lead capturing tools are not commonly used on their websites. Only one company has a form for direct odering of free samples. Implementing lead capturing tools on the website can be the next step in developing online marketing performance. Another example is a lead capturing tool used for promoting case studies on social networks and linking the ad to the landing page, where visitor is asked to leave personal details.

**Email campaings**

Email campaigns are used by all three distributors, but there are certain differences in the extend of use: for some emailing is one of the prime marketing tools (D2), while others use emailing irregulary (D1, D4). Irregularity is caused primarily due to lack of establised process and resources, so companies are either planning to start doing more email campaigns in the future. Others do not plan to start email campaings, since they have high requirements for information relevance and took decision on lower frequency of emails, so customers do not feel spammed (D4). Furthermore, GDPR regulations made it more difficult for partners and some withdraw from mailing activities.

No partners use email automation yet, but several see it as an interesting opportunity and consider starting using it in the future. This might be a opportunity for manufacturer to support channel members by providing them with access to marketing automation platform. Such platforms are offered by software companies that focus on channel management software, however, due to GDPR regulations, multi-brand content of emails, and sensitivity of some partner regarding sharing customer contact information, the implementation could be challenging with unclear returns.

When it comes to segmentation, overall segmentation is used by companies who do email campaigns (D2, D1) and done mainly for industry segments (e.g. by industry or existing/potential customer). Nevertheless, segmentation is done only on basic level, without integrating behavior data. Possible reasons, why more detailed/behavior-based segmentation is not made regularly: difficulties in identifying relevant segments for the content (content could be interesting for more segments), outdated CRM system and limited functionality for personalized campaings; no/little tools to track behavior of individual players (e.g. visiting a webpage, downloading info material, clicking on link in email) and do follow ups automatically; lack of capacity to create individualized content for each segment; irregular and generally-oriented email campaings.

**Webinars**

Webinars are online activities done significantly less often by all distributors, some do not have any experience with webinars at all. There are two potential ways how distributors engage in webinars:  sharing a webinar prepared by the manufacturer, where they invite their current or potential clients or organizing a webinar themselves, which would be in local language, but will require a lot of resources.

Typically, distributors of this size offer webinars organized by their suppliers. However, in CEE region the popularity of webinar differs from country to country, generally webinars are not that common form of communication with the client. For example, D4 mentioned that they had tried offering webinars from their suppliers to the customers, but customers were not that interested. D2 created several webinars themselves, which proved to be quite effective, but later were de-prioritized due to limited resources. For D3 customers webinars are less attractive due to the fact that customers are busy to attend as well as difficultiees in understanding the English language by the technical staff. To summarize, companies see webinars as potentially interesting tool and would be interested to use it in the future, if topic is relevant, but the work should be done to persuade customers to engage in this format of communication and language puts certain limitations.

**Influencers**

Cooperation with influencers can be a powerful tool how to introduce a new product on the market. Influencers can use their image and reputation to recommend the product and help the product break into consumers minds, create credibility for the brand.  Cooperation with influencers proved to be useful not only for B2C products, but also for some innovative B2B products.

While it works well for the manufacturer in some Western countries, the scope of cooperation with influencers in CEE is much smaller. There are a couple of reasons for it. Firstly, influencers are usually specialized in a certain topic and there are no people in relevant industries, who would be publicly known and whom distributors can approach for cooperation. This especially applies for South European markets. Simply put, if there are no influencers, influencer marketing can be hardly done. In this case, influencer should be created – by engaging renowed people in medicine, for example, in testing the product and working with it. This approach takes time, so the person can later become a brand ambassador in its industry. This was performed by one of the distributors, who attracted a well-known medical professional to later present and discuss the equipment with colleagues. Secondly, potential influencers who are relevant for one industry, are often not relevant for another, so for each vertical new people should be approached. Thirdly, there are people that can be approached, but distributors do not want to make it a paid cooperation, as it will evantually become public and could be misinterpreted. Therefore, setting cooperation with the influencer could be challenging for some distributors.

To sum up, in order to cooperate with influencers, companies in CEE often should first find a person with the relevant target group and then make sure that conditions are acceptable for both parties and will not be misinter[preted by the public. Alternatively, influencers should be "created" or alternative ways can be used to get a similar result, e.g. creation and presentation of short case studies with existing clients to increase credibility and trust into the product.

**Youtube**

Youtube is used quite rarely by distributors, as creation of good quality videos is expensive for most companies. Best practice here is translating subtitles into the local language. This practice can be used by other distributors as well.

Another way of supporting youtube videos for CEE is creating user stories with local companie that can be later used also globally.

**PR**

PR activities are done infrequently by distributors. The most active companies in PR use external agencies, but mainly to promote upcoming conferences and events. This might be a sign that PR is quite specific marketing discipline and companies often do not know, how to approach it. PR probably has untapped potential in CEE for increasing awareness of products and applications, given that articles interesting for general public can be created from user stories. Manufacturer might be interested to target this untapped potential in their programs, giving more PR-related advice at Partner University and considering PR needs when creating marketing collaterial. Local specifics for PR should be taken into account as well, though it should not become a limitation in developing this area.

**Paid advertising in journals**

For some B2B industries advertising in professional journals is still one of the major marketing channels. In case of Alfa, distributors publish ads rarely, only for specific industries primarily due to very high relative price of sponsored articles or ads and onlu limited reach (can not cover all industry verticals with one printed ad).

**Trade shows and events**

Tradeshows are one of the most expensive lead generation tools, however, it is one of the best options to meet customers face-to-face and communicate core strengths and explain the product. (King, 2015). Trade shows and other professional events are one of the core activities performed by companies in B2B environment. All distributors in focus participate in trade shows, majority organizes their own events as well.

Key capability in term of trade show is capturing leads, which is often done by contact forms filled in by visitors. The manufacturer supports the channel by providing channel partners with check-list of activites for a successsful tradeshow, such as displaying working equipment, bringing samples, displaying white papers and case studies, which can be used as lead generation tool: an interested visitor can get a digital copy to his/her email, having engaging activities at the booth, securing speaking slots if possible, etc. Also, manufacturer can support partners financially, if they display only the manufacturer's products at the tradeshow. Given that all partners are multibrand, this happens very rarely, but channel partners still can ask for samples, flyers, etc.

**List of top performing online and offline activities**

Given the range of performed activities and significant differences in approaches by distributors, key marketing tools vary. Therefore distributors were asked to pick most effective, top-performing marketing activities in their marketing operation, so marketing focus of distributors can be more easily identified. Furthermore, understanding best practice could be potentially useful for channel manager to create targeted communication and also activities can be replicated to other channel members, if it is believed they could be successful. Below there is a table with top 3 marketing activities by four distributors:

**Table 8 Top performing activities by distributors**

| Top performing activity | D1 | D2 | D3 | D4 |
|---|---|---|---|---|
| #1 | Events (tradeshows & own events) | Emailing (content from emails later used on FB) | Direct sales (meeting with clients) | PPC |
| #2 | FB posts & ads | Events (tradeshows) | Events (congresses, lectures, workshops) | Content (white papers/user stories) |
| #3 | New product launches | Samples & customized samples | Online – FB & Emailing | Events (tradeshows) |

Personal sales, emailing, events, content and online ads were mentioned as the best performing tools. Here are some opportunities arised from best practices:

- Emailing, local customer user stories, educating on PPC for D1
- Introducing short local customer user stories for D2
- Remarketing, landing pages (after new web is up), promoting content (white paper/user study) on facebook for D3 – *other "hygine" factors should be improved first, namely technical issues faced by distributor*
- More Alfa-specific content on web (short user stories), events & workshops in cooeration with medical resellers for D4

### 6.6.5 Attitude towards Alfa marketing management processes and tools

Distributors were asked to evaluate marketing management processes, such as marketing planning and quarterly calls, application for and provision of MDF, resources available at Partner portal, other marketing support provided by the manufacturer. Overall, distributors are satisfied with the cooperation and relevant processes, majority of distributors also mentioned that Alfa has best in class marketing support and they find marketing planning process quite advanced, compared to other suppliers they work with.

There are two areas repeatedly addressed by distributors, as having space for improvement: all four distributors pointed out that Marketing portal is not intuaitive, hard to navigate and find relevant materials. The home page is overloaded with text and one can nor orientate quickly. The second issue was raised by 3 out of 4 distributors: applying for MDF process is complicated by the fact that amount of funds allocated to each partner are unknown, each application is reviewed separately and later either approved or not. Distributors mentioned that knowing the budget will enable them to save time and allocate resources in the most efficient way, also it will save time required for filling in the appication forms, if certain expenses will be pre-approved. Also, one partner mentioned that providing «goods-in-kind», such as samples/materials as a part of MDF program make the proccess more inconvenient, as they would rather prefer to get financial support (e.g. for events).

### 6.6.6 Motivation and Commitment

Motivation and commitment of partner could not be researched directly, due to the initial research set up, as was already described in methodology part. However, based on number of brands served, strategic importance of Alfa brand to distributors' portfolio, distributors' activity and engagement, the author could rank the four distributors by level of commitment. Motivation and commitment would play one of the crucial roles in cooperation with the distributors, as determines individual approach needed for each partner.

There are three groups of players: high committed players, for whoom Alfa represent one of the main brands in portfolio, medium-high commited players, who treat the bran seriously and invest in it, but also have more important products in portfolio and low commited players, for whom the brand represents just a fracture of sales and has the secondary focus.

Working with the first and seond group is easier and such cooperation is more productive, as parties are willing to support each other and find compromises. Working with partners with low motivation and commitment is challenging. According to academic literature, explored in the theoretical part, increasing commitment of players is possible, but only under certain circumstances. One of the most effective ways, for example is using transaction-specific investments. However, for partners with high channel control, power assymetry and little dependancy on manufacturer, increasing commitment would be extremely difficult. Manufacturer in such case should probably focus on making cooperation as smooth as possible for the partner (e.g. eliminating technical failure and time spent on them were possible, providing phone technical support and express replacement, streamlining reporting process), set clear and achievable marketing performance expectations, provide pre-maid materials, create onboarding materias for clients, and focus on easing the work for channel partner, where possible. In the long term, however, there could be more radical measures, as low commitment is a huge challenge for the distribution network.

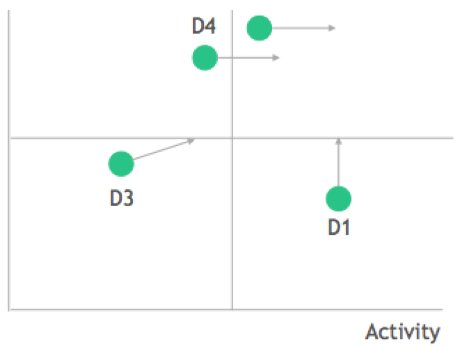
### 6.6.7 Total satisfaction and feedback & comparison with other suppliers

Distributors were asked to rank Alfa on the scale from 1 (the worst) to 5 (the best) to evaluate their experience in marketing cooperation, communication and provided support. The scores given were: 3, 4, 4+ and 5. The average score is 4, which definitely brings positive news for the company. Moreover, Alfa was ranked as one of the best companies in the industry. The areas for improvement included already described more transparent and less bureaucratic MDF process, easier to navigate Partner portal, faster reaction on requests (increase in response times was noticed since September by some partners). The lowest grade (3) also reflected dissatisfaction based on technical problems users of the distributor faced.

### 6.6.8 Applying performance evaluation framework on interviewed partners

Below in the graph 6 four distributors are placed on a graph based on their marketing capabilities and activity level.  For targeted support, Alfa should probably focus its resources on moving distributor to right top quarter by improving capabilities of D1 (email campaings, PR, PPC, user stories), and by maintating relations and existing activities with D4 and D3, motivating them to perform further activities and increasing commitment for D4. As for D3, basic «hygine» condition should be provided. Currently the distributor is demotivated to market the product due to high number of technical problems it faces.

Figure 6 Mapping distributors on capability/activity metrics



Source: Author

## 6.7 Summary and recommendations

Overall, Alfa is a company with solid channel marketing performance, which is ahead of industry standards in many areas. For summarizing the main findings, the author will answer the research questiones addressed in this thesis. Some improvement will be also suggested, mainly considering resellers' engagement, MDF process and Marketing portal.

*Q1 How Alfa manages marketing in distribution network (relationship management, partner motivation, marketing planning and evaluation, marketing support), also compared to industry standards?*

Alfa is well positioned in the market in terms of its marketing planning capabilities, available marketing collaterial and partner support it provides. From discussions with partners it also turned out that Alfa is in front of competitors in terms of ensuring quarterly marketing planning, regular communication and variety of marketing materials available for channel partners to use. Several smaller improvements possibilities were identified:

*For marketing collaterial:*

1) A smaller catalogue, comprising all products, acessories and materials to give to customers as one piece is missing, though a lot of separate leaflets and brochures are available
2) Partners seem to not use PR potential to its fullest, which might be improved by adding a couple of impressive stories publishable together with tarining session on PR to chaannel portal
3) Offering shorter materials resellers can translate themselves and put to their blog under 30 minutes could improve brand’s presence, currently most of materials are quite long
4) Introducing multimaterial sample kit for ordering
5) Continue testing pre-maid camppaings, the issue channel partner mentioned was the length of the text that does not allow translation to local languages without major changes (texts in local languages often take more space)

*For Partner portal:*

1) Making nabigation on the portal easier by introducing more categories, filters, search by needs and key words; add “quick access links” based on partners’ previous activity

2) Enabling tracking activity of partners on portal, e,g, number of downloads to see what materials are the most popuar and how active the partners are
3) Add “Newly added” section
4) Send regular (monthly) Partner portal updates with short description of the best articles/materials/pre-maid campaings to remind partners to use the portal and unveil interesting materials

*For Partner motivation:*

1) Focus on solving the top problems of partners by partner programs, make partner programs aligned with partner goals
2) Test new MDF process: specify a list of pre-approved requests companies can use the funds for and only ask for ex-post report on how the funds were spent (e.g. consumables, translations, smaple parts, articles and paid advertising in journals, with max possible refund specified). Transferring MD management to Partner portal can help ensure that the rules are easier to follow (drop down box, lists of activities and maximum refunds right in the brouser window)

*Q2 How else channel performance can be measured in distribution channels? What frameworks can be used for complex assessment to prioritize partners with the highest potential?*

The author suggest that Alfa starts using Performance-Capailities-Activity framework to identifycommitted partners with high potential as well as suggest targeted support to partners that do not perform well enough due to lack of experience in some field (missing capablities) or helps increase partner activity if needed. Based on preliminary analysis, using the framework, incresing capabilities should be the priority for D1, while supporting/suggesting new activities could help ensure D2 and D4 performance stays on the desired level. Tracking activity, if introduced on Partner portal, will help to get better insight into partners' activity.

*Q3 Are the distributors committed in marketing Alfa's products? What are the best marketing practices of distributors that can be spread to other channel members?*

Commitment of distributors deffers based on several factors. D1 and D2 are ranked relatively high in terms of commitment to the brand. To increase D4 commitment, Alfa might use transaction-specific investments to ensure the partner that a long-term cooperation is planned. D3 might require additional technical support to increase commitment.

Onef the best practices observed is creation of a very short user stories of primarily local customers. A typical user story briefly describes the business in focus, appplication of additive manufacturing process and achieved benefits compared to the traditional work flow. Such user stories should be relatively easier to create than full user cases, but they significantly increase partners' and brand's credibility in the local market, where there are usually no influencers to address. Additionally, can be used by sales force when actively prospecting new customers.

*Q4 How well tier-2 distribution network is performing? Are all resellers engaged and motivated by distributors? What can be done for improving cooperation with resellers?*

Unfortunately, it turned out that tier-2 cooperation is not strong in terms of marketing. Given that some distributors serve the same markets as their resellers, the level of cooperation is low. However, distributors, having resellers in different geographies show better reseller-commitment. Still, both distributors and resellers are busy and primarily working on serving their direct customers. Furthermore, the channel set up does not allow extensive cooperation. Majority of distributors usually work in «reactive» mode answering resellers' requests, such as sending them specific sheets and other marketing materials, but this activity could be possible replaced by the Marketing portal access for resellers, if introduced. Sharing already translated materials is done only by D3.

The author believes resellers engagement can be approved by giving them access to Partner portal with specialized «quick to use» marketing collaterial as well as online marketing training. Furthermore, better communication about MDF could promote using it by resellers. Potential improvement could be sharing translated materials by the distributor within the region (by uploading on Partner portal) after 3-6 months, if translation was financed by the manufacturer. Also, resellers' perspective and interest in doing marketing campaings should be discussed with them to see if there are more undiscovered blockers on the way.

*Q5 What are the suggested improvements to marketing management, based on the performed research, so the company can start growing in indirect sales again?*

Futher activities that has not been mentioned yet include:

1) CEE marketing campaign «Win an equipment for 3M» to increase awareness about the product
2) Expanding Webinars to CEE customers to test engagement, intensive marketing should be insured, as people are not used to webinars locally

3) Consider starting engaging channel partners on social networks (FB groups/ twitter) to reach tier-2 partners at lower cost; risks of sharing negative information should be also considered
4) Send yearly/quarterly performance reports to increase motivation by sharing news and sales and marketing successes of the peers, e.g. number of realized campaings, peak sales, etc.
5) Automated reminders/ notifications for marketing plans submission (to resellers and distributors) – via portal or can be programmed in VBA to decrease transaction costs for Channel manager

# 7 Conclusion

Manufacturer of industrial equipment Alfa (unreal name used for confidentiality reasons) successfully entered European markets via channel partners, including CEE markets several years ago. Everything went smooth in the beginning and company grew double-digits, but in the last year the channel performance started to stagnate in some regions. Management of the company decided to explore the possible reasons for it to find new ways how to drive growth in the markets again.

Tha author of the thesis reviewed academic literature on channel marketing management, channel marketing planning and performance, distribution partners' commitment and motivation, B2B marketing tools and channels. Furthermore, main principles behind building partner programs were analyzed to identify potential gaps that can be improved. Importantly, a set of interviews was performed with four distributors of additive manufacturing equipment in CEE, who cover 12 countries via their direct sales to the customer as well as via their resellers. The aim of the interviews was to map distributors' capability and motivation, as well as learn about their best marketing practices and biggest blockers they see in cooperation with Alfa.

The analysis showed that Alfa has been overall successful in channel marketing management. Alfa has a very good process of marketing planning, ahead of competitors, marketing planning is performed on a quarterly basis together with distributors; Alfa also provides high-quality marketing collaterial, including white papers, user case studies, product catalogues, special application guides, and videos. Furthermore, Alfa has devoted KAMs and Channel Marketing managers to assist channel partners, who are open for discussion and feedback. Finally Alfa constantly works on making available more marketing resources to channel partners, like marketing training, webinars, and pre-maid facebook campaings. The problem of stagnating performance is probably mainly caused by factors that are not directly related to marketing, but more to the channel set up.  Distributors mentioned their concerns on channel structure, hybrid distribution in other geographies, time spent on technical support due to problems with equipment customers were recently facing, etc. Despite that, several improvement ares for marketing were identified. Some of the improvements can partially help to solve the raised issues, as they aim to improve partners' motivation and commitmant and make cooperation smoother for the channel partners.

The three main improvements, suggested in the thesis are: 1) Improving navigation on Marketing portal, enabling "need-based" search and search by keywords; improving communication about materials available on marketing portal by monthly newletter with hottest updates 2) Improving resellers engagement by providing them access to marketing portal and testing introduction of specialized library for resellers' use. The priority for resellers would be easy to use, quick to localize materials, e.g. short industry news and user stories with photos, pre-maid facebook campaings with only short text. Today most of materials available require much more effort to be published and reseller do not have access to the Marketing portal 3) Testing a different type of MDF process to decrease transaction costs by all parties: enable partners to spend certain budget on precisely specified activities (translation of case studies, consumables and samples for events, etc.); remain channel manager approval for activites out of the pre-approved list (like sponsoring events etc.)

The biggest challenges Alfa currently faces with distributors is motivating D3, who has the higest channel power among all distributors and the lowest activity. The author believes that direct training of D4 sales force and joint customer visits can help to improve product presentation to potential customers, as D3 uses direct sales as one of the major marketing channel. Also, Alfa should play to D3' other strengths and go offline, namely getting bigger presence at events for medical professionals D3 organizes. In case Alfa plans to continue cooperation with D3 in the future, common ground should be found for MDF application process and reporting, as the partner is unhappy with the administrative-heavy process. In the author's opinion, the current set-up gives more advantages to Alfa at the moment, as ensures better distribution network transparency and control. Nevertheless, Alfa can test a new modified MDF process, with D3 by switching to ex-post reporting temporarily for one or two quarters under precisely formulated conditions. That will be perceived as a positive change that decreases administrative burden, saves time and makes the process as smooth as possible for D3.

D2 and D4 are considered to be the top performers in the group. For D2 and D4 the main focus would be remaining good relationships and ensuring they are involved. For D1 Alfa might want to focus on improving partners' capabilities, as it is new to the market and has some untapped potential, for example in spreading awareness about the product.

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**Other resources:**

Makarava, U. (2018) Interviews with distributors D1, D2, D3, D4. August-October 2018

# Appendix

## Qustionnaire for distributors

1) Company and marketing team background
    a. Company profile, number of employees
    b. Number of brands represented
    c. Size of marketing team
    d. Responsibilities and workload for marketing team members
    e. Use of external marketing agencies

2) Criteria behind brand prioritization for marketing effort and investment

    *(if difficult to answer give options: technical support, marketing support, credit/term, exclusivity, product attractiveness, product availability, complementary products, relationship with supplier, margin and profitability, sales incentives, availability of marketing funds, volume discounts…)*

3) Relationship with resellers
    a. Split of marketing-related work done for the end customers and for the resellers
    b. Marketing planning (timeline, process, activities planned)
    c. Marketing planning with resellers (timeline, process, activities planned)
    d. Marketing campaign sharing with resellers
    e. Resellers' marketing activities (do by themselves/ use materials from distributors; intensity)
    f. Types of the most common marketing requests from resellers
    g. Frequency of communication with resellers & context
    h. Use of MDF funds by resellers (intensity, reasons for unregular/little use)

4) Online and offline marketing capabilities/activities performed
    a. List of online activities performed (multiple choice)
    b. List of offline activities performed (multiple choice)
    c. Best practise from online and offline marketing: top 3 most effective marketing activities
    d. Marketing activities with high potential, but lack of resources to be performed at the moment
    e. Use of lead generation tools
    f. Use of marketing automation & lead nurtruing campaings

g. Use of customer segmentation
h. Relevance of manufacturer-provided marketing collaterial
i. Performance measurement, experience with ROI calculation

5) Attitude towards Alfa marketing management processes and tools
    a. Communication with Alfa (1 to 5)
    b. Marketing portal (frequency of usage, user experience, collaterial)
    c. MDF requests (general attitude, process, approval)
    d. Marketing planning process (effectiveness, usefullness, feedback)

6) Attitude towards new potential initiatives
    a. Partner academy (learning portal with marketing-oriented webinars and learning material)
    b. Channel marketing management tool (pre-maid campaigns for facebook, google, email)
    c. Attitude towards introduction of various tiers (Gold, silver status for resellers)

7) Total satisfaction and feedback & comparison with other suppliers
    a. Comparison with other suppliers in several areas:
        i. Marketing planning
        ii. Marketing materials and support
        iii. MDF
        iv. Learning and development
        v. Software tools & Partner portal
    b. Total score for marketing management at Alfa (1 to 5)
    c. Feedback & space for improvement