Channel Conflicts

Situation when a producer or supplier bypasses the normal channel of distribution and sells directly to the end user. Selling over the internet while maintaining a physical distribution network is an example of channel conflict.[1)]

In essence it is a problem in business administration, with more and more companies and industries are facing: The addition of the existing distribution channels with an electronic way via the internet.

What is the problem?

The reasons of channel conflicts are existing linkages and cooperations. For example a strong bond of one manufacturer to a distribution channel or wholesaler. The conflict arises when the manufacturer begins to take on elements of the value of the dealer himself, or his offer even marketed directly through its own website.

Questions for an online sales channel:

- What is the benefit of that channel for the customers and what is the willingness to pay?
- How is the strategic relevance of the channels in the future?
- What cost savings can be achieved by the new distribution channel?
- Is it possible to achieve with the new channel one more customer segment that has not yet reached?
- What are synergies with other existing channels?

What are the consequences in a channel conflict?

The response to an arising channel conflict for example, can be the delisting of the product in the trade through established distribution channels.

Where can channel conflicts occur?

1. in-house conflicts:

The resources for investment and human resources are limited in companies. The development of an online distribution is often seen as unwanted competition in their own house.
If the company has already an existing sales channel like a printed catalog, cannibalism effects can occur: The additional revenues generated by the online channel are created at the cost of revenues at the traditional channel. For example catalog merchants like Otto or Quelle in Germany face this

problem.

2. company-external conflicts:

- **Conflicts with existing sales partners**

If the company is heavily dependent on traditional distribution partners and the same company expects a significant redirection of existing revenue on the Internet, the result can be an existential conflict.

- **Conflicts with existing distribution partners**

The Internet removes existing regional boundaries. Customers can now even be found in Germany or in whole Europe, with appropriate demands on the logistics partners.

- **Conflicts with existing customers**

Existing customers can react sensitively to the establishment of an Internet sales channel. Particularly if they have to use against her will the online channel. This is indicated as a degradation in service quality. Examples are banks. They make more and more online-banking obligatory.

- **Conflicts with existing suppliers**

For the relationship to the suppliers, this means that the online sales increases the demands in terms of systems integration and interfaces. Information about new products and specifications must efficiently reach the databases of purchase. Information and delivery times must be accurate and current.

Summary image: [2)]

What are the solutions?

- **Do not sell over the Internet**

Companies choose not to sell their products on the Internet and depend to their established distribution channels.

- **Completely count on the sale over the Internet**

This is a strategy for companies that have no established distribution channels. These companies have to take no regard for distribution partners. From that reason, they can aggressively sell over the Internet (such as low-cost airlines).

- **Sell over the Internet and show consideration to the traditional distribution**

- The product will be sold for list prices over the Internet. So, the dealer is not be undercut. This means only a low threat for the traditional distribution.

- Only niche products or new products that are not to be sold over the traditional channel are sold over the new channel.[3)]

- The founding of an independent subsidiary company. This Company sales the products only on the

Internet. The subsidiary company will be treated like an normal trader. It has to purchase with the standard dealer conditions at the parent company. After that, the subsidiary company is able to resell the products. And although as a distributor for its own account and for any conditions.

- **Sell over the Internet and include the traditional distribution channels**

The sales function will be transferred in large part to the Internet. Distributors and dealers can also continue to ensure that the product reaches the customer. They can also assume customer service. This would change the role of trade. The sales function will become less important, logistics and customer service will be more and more important.

Weblinks:

http://ecommerce.hostip.info/pages/196/Channel-Conflict-Harmony.html 13.05.2011
http://www.reshare.com/solutions/conflict.jsp 13.05.2011
http://digitalenterprise.org/channels/channel.html 13.05.2011
http://en.wikipedia.org/wiki/Channel_conflict 13.05.2011
http://www.webagency.de/infopool/marketing/channelconflict.htm 13.05.2011

— *Lars Gerdau 2011/05/14 10:41*

[1]
BusinessDictionary.com | http://www.businessdictionary.com/definition/channel-conflict.html
[2]
C. Barrot, M. Clement| Channel-Konflikte beim Vertrieb über das Internet; Düsseldorf 2005, Kapitel 05.13, 1-23
[3]
Hammer, C.; Wieder, G. (2003). Internet-Geschäftsmodelle mit Rendite. Ertragsmodelle im Netz. Bonn: Galileo Press, pp. 106

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