

*Ireneusz Rutkowski \**

## CO-OPERATION AND CONFLICT IN DISTRIBUTION CHANNELS

### 1. INTRODUCTORY REMARKS

To treat distribution channels as socio-economic systems implies that they are characterized by a basic feature of such systems i.e. existence of functional relationships between subjects forming a given channel. Interrelated character of activities performed by economic subjects forming a distribution channel causes that a change in behaviour of one subject generates a change in behaviour of other subjects. Such a change in behaviour of a given subject may be in line with preferences and expectations of others or it may be incompatible with those preferences and expectations. For this reason distribution channels treated as socio-economic systems are open to two characteristic phenomena present in any economic activity i.e. conflict and co-operation.

As distribution channels create institutional and technical conditions for organization and implementation of the marketing process this character of relationships between economic subjects as well as the areas of conflict or harmonious co-operation are of great importance for the market.

Ability of each subject to co-operate (ability of adaptation to functional requirements and mutual adaptation) as well as a need and willingness to co-operate are of decisive significance for character of mutual relations between subjects forming a distribution channel. After all a distribution channel may be formed by subjects able to co-operate and feeling a need for such co-operation to a bigger or smaller extent. Co-operation of economic subjects operating in the sphere of marketing may be arranged according to different principles. These principles

---

\* Dr, Chair of Economics and Organization of Marketing, Main School of Planning and Statistics, Warszawa (Poland).

are defined by the existing system of management of market participants.

Co-operation of economic subjects, understood as harmonious co-operation, is possible only when there are present conditions for amalgamation of their activities in an integrated system. Creation of such integrated system of activities in the marketing sphere may take place in different organizational systems delimiting a framework for the object scope and character of co-operation of subjects forming a distribution channel. Integration of activities remaining within the marketing sphere (development of products and their supply, transfer of products to stores and offering them to consumers, sales promotion, market research and manipulation of consumer needs) may be most often carried out in two types of organizational systems:

- within the framework of economic organizations performing production and trade activities and
- in conditions of institutional isolation and separation of production and trade links.

In a situation when integration of activities takes place within the framework of complex economic organizations such co-operation will encompass all activities belonging to the marketing sphere. In such a case it is easier to fulfil all requirements in the field of mutual co-operation of all links participating in the flow of goods to the consumer. This co-operation may be intensified by a desire of these links to preserve cohesion of the whole system and ensure high effectiveness of its functioning. However, this way of organization of market activities does not represent a common phenomenon in practice so far. On the other hand, in practice there prevail solutions consisting in organizational isolation and separation of production and trade companies, which tend to apply differing concepts of programming and organization of market activities. In order to avoid conflicting situations in co-operation of economic subjects there appear in practice tendencies of subordinating real activity spheres of particular subjects (determination of the activity sphere and implementation of the principle of exclusive rights of operation of one subject in a given market or a given sphere). Such situation allows to obtain a considerable clarity of the subject market structure and of structures of economic subjects. That, however, does not automatically lead to improvement in conditions of harmonious co-operation of subjects forming a distribution channel. Such conditions are created not only by organizational solutions but also by the system of managing market participants, state of market equilibrium, attitudes of market participants etc.

In the situation of institutional isolation of economic subjects many



functions and actions forming the marketing process are permanently attributed to particular economic subjects and are within the reach of operation of different subjects. This kind of situation produces a natural need for co-operation of distribution links having at their disposal definite instruments. Such co-operation may be, nonetheless, hampered especially when there are determined a structure of tasks and range of activities performed by individual subjects as resulting from allocation of tasks between companies forming a distribution channel. Existence of distinct disproportions and excessive concentration of some activities in one link hinder a generation of a need for any ability of preserving a harmonious co-operation.

Permanent definition of the range of activities to be performed by economic subjects causes that the object of this co-operation cannot usually be functions and activities which cannot be translocated between distribution channel links. If restrictions appear in the area of harmonious co-operation connected with launching definite instruments remaining at disposal of particular links and with conducting definite market activities then such co-operation may cover only the field of preparation of these activities. When the attention of economic subjects is focussed exclusively on these activities and instruments which are at their disposal then the outcome is often „autonomous” formulation of the market activity programme. This may constitute an essential factor restricting co-operation also in the field of preparation of market activities.

In conditions of organizational isolation of links forming a distribution channel one of consequences of incorrect tasks allocation is ineffective performance of many functions and activities attributed to these links. Improvement in effectiveness of such activities may be possible with changeable structure of tasks and resources and specialization of links in performing some activities being justified by economical, technical, and social reasons.

Nonetheless, specialization of individual subjects increases the degree of functional dependence and consequently generates a need for their more intensive co-operation. In order to ensure a desirable character of co-operation there must be assumed operation of mechanisms co-ordinating the performance of all participants of a distribution channel. In many cases the process of co-ordination may take place in a way spontaneously, being generated by conditions of activity or it may result from visible interest revealed by all channel participants. Still it is quite often connected with a need for developing and launching special co-ordination mechanisms. In better organized systems it may be revealed through establishment of formal co-ordinating or integra-

ting units (e.g. units of joint purchasing, market research, advertising etc.). Functioning of distribution channels, which are not so well organized, may be co-ordinated on the way of agreements concluded between superior units, branch and territorial agreements etc. Requirements in the field of co-ordination of economic subjects activities and of maintaining a desirable level of co-operation may be also fulfilled by creation of a market leader or integrator assuming responsibility for formulation and implementation of a common concept of market activity for all links constituting a given distribution channel.

## 2. RANGE OF CO-OPERATION BETWEEN INDUSTRIAL AND TRADE COMPANIES

The remarks presented above point out that there may exist such conditions which hinder or exclude harmonious co-operation of economic subjects operating within the marketing sphere, regardless of functional relationships occurring between them. The intensity with which these conditions are revealed exerts a substantial influence on the nature of mutual relations between these subjects and it determines the object scope of their co-operation.

Development of various co-operation forms is usually limited if economic subjects operating within the marketing sphere do not have possibilities of establishing horizontal contacts. Experience gained by economic practice shows that existence of restrictions in establishing horizontal ties is a quite common phenomenon. That is confirmed by results of empirical researches conducted in industrial and trade companies and concerning rules of operation of companies in the market<sup>1</sup>. 69 per cent of all examined industrial companies and 72 per cent of trade companies confirmed that they do not have any or have only small freedom in selection of buyers or suppliers of goods.

Restriction of freedom in selection of buyers or suppliers of goods, being a result of oftentime indispensable central allocation of goods, constitutes one of important factors determining the character of applied concepts of programming and organizing activities of industrial and trade companies. Market activities in such situation may be undertaken without taking into consideration possibilities and preferences of other spheres of the economic activity. It may consequently

---

<sup>1</sup> The researches were conducted in 64 industrial and 65 trade companies within the framework of a key research project *Market of Consumer Goods and Services in the Process of Socio-Economic Development of Poland*, subject group 13.2.03.



lead, as it was already mentioned, to undesirable autonomization of these spheres and subjects operating within them. In practice it may mean that economic subjects do not treat the marketing sphere as a complex of activities. As a result activities, within particular elements of the complex, are undertaken on the basis of different and often contradictory prerequisites. Thus both possibilities and scope of co-operation of production and trade links must be analyzed against the background of the way of programming and organizing market activities as assumed by them. The point here is not so much co-operation as such but such co-operation which promotes implementation of objectives facing economic subjects, and solution of comprehensive problems in the marketing sphere.

In conditions of organizational isolation of production and trade links the producer is a subject responsible for product development and supply. Depending upon the accepted concept of formulation of the market activity programme, product development and supply may be performed with bigger or smaller degree of co-operation with trade companies. It should be, however, underlined that the scope of this co-operation is not only determined by the producer's willingness to co-operate with trade companies but also by willingness and possibilities of trade companies to participate in co-operation with the producer.

A degree to which trade companies are included in the product development process is, as a rule, determined by the product development model applied by the producer. In the situation when it is relatively easy to sell manufactured products there predominates a technical-technological model according to which products are developed, first of all, on the basis of criteria ensuing from the sphere of technique and technology of production and other conditions of production (provision of materials, work organization, level and qualifications of workers etc.)<sup>2</sup>. Application of this model in practical operation of industrial companies does not promote development of co-operation with trade companies in the area of product development<sup>3</sup>. On the other hand, such possibilities are afforded by utilization of the market model

<sup>2</sup> W. Wrzosek, *Współdziałanie uczestników rynku w dziedzinie kształtowania produktów*, [w:] *Współdziałanie uczestników rynku jako czynnik postępu w zaspokajaniu potrzeb ludności* (Co-operation between Market Participants in Product Development [In:] Co-operation between Market Participants as a Factor of Improvement in Satisfaction of the Population's Needs), Warszawa 1977.

<sup>3</sup> E.g. Prerequisites of launching production resulting from internal situation of examined industrial companies accounted for 52% of all the above mentioned prerequisites.

elements in which criteria of product development flow from the market and the sphere of consumer requirements. Production companies may be encouraged to apply this model by growing difficulties with selling their products or increasing uncertainty of sales. Due to differentiation of market conditions among particular branches application of the market model of product development corresponds to the scale of uncertainty or difficulties in selling a concrete product or group of products.

Utilization of the market model elements provides favourable conditions for co-operation between production and trade links both in pre-production and post-production stages of product development. The economic practice shows that in the present conditions industrial companies co-operate with trade companies mainly in the pre-production stage connected with expansion of information basis for the product development process and supply of products. The scope of this co-operation and share of trade companies in provision of information about market phenomena depends on intensity of needs in the field of utilization of this information in product development and the level of knowledge about market phenomena possessed by the producer.

In practice co-operation in this field is revealed, first of all, in joint preparation of production decisions. 77 per cent of all examined companies avail themselves of this form of assistance of trade companies. Due to the fact that availability of indispensable information basis is of special importance in a situation when the manufactured product and the structure of its functions as well as consumer needs are subject to rapid changes and differentiation, the assistance of trade companies is most welcomed by companies producing footwear, clothing, household appliances and chemical articles. This assistance boils down to supply of information about character of consumer demand, opinions about products, and propositions as regards assortment and patterns. Over 70 per cent of all companies admitted that assistance of trade companies was bringing definite advantages. In most cases these are connected with possibilities of more effective determination of production i.e. adjustment of the structure of product functions to needs and preferences of consumers, determination of assortment range of products, and length of series in a given pattern.

Development of products and determination of their supply encompass both qualitative and quantitative phenomena. However, the forms of co-operation applied in practice cause that trade companies participate especially in determination of quantitative phenomena. That refers primarily to volume and structure of production. Considering, however, that a predominant form of trade participation is submitting



orders for delivery of goods, its share and impact on the volume and structure of production corresponding to market requirements should not be overestimated. Research findings tend to show that industrial companies base their production on demand figures submitted by trade companies. Over 70 per cent of examined companies said that their production decisions were based on received orders, and 69 per cent said that these orders determine the length of product series. Similar information concerning participation of trade in making production decisions in line with market requirements was disclosed by 67 per cent of examined companies. However, detailed analysis of empirical material and observation of the economic practice prove that the role of trade and its share are much smaller. Only 1.5 per cent of all examined trade companies confirmed an opinion about big participation of trade in making production decisions.

The fact that industrial companies stress the role of orders as a form of co-operation in preparing production decisions is unfortunately connected with quite a common phenomenon of changing stipulations of trade agreements during execution of deliveries. All trade companies under survey confirmed that industrial companies were introducing changes concerning stipulations made earlier. Correction of these stipulations was confirmed by 95 per cent of examined industrial companies. Correction of stipulations and failure to carry out commitments were dislocating harmonious co-operation and hampering development of desirable forms of this co-operation.

A relatively small participation of trade in determination of qualitative phenomena, irrespective of the applied model of product development, is also a result of the accepted manner of concluding trade contracts. Contracts are usually signed during national fairs at which the industry is displaying a definite trade offer (in quantity and assortment). As the presented offer comprises fully developed products the trade can participate only in taking decisions concerning production of definite patterns by selecting those which in its opinion correspond best with consumer requirements. In this situation of special importance is the knowledge about consumer needs and preferences possessed by trade. It appears that this knowledge is not always sufficient. This may hamper performance of the informative function by trade in the process of product development and supply. Multibranch structural system of trade, striving for centralization of purchases in industrial units etc. may pose an obstacle in analysis of market phenomena and fulfilment of the informative function.

With predominance of the technical-technological model of product development the structure of product functions is being determined

independently of selling conditions of products. The structure of product functions is best adapted to conditions of selling when distribution channels are vertically integrated. But this situation is not very common. Industrial companies are only to a small extent involved in selling their products. Only 20 per cent of industrial companies under survey are selling a part of their products through their own network of stores. These are companies producing mainly clothing, footwear and household appliances. A much bigger number of companies sell their products through branch stores and rackjobbing although the share of this form of selling does not exceed several per cent of production value as a rule.

Sale of products to end users is usually carried out by trade companies. These companies also carry the main burden and responsibility in the field of programming and organization of distribution. Independent formulation of market activity programmes accounts for the fact that in the field of distribution there have not been developed any clear forms of co-operation between industrial and trade companies. So far this co-operation is basically limited to launching joint activities in the field of rationalization of physical flow of goods. This form of co-operation is, however, hindered by the already mentioned correction of contract stipulations.

Small participation of industrial companies in the selling process and small interest taken by these companies in products turned out by them does not favour development of differentiated forms of co-operation in the sphere of sales promotion either. The presently existing relations between industry and trade are characterized with a limited scope of assistance rendered by industrial companies to trade companies in the area of consumer manipulation. This reflects a conviction that in conditions of the seller's market such manipulation is not indispensable. As a result of it, industrial companies only to an insignificant extent conduct independently sales promotion activities despite the fact that this form of co-operation is welcomed and postulated by trade companies. They expect, first of all, that industrial companies will provide fuller information about their products, provide assistance in educational and advertising activities, share the costs of sales promotion, differentiation of products and their packaging, secure a better after-sale service, participate in researches on consumer needs and behaviour.

Researches completed by us show that 56 per cent of examined industrial companies provide assistance for middlemen in the field of consumer manipulation. This high index figure of assistance does not reflect, however, its real scope and significance. The respon-



dents stress that industrial companies provide a small degree of assistance and that in a limited form. Only 30 per cent of trade companies confirmed receiving such help. The assistance is primarily revealed in provision of different leaflets, folders and instructions how to use products, and in sharing the costs of conducted activities. Almost a half of examined trade companies were undertaking activities in the field of consumer manipulation jointly with industrial companies. It encompassed, first of all, joint educational activity (shows and food tasting), advertising campaigns, sales promotion in store departments supplied directly by producers, and training of selling and supply personnel. While positively assessing such forms of co-operation, there were also pointed out other possibilities of co-operation in the sphere of consumer manipulation.

### 3. CONFLICTS ARISING IN DISTRIBUTION CHANNELS

Existence of functional relationships between activities of particular subjects operating within the sphere of marketing causes that behaviour of one subject affects the behaviour of remaining subjects. In this situation a desire to secure conditions promoting harmonious co-operation and co-ordination of activities of all links forming a distribution channel must be connected with a possibility of understanding and predicting the behaviour of these links. Such a possibility arises when there are defined rules of behaviour of all subjects holding definite positions within a channel, reflecting the accepted role and mutual expectations of all channel participants<sup>4</sup>. Understanding of mutual expectations makes possible adjustment to these expectations. If a behaviour of a given subject corresponds to expectations of others they can anticipate this behaviour. Consequently it may facilitate formulation and realization of joint activities in the market.

The behaviour of particular economic subjects is, however, a function of their own roles, plans and expectations and, therefore, their behaviour may in practice often differ from the roles assigned to them by their partners. Divergencies between their own role and those assigned by others lead in most cases to conflicts hampering or excluding a harmonious co-operation.

<sup>4</sup> For a wider discussion of the problem see I. Rutkowski, *Wpływ struktury kanałów dystrybucji na współdziałanie uczestników rynku*, [w:] *Współdziałanie uczestników rynku jako czynnik postępu w zaspokajaniu potrzeb ludności* (Influence of Distribution Channels Structure on Co-operation between Market Participants [In:] Co-operation of Market Participants as a Factor of Progress in Satisfaction of Population's Needs), Warszawa 1977.

Each subject within a distribution channel possesses a definite capacity of influencing the behaviour of remaining subjects. This capacity may result from: position held within the channel (e.g. position held in relation to the market, operation of a given subject in a situation similar to a monopoly), character of tasks and performed functions, and economic position (possession of large resources, reputation etc.). Practical possibilities of utilizing capacities of a given subject to directly affect the behaviour of others are also dependent on a degree of subordination of these subjects and their acceptance or tolerance of such activity.

Utilization of this capacity of direct influencing the behaviour of other subjects may promote indispensable unity and co-operation guaranteeing smooth and effective satisfaction of consumer needs of the society. Still when this capacity is utilized inconsistently with the accepted roles and mutual expectations conflicts will usually arise.

It should, however, be underlined that appearance of conflict situations in distribution channels cannot always be treated as a negative phenomenon. If a conflict arising in a distribution channel is of a functional character (revealed within the sphere of particular functions) then it may often represent a favourable phenomenon. Appearance of conflicts e.g. in methods of activity may pave the way for effective innovations, elimination of routine actions. In such situation the most important thing is not so much to prevent or eliminate conflicts but rather to use them creatively in order to improve and raise the level of effectiveness of marketing operations.

Conflicts arising in distribution channels may be, however, of disfunctional character which is present when economic subjects concentrate their attention on functions which are most important for them but less important for other economic subjects. In such a case a desire to create conditions promoting harmonious co-operation of all subjects forming a given distribution channel must be accompanied by actions aiming at solution and prevention of such conflicts.

The economic practice shows that conflicts in relations between industrial and trade companies are a common phenomenon being most often of disfunctional character. Appearance of such conflicts was confirmed by 69 per cent of all examined industrial companies and 97 per cent of trade companies. It should be noted here that such conflicts appear already at the stage of preparation of marketing activities. This, as a rule, is due to insufficient quantities of goods offered by industrial units in comparison with the demand requirements of trade. Appearance of conflicts already at the stage of establishing trade contacts is a phenomenon negatively affecting the character of mutual re-



lations and the scope of co-operation between industrial and trade companies in implementation of trade agreements and sale of products to consumers.

It appears that the main area of conflict is represented by execution of contracts for delivery of goods. That among others results from often improper process of preparing production and excessive inclination of industrial companies to conclude contracts without earlier analysis of their capacity of executing them (e.g. availability of raw materials, packaging, transport capacities etc.).

Unpunctuality of deliveries holds a predominant position in the group of causes of conflicts arising during implementation of contract stipulations. To a smaller extent, these conflicts are caused by: changes in size of deliveries, changes in assortment of supplied products, changes of stipulations concerning quality of products, and changes in raw materials used in production. The above mentioned causes can in a way be blamed on industrial companies. Sometimes conflicts arise also when trade companies undertake definite activities which are not approved by industrial companies (e.g. changes in contract stipulations introduced by trade, improper exploitation of products in trade units etc.), and in result of activities of third parties (e.g. damages occurring in transport).

A desire to eliminate or restrict negative effects of conflicts for implementation of objectives set by economic subjects and for satisfaction of consumer needs produces a natural necessity of undertaking various activities aimed at counteracting or solving these conflicts. Activities of this type are initiated by a big part of industrial and trade companies. Analysis of these activities shows that they can counteract conflicts only to a very small degree. Thus e.g. actions taken by producers to satisfy requirements posed by buyers are taken on a very limited scale. A restricted range of activities eliminating causes of conflicts determines the kind of actions which can be undertaken to solve a given conflict but it also decreases the effectiveness of their impact. As most causes of conflicts ensue from failure to execute the agreed contract stipulations, the actions which are undertaken aim at cushioning the resulting conflicts. As regards the character and kind of these actions they can be divided into three groups: negotiations and direct stipulations, intervention actions, and application of legal and administrative remedies. Most frequently there are taken actions of the first type, which consist in establishing direct contacts between suppliers and buyers in order to seek compromise solutions of matters in dispute. Poor effectiveness of such actions makes it often necessary to initiate intervention actions in superior units, administrative authorities, or

appeal to the public opinion. In extreme cases of discrepancies between deliveries and stipulations made e.g. those concerning quality trade companies employ legal and administrative remedies (e.g. returning goods to the producer). Stipulated penalties, on the other hand, are employed rather seldom as an instrument of settling disputes. It is mainly a result of fear of economic subjects, especially trade companies, that the producer may take actions which will further aggravate mutual contacts. This decreases the effectiveness of using the contracting system to shape mutual relations between industrial and trade companies, and develop co-operation in programming and organizing marketing activities.

*Ireneusz Rutkowski*

#### WSPÓŁPRACA I KONFLIKT W KANAŁACH DYSTRYBUCJI

W artykule poddano analizie zakres i formy współpracy przedsiębiorstw przemysłowych i handlowych w oparciu o przesłanki teoretyczne oraz na podstawie badań empirycznych przeprowadzonych w przedsiębiorstwach przemysłowych i handlowych. Omówiono dalej źródła i charakter konfliktów powstających w kanałach dystrybucji a zakłócających ową współpracę. Zwrócono uwagę na możliwości i potrzebę przezwyciężenia lub eliminacji tych konfliktów w oparciu o określone instrumenty oddziaływania i potrzebne w tym zakresie decyzje.