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## Article

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## **Establishing and restructuring marketing channels: An exploratory study of a Taiwanese company in Russia\***

*Wen-Shinn Low, Soo-May Cheng\*\**

*The rise of emerging markets not only provides opportunities for business growth but also for academic researchers to explore different paradigms in international marketing activities. This article details a case study of how a Taiwanese mother board company establishes and re-structures marketing channels in Russia over three developmental stages: entry, accelerating growth and decelerating growth stages. The findings reflect that market mechanism cannot be fully developed in the entry and accelerating growth stages due to obstacles to distributor selection and limited resources of supplier. Different growth speeds between channels necessitate the supplier to re-structure its channel partnerships.*

*Der Aufstieg der „emerging markets“ bietet nicht nur Chancen für Geschäfts- und Unternehmenswachstum, sondern gibt auch Wissenschaftlern die Gelegenheit, verschiedene Paradigmen bezüglich internationalen Marketing-Aktivitäten zu untersuchen. Dieser Artikel beinhaltet die Fallstudie eines taiwanesischen Motherboard-Herstellers und den Aufbau bzw. die Restrukturierung seiner Absatzwege in Russland anhand von drei Entwicklungsstufen: Markteinstieg, beschleunigtes Wachstum und verlangsamtes Wachstum. Die Ergebnisse zeigen, dass sich der Marktmechanismus auf den Stufen Markteinstieg und beschleunigtes Wachstum nicht vollständig entwickeln kann, aufgrund von Hindernissen bei der Auswahl der Absatzmittlern und begrenzten Ressourcen der Lieferanten. Unterschiedliche Wachstumsgeschwindigkeiten zwischen verschiedenen Absatzwegen erfordern vom Lieferanten die Umstrukturierung seiner Partnerschaften.*

*Keywords: Marketing channel, Channel re-structuring, Emerging markets, Russia*

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## 1. Introduction

Global business competition not only creates new opportunities for growth but also brings enormous complexity to the business landscape. In recent decades, many foreign investors were pulled towards emerging markets by their rapid economic development, government policies favoring economic liberalization and the adoption of a free market system (Arnold/Quelch 1998). On the other hand, some mature or declining products, industries or markets have pushed firms to explore new opportunities elsewhere. Emerging markets consequently become excellent arenas for foreign companies to extend the life cycle of their products and their businesses. For example, the manufacture of mother boards (MB) used in personal computers (PC) is facing market saturation in Taiwan, but it still has huge growth potential in many emerging economies. These bullish markets have attracted many Taiwanese manufacturers, who enter through mergers and acquisitions, or through setting up marketing channels in cooperation with local distributors. Many of these distribution structures develop gradually from single to multiple channels, and from exclusive to inclusive distribution arrangements.

Emerging markets geographically comprise the transition countries of the former Soviet Union, the Eastern Bloc, Asia and the so-called 'developing countries' of Africa, Asia, the Middle East, and Latin America (Hoskisson et al. 2000). The entry and adaptation of investors in foreign environments have created a new research field that has departed from traditional marketing studies. The dynamism of emerging markets challenges the theories developed in the advanced, stable, economies (Arnold/Quelch 1998; Dawar/Chattopadhyay 2002; Burgess/Steenkamp 2006). Even marketing programs operated by multinational firms are scarcely adapted for these markets, thus causing low market penetration, disappointing market shares and poor profitability (Dawar/Chattopadhyay 2002). Thus scholars (Dawar/Chattopadhyay 2002; Burgess/Steenkamp 2006; Sheth 2007) strongly urge the conduct of more research in emerging markets not only to inform on international marketing practice but also to test the generalizability of established theories to emerging markets as well as to develop new theories.

As firms tend to serve more market segments, multiple channel arrangements have become prevalent in recent years. Yet, many issues are still unexplored and need to be investigated empirically (Frazier 1999). In particular, the establishment of multiple channels and the re-structuring of channel members have received little attention. Channel re-structuring may include the recruitment of new members, or the termination of poor-performing or inappropriate channel members. Both strategies would involve the exercise of channel powers and thus potentially cause channel conflicts between suppliers and their distributors. As firms expand their business to emerging markets and develop multi-channel relationships with local distributors, it is especially important to consider new

channel contexts and to develop useful channel strategies. In Russia, many channels in the nineties were based on informal personal networks, as may be expected of an emerging post-socialist country (Schrader 2004). These networks persisted in the information technology sector on which this study is based. Using a case study, this article reviews how a Taiwanese motherboard company in Russia addressed this challenge at different developmental stages.

## **2. Research background**

Since the 1980s, Taiwan's information technology (IT) industry has been supported by the government as a strategic industry of which personal computers and peripheral products have dominated. According to the Information Industry Yearbook (2007), IT production in Taiwan was valued at US\$105.45 billion in 2007, an increase of 17.6% from the year earlier. It is also the seventh consecutive double-digit annual growth since 2001. An MB is fitted into every desktop computer as a primary component. In 2007, 153.4 million pieces were shipped abroad, up 3.1% from 2006, accounting for 97.2% of the world's MB market. The Yearbook also indicated that "the growth of MB stemmed from the low-end product demand in Middle and Eastern Europe, Latin America and Asia Pacific areas and from close cooperation with local distributors" (p.6-11). Similar conclusions have appeared in this Yearbook since 2001. While the Yearbook gives a macro view, this study takes a micro and longitudinal perspective on how Taiwanese MB producers engage with one of these markets.

Russia has drawn the attention of foreign inventors in recent years due to its market size and fast economic growth. Due to the country's poor macroeconomic performance, structural economic weakness and the absence of political and institutional support for business, the 1990s proved to be a troubled decade for the country (Machold 1998; Stuart/Gregory 1995; Fallon/Jones 2001). In particular, the economic and market conditions took a turn for the worse in 1998 when devaluation of the ruble was followed by default on foreign debt, leading to five years in the international financial wilderness (Economist 2003). Fortunately the conditions have improved since 1999 as ruble devaluation and favorable oil prices have led to a sustained period of growth in the Russian economy (Fallon/Jones 2004).

Sustainable market growth of Russia has also attracted Taiwanese companies. The trade between Russia and Taiwan has grown steadily, with Russia becoming Taiwan's largest trading partner in Middle and Eastern Europe by 2007. According to the Bureau of Foreign Trade, Ministry of Economic Affairs in Taiwan, bilateral trade in 2000 posted only US\$1.56 billion but soared to US\$2.71 billion in 2007, growing 1.74 times in seven years. Of the trade, export contributed the most. In 2000, exports from Taiwan to Russia recorded US\$108 million, but jumped to US\$807 million in 2007. Except for a decline in 2002,

the export value had shown rapid growth in the past six years (Bureau of Foreign Trade website, 2008). Taiwanese companies initially entered the Russian market through direct export. When they realised the significance of the booming market, they turned to setting up distribution channels through agencies to achieve greater economies of scale and to further develop adjacent markets in Middle and Eastern Europe.

### **3. Research on channel management**

#### **3.1 Channel power**

Marketing channels are systems made up of players who depend on each other and who manage their interdependence through power plays (Coughlan et al. 2001). The issues of power in distribution channels, such as the power formation and its corresponding effects and applications, have received considerable attention over the past several decades. Channel power is defined as “the ability of one channel member (supplier) to control the decision variables in the marketing strategies of another member in a given channel at a different level of distribution (the distributor)” (El-Ansary/Stern 1972:47). Simply put, a firm’s power in a dyadic channel relationship is a potential for influence on the other firm’s beliefs, attitudes and behaviors (Frazier 1999). The actual alteration of the other party’s behavior can only be achieved with the exercise of power (Gaski 1984).

French and Raven (1959) conceptualize five sources of power: reward power, coercive power, expert power, referent power and legitimate power. Depending on how aggressive their nature is, these sources of power are usually dichotomized into coercive (aggressive) and non-coercive (non-aggressive) power (Lusch 1977; Lusch/Brown 1982). Many scholars further used the dichotomy to examine the relationships between power sources and their corresponding effects on channel satisfaction and performance (Kim 2000; Fadiyali et al. 2000; Hu/Sheu 2005), and on channel conflict (Keh/Chan 2001; Leonodou et al. 2008). These studies in general contend that coercive power sources are inversely associated with satisfaction and performance and increase conflict; while non-coercive powers sources are positively related to satisfaction and performance and decrease conflict. It is probably because of this negative association that, with a few noteworthy exceptions (Frazier et al. 1989; Ellegaard 2006), little research has been published about the use of coercive power. Therefore, it is necessary to delve further into the comparative effects of coercive and non-coercive power, the longitudinal process of how power is applied, and the different perceptions of power strategies in home and host countries that are influenced by institutional and resource contexts, as argued by Wright, Filatotechev, Hockessin and Peng (2005).

In this study, the influence of a Taiwanese company on Russian distributors was traced over three time periods. Non-coercive power to influence distributors to join its network took the form of offering monetary incentive or technological support. Coercive power was exercised in the form of tactics like withdrawal from an original intention to enter into partnership, or withholding of import support. At the time of the research, the Taiwanese company was able to exert power over the distributors by virtue of its relative sophistication in computer manufacturing and global trading.

### **3.2 Channel conflict**

Conflict has traditionally been regarded as dysfunctional. For example, Stern and El-Ansary (1977:283) define conflict as “a situation in which one channel member perceives another channel member to be engaged in behavior that prevents or impedes it from achieving its goals”. However, conflict can also have functional and productive consequence when it motivates firms to adapt, grow and seize new opportunities (Stern et al. 1996), especially in the growth stages of the demand life cycle (Webb/Didow 1997; Webb/Lambe 2007). Without any conflict, channel members will tend to become passive and non-innovative, thus rendering the system of which they are a part to lose its viability (Stern et al. 1996). On the contrary, the inability to handle conflict would also have adverse effect on the relationships between supplier and its counterparts (Vaaland/Haugland/ Purchase 2004). While an optimal point in channel conflict is possible, it may be more realistic to view conflict as a dynamic process composed of a series of conflict episodes (Brown/Day 1981). Pondy (1967) classifies conflict into five stages: (1) latent conflict: underlying sources of conflict; (2) perceived conflict: perception only, when no conditions of latent conflict exist; (3) felt conflict: tension, anxiety, disaffection in addition to the perception; (4) manifest conflict: behavior which blocks another’s goal achievement; (5) conflict aftermath: post-conflict conduct, either resolution or suppression. Lusch (1977) provides a similar framework of conflict, i.e. latent-affective-manifest. Some minor partitioning approximates Pondy’s or Lusch’s term to the underlying-manifest dichotomy (Gaski 1984). Understanding the conflict process allows channel members to monitor and to measure its impact on channel performance and finally turn it into a productive force.

In addition, conflict researchers explore when and which conflict is expected. Thomas and Schmidt (1976) firstly framed a contextual base for conflict research, showing that conflict should impel better channel performance especially if (1) moderate levels of conflict are not considered too costly by channel members, (2) divergent views produce better ideas, and (3) aggression is not irrational or destructive. Bucklin, Thomas-Graham and Webster (1997) further propose a decision making framework to manage conflict (see Figure 1) by considering the ‘importance of a threatened channel in terms of current or potential volume or profitability’ and the ‘prospect of destructive conflict’. If a

conflict is destructive and substantial amount of current or future volume is high through the offended channel, channel managers should act to alleviate the situation. When a destructive conflict and the importance of threatened channel are low, the response of channel managers is to do nothing. This model is in fact closest to the nature of conflict proposed by Thomas/Schmidt (1976). Consideration of the importance of the threatened channel may require restructuring of channel networks.

*Figure 1. Decision-making framework of channel conflict*

Prospect of destructive	High	Act to avert or address conflict	Allow threatened channel to decline
	Low	Look for opportunities To reassure threatened channel and leverage your power	Do nothing
		High	Low
		Importance of threatened channel in terms of current or potential volume or profitability	

Source: Bucklin, et al.(1997:40)

#### 4. Research design

Taiwanese MB firms have dominated over 97.2% of the world market share. Of these, the case company, TaiwanMB (not its real name), and three other competitors are the 'big four'. The other three competitors had entered the Russian market at the beginning of 1990s, and have built solid distribution channels by the time TaiwanMB arrived at the end of 1990s. However, it quickly became a major MB supplier in Russia. This study offers a rare glimpse into how the company accomplished this by successfully establishing and restructuring its distribution channels in Russia.

The case study approach is suited for emerging research fields (Eisenhardt 1989) for it produces in-depth information on a small number of individuals (Patton

1991) and searches beyond simple snapshots of events, people or behaviors (Bonoma 1985). In particular, there are calls for more qualitative research in marketing areas (Frazier/Antia 1995; Johnson/Leach/Lui 1999). A single case design is appropriate when the case provides a critical test to a well-established theory, or where the case is extreme, unique or longitudinal research across different periods to show how certain conditions change over time (Yin 2003). This case study focuses on three embedded units of analysis: entry, accelerating growth and decelerating growth stages, based on desired time intervals in order to observe strategic behaviors of the firm through three different stages in an emerging market.

For the data collection, a total of seven hour-long interviews were conducted with a vice president of mother board division of the parent company in Taiwan and a regional manager in Moscow from 2004 to 2007. A semi-structured interview was used. Major questions concerned (1) how to explore the market and select distributors in Russia, (2) why develop multi-channel arrangements, (3) why and how to restructure channel members through the exercise of coercive power (withdraw from original promise or withhold import support) and dealing with conflict (e.g. underlying conflict and manifest conflict), (4) how to tackle the changes of MB market in Russia over time. The company's annual and quarterly reports from Taiwan Stock Exchange were also used to indicate the company's average sales volume in its Russian operations. In addition, a brief interview was also conducted with two Russian distributors when they participated in an international computer show in Taipei in 2005. The CEOs of the two companies were asked to elaborate on issues related to their businesses after cooperating with TaiwanMB and their attitudes towards the latter introducing more distributors into the market.

Although MB is a primary component inside a computer, it is not sold directly to end users but goes to three markets: "clone" or the components market, "system integration (SI)" where the MB is assembled into a computer together with other components, and "tender bid" where the MB are sold in bulk to specific business organizations. The clone distributor, as a component retailer, buys MB and re-sells them to computer builders (usually students and computer professionals). The system integrator assembles the MB and other components into a complete PC which it brands and sells through a separate marketing network. The tender bidder focuses on the tender market which features much higher trading volumes than those in the other two markets. The names of the Russian distributors are referred to in this study as Clone A, B, C..., System A, B, C..., and Tender A, B, C... It should be noted that the MB referred to in this study means those which are used exclusively for desktop PC.



## 5. The Case Story

### 5.1. Entry stage: Channel establishment

Since 1996, TaiwanMB had exported to a Russian importer. As TaiwanMB entered Russia in 1997, this importer (called Clone A here) became TaiwanMB's first and exclusive distributor in Russian market. As one of the top ten IT distributors in Russia, Clone A was not performing as expected, taking less than one tenth of the market share for TaiwanMB by the end of 1999. Such results greatly disappointed TaiwanMB which had expected that Russia would yield quick and rich returns.

After several months of investigations, TaiwanMB found the reasons. Firstly, Clone A had retained a high margin on sales, compared with what other distributors in the market were earning. Secondly, it had become more conservative after the financial crisis in 1998, taking less risk with its marketing efforts. Moreover, like most of the Russian MB distributors who had cooperated with TaiwanMB's competitors for years, Clone A was under pressure from those competitors to stop selling TaiwanMB's products. TaiwanMB was thus forced to change distribution strategy from previously using a single channel to using multiple ones (i.e. clone seller, system integrator and tender bidder) and to seek new channel members.

Several selection criteria were set to recruit new distributors. Firstly, they must fully comply with TaiwanMB's overall business strategy both nationally and internationally. Secondly, they must have good financial standing. Thirdly, they must have maintenance and service capabilities. TaiwanMB also categorized its distributors into three tiers. The tier one distributors were those who had cooperated with TaiwanMB's competitors. At tier two were those who were familiar with different market segments, for example, clone market, system integration market or tender bid market, and who were not known to be working with TaiwanMB's competitors. The tier three distributors were those who were not experienced or committed yet, but who were ambitious and had potential to become TaiwanMB's distributors.

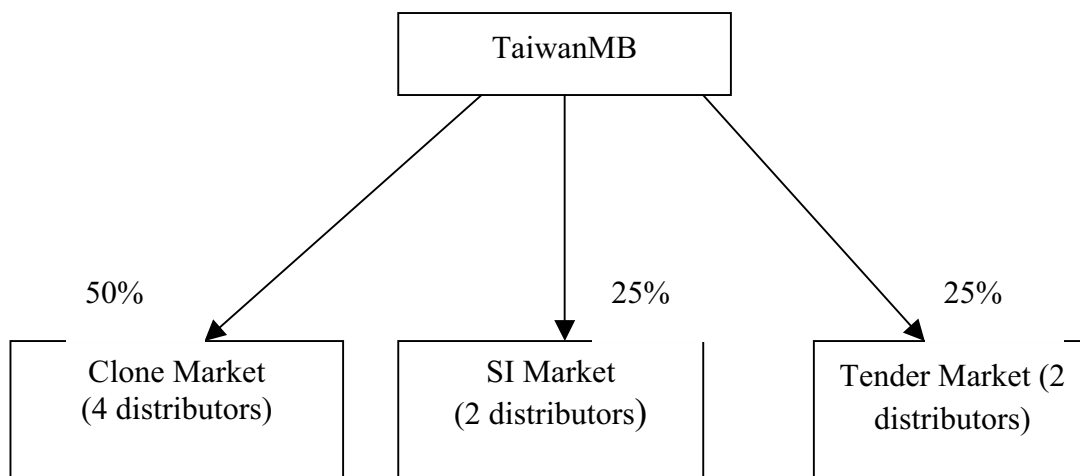
Unfortunately, in 2000, TaiwanMB discovered that most of the distributors in tier one and tier two had contracted with TaiwanMB's competitors as exclusive distributors. They were also requested by the competitors not to sell TaiwanMB's products. Such a situation made it extremely difficult for TaiwanMB to look for new channel members. TaiwanMB was thus forced to seek the distributors who belonged to tier three. It proceeded with a plan to set up a successful cooperative model with the tier three distributors so as to persuade distributors in tiers one and two to defect from its competitors.

By the end of 2000, TaiwanMB had succeeded in signing up a tier three distributor, Clone B. Clone B's profitable partnership with TaiwanMB

stimulated Clone A to seek a stronger relationship, and soon TaiwanMB became a preferred partner for two more clone distributors from tier three (Clone C) and tier two (Clone D). The introduction of new channel members did not cause manifest conflicts from existing members because the growing MB market was able to accommodate more distributors.

In order to develop new market segments, TaiwanMB had also signed up two tender bid distributors (Tender A and B), and two SI distributors (System A and B) by 2001. These multiple channel arrangements brought the total number of the distributors to eight in the three market segments as shown in Figure 2.

Figure 2. MB market segment of TaiwanMB in Russia



## 5.2. Accelerating growth stage: Channel restructuring

Since 2001, the Russian MB market has shown very rapid growth. All the distributors enjoyed high margins, but some clone distributors became complacent. Therefore, TaiwanMB needed to re-structure its channels to screen out inappropriate or under-performing members and to recruit new members. However, it was difficult to recruit new members from the markets and it took time to train them. Therefore, channel re-structuring was primarily to motivate the existing distributors to upgrade sales performance. Four types of channel restructuring strategies (CRSs) were utilized as described below.

### 5.2.1. CRS One: To execute one as a warning to others

After Clone D was recruited in 2000, it did not perform as expected. Other distributors (Clones A, B and C) complained that Clone D undercut them by lowering prices. Competition within the TaiwanMB camp was threatening to turn ugly. After careful investigation, TaiwanMB raised the purchasing costs for Clone D to see if its low-price strategy was due to operational efficiency. As expected, Clone D could not achieve set sales targets after three months,

showing it was simply taking lower margins in order to cannibalize the other clone distributors' market shares. TaiwanMB issued a stern warning to Clone D to compete fairly and not spoil the market by lowering prices. When it refused to comply, Clone D was removed as a distributor for TaiwanMB, sending a warning to the other three clone distributors to "play fair".

### *5.2.2. CRS Two: To cultivate the strong and weed out the weak.*

TaiwanMB's tender bid market was managed by two distributors, Tender A and Tender B. Tender A had contracted with TaiwanMB earlier than Tender B, but did not perform as well as the latter. Tender B had become the largest tender bidder in Russia through having strong group support. Tender A, by comparison, was smaller and less capable of doing business with tender organizations. The tender market is different from the clone and system integration market, for it features large trading volumes and monetary transactions; sellers need fewer channel members or lower channel density. Therefore, TaiwanMB decided to reduce the number of members in the tender channel by gradually pricing up Tender A's purchases. Tender B, on the contrary, appreciated the purchasing price cuts given by TaiwanMB. Tender A eventually retreated from the market by the middle of 2002.

### *5.2.3. CRS Three: To create a fake competitor*

The channel arrangements by TaiwanMB in Russia significantly increased its sales of MB threefold from 70,000 in 1999 to 210,000 in 2002. However, other Taiwanese MB companies also grew fast in the clone market. Since the clone market was the most important market and accounted for 50% of the MB market share, TaiwanMB was not satisfied with the performance of the three clone distributors. It therefore hoped to motivate channel members by creating a constructive channel conflict. In April 2004, in order to stimulate its three clone distributors, TaiwanMB introduced Clone E, a branded computer company that specialized in selling notebook computers. Because TaiwanMB has been Clone E's notebook computer OEM manufacturer, it knew this company very well. TaiwanMB carefully assigned a small quantity of a different product to Clone E for a trial sale, knowing full well that Clone E was a tier one distributor and would sooner or later be pressurized by TaiwanMB's competitors to give up its new distributorship.

Nevertheless, TaiwanMB announced this cooperative arrangement to the three unsuspecting clone marketers. Understandably, the three distributors all disagreed with TaiwanMB's decision because they perceived Clone E as a new competitor which would immediately cut into their sales and profits. TaiwanMB assured them that firstly, Clone E would have higher purchase costs than what's offered to the other three. Secondly, Clone E's product was aimed at a different market segment (system integration) and therefore would not be in direct

competition. Thirdly, since TaiwanMB has been Clone E's OEM partner, the chairman of TaiwanMB wished that Clone E could reciprocally sell TaiwanMB's products. Unconvinced, the three clone distributors suggested that TaiwanMB terminate the distributor relationship with Clone E if they could sell more to cover Clone E's expected share. This suggestion was just what TaiwanMB wanted. The performance of the three clone distributors consequently jumped by more than twenty percent in the second quarter of 2004. TaiwanMB appreciated their performance and soon terminated the distribution relationship with Clone E as it had agreed.

#### *5.2.4. CRS Four: To create a genuine competitor*

Originally, ninety percent of Tender B's business focused on the tender market, and ten percent on the clone market. At the end of 2003, TaiwanMB privately negotiated with Tender B to devote more effort to the clone market. This fitted Tender B's intentions perfectly as it was looking to increase its clone market share. The negotiation was extremely confidential because it would directly influence the clone market share of the three existing distributors. Following the agreement, TaiwanMB quietly increased Tender B's product quota in the clone market and reduced purchase prices.

The three clone distributors knew of Tender B as a player in the tender bid market and did not regard it as a direct competitor. In the middle of 2004, TaiwanMB warned them that sooner or later Tender B would extend its business to the clone market, and that they should work hard to occupy higher market shares to preempt Tender B's expansion and to ensure their own survival. This suggestion succeeded in stimulating the three clone distributors to focus more on market development, as well as reducing the possibility of vertical conflicts occurring between TaiwanMB and its clone distributors. As the three gradually noticed that Tender B had moved more and more into the clone market, they would not blame TaiwanMB, but instead thank it for the early warning. TaiwanMB would have achieved its objective of motivating the existing channel members to work harder, as well as cultivated a new distributor.

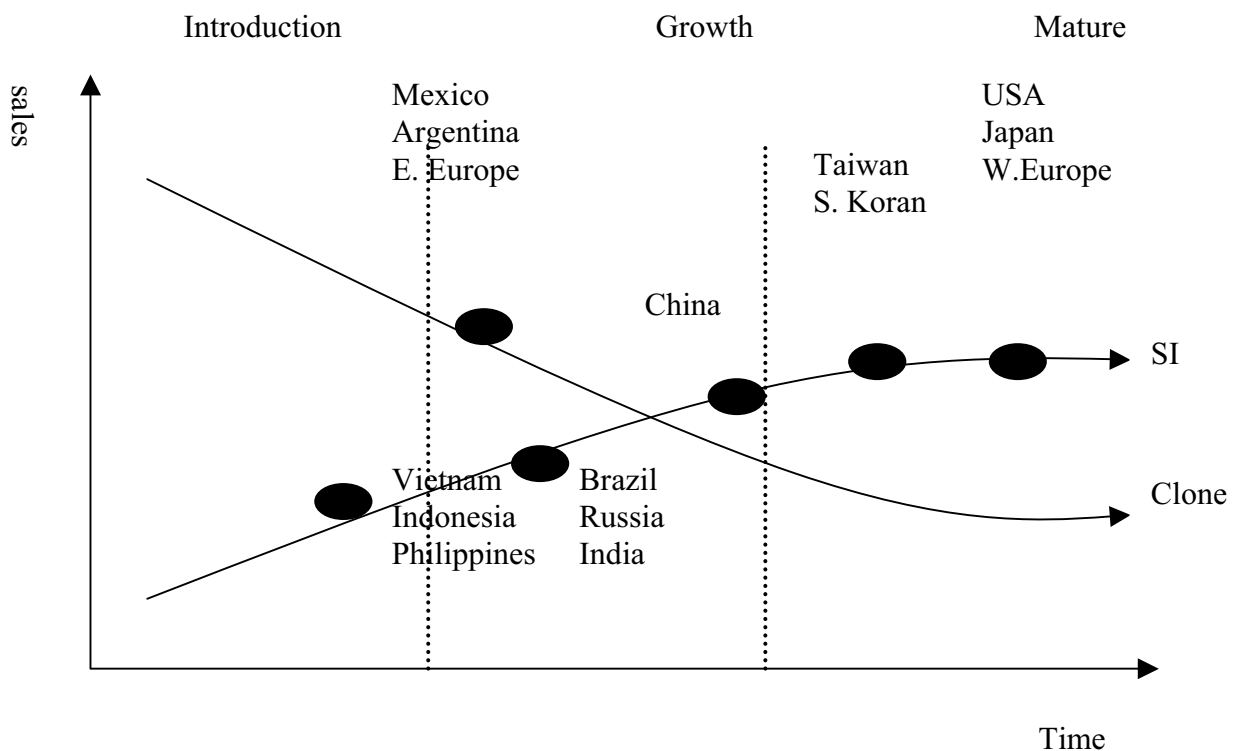
### **5.3. Decelerating growth stage: Re-structuring for balancing channel growth**

As stated before, the clone distributor buys and re-sells MB as a component to computers; while the SI distributor assembles MB and other components into a complete PC. The big difference is that the SI distributor has its own brand, while the clone distributor does not. TaiwanMB initially estimated that clone accounts for 50% of market share and SI account for 25%. However, since 2005, along with market opening and information spread, the PC has gradually become a necessity for general consumers rather than a high-tech commodity for computer professionals. Because consumers lacked computer hardware

knowledge and had difficulty assembling a whole PC by themselves, they tended to choose a branded computer with a good company image and after sales service. Changes thus happened between the two channels. System A and System B grew very fast, but the other three clones show a relatively slow growth. Channel members need to be re-structured again. In 2006, TaiwanMB ceased cooperation with Clone A and contracted with two clone distributors from tier one, Clone F and Clone G. Moreover, System C and System D were introduced in the end of the same year.

Unlike during the accelerating stage, the re-structuring process during the decelerating growth stage was very smooth. This was because all the clone distributors have acknowledged that the market has been dwindling. Incapable distributors (Clone A) naturally retreated from the market without complaining. On the other hand, clone distributors at tier one (Clone F and Clone G) also hoped to augment their product offerings to compensate for the dwindling of the clone market; hence they were keen to search for more supply sources. This made it much easier for TaiwanMB to select desirable distributors, differing extremely from the situation at the entry and accelerating growth stages.

Figure 3. Customer choice of clone and SI channels and stage of market growth



## 6. Discussion

Strategy researchers are interested in how firms behave. This study elaborates how one company established marketing channels in an emerging market and re-structured channel members over three stages.

In the entry stage, a supplier is typically concerned with locating and selecting channel members. Due to its late entry and boycott by its competitors' distributors, the case company was obliged to cooperate with less experienced distributors from tier three, gradually persuading distributors in tiers one and two to join its network. Previous research suggests many criteria for distributor selection (Etzel et al. 2001; Chung 2001; Lamb et al. 2004; Frazier 1999). These studies implicitly assume that many distributors exist in the market and that suppliers can choose according to their requirements. In Russia, however, the scarcity of local distributors at entry stage made this selection approach inapplicable. Similar situations also happened in China with manufacturers looking for local distribution channels. For example, Jiang (2002) notes the difficulty of choosing qualified local distributors in China. Goh and Low (2005) suggest that, when choice is limited, the selection approach may be used as a process of training the distributors to comply with the requirements of the investor. Zhang and Goffin (1999; 2001) also conclude that the biggest problem for foreign investors is dealing with local dealers. These findings both in China and Russia not only reflect the practical difficulty in establishing distribution channels in emerging markets, but also reflect a departure from theory.

In the accelerating growth stage, the purpose of channel re-structuring is to motivate existing distributors rather than to recruit new members. Four types of channel re-structuring strategies are identified as before and summarized as follows (see Table 1). Not only non-coercive powers but coercive powers are exerted to influence distributor behaviors. Channel conflicts are not only viewed as a process but also as contributing to channel performance across different contexts.

*Table 1. Channel restructuring strategies in different channel contexts*

Channel restructuring strategy	Expected conflict	Major power exerted	expected number of channel members
CRS1- To execute one as a warning to others	Manifest	Coercive	decrease
CRS2- To cultivate the strong and weed out the weak	Underlying	Non-coercive	decrease
CRS3- To create a fake competitor	Manifest	Coercive	from increase to decrease
CRS4- To create a genuine competitor	Underlying	Non-coercive	increase

These conflicts confirm the studies by Webb and Didow (1997) and Webb and Lambe (2007) that higher levels of channel conflict increase channel performance for products in the growth stages of the demand life cycle. As Kumar (2005: 866) indicates, 'there must be some positive effects of coercive tactics, at least under some conditions.' This study found that one of the conditions might be attributed to the growing product life cycle.

Stern et al. (1996:311) differentiate conflict from competition. They indicate that competition is goal-centered and the goal or object of desire is held by the self, while conflict is opponent-centered and the goal or object of desire is held by the opponent. The CRS3 of this study shows that the TaiwanMB moved its distributors from opponent-centered conflict (Clones A, B and C complained to TaiwanMB about Clone E's entry) to target-centered competition (Clones A, B and C achieving higher sales goals), illustrating how to generate a constructive conflict and to achieve a win-win status.

Interestingly, all the strategies went through an indirect pathway to influence the target distributor(s) behaviors. For example, in CRS2 of the study, the case company ruled out Tender A in order to facilitate Tender B to win more of the tender bid market; in CRS3, a fake competitor was arranged in order to stimulate the three underperforming distributors. The adoption of such sophisticated processes can be attributed to the uniqueness of the MB market in 2000-2004, making the case company more dependent on the local distributors. Another factor might relate to the cultural difference on conflict management between the east and west countries where "harmony and personal relationships are emphasized, they (the Chinese) will try to use indirect ways to avoid direct and open conflict" (Fan/Zigang 2002:85). In general, these strategies seem to run contrary to established theories formulated for more stable, developed economies.

In comparison with the model of Bucklin et al., (1997) presented in Figure 1, the CRS1 and CRS4 of this study are similar to the decisions: 'Allow the threatened channel to decline' and 'Look for opportunities to reassure threatened channel and leverage your power' respectively. Yet, the CRS2 and CRS3 of this study appear more aggressive in utilization of channel conflicts than 'Do nothing' and 'Act to avert or address conflict' in Bucklin et al's model.

In the decelerating growth stage, channels need to be re-structured again to deal with different growth rates between the clone and SI markets. However, the external environment of MB market in Russia has changed. Establishing or terminating cooperative relationships are now influenced by market mechanisms that have been developed to adjust the supply and demand of distributors. Prior knowledge about channel cooperation or dissolution largely assume situations happen in a complete competition context (decelerating growth stage in this case), but in reality little is known about managing channel members in an incomplete competition environment.

## **7. Conclusion**

As a study to explore channel management in Russia, this study has several implications for academics. First, this study takes a micro view and details how a foreign company establishes and re-structures channel members over three

stages of channel development in an emerging European market. In particular, these business dynamics and channel evolution present empirical evidence which goes beyond previous cross-sectional studies. Yet many have not been fully addressed in the literature. More in-depth research that permits the analysis of nascent evolution and dynamics in emerging markets is warranted. Second, this study deepens our understanding of the stages of establishing and accelerating growth in emerging markets, which have been largely ignored in previous research. There is a need to recognize market imperfections like lack of choice or uneven competition.

Third, the four types of channel restructuring strategies identified in the accelerating growth stage in this study provide empirical evidence on the exercise of channel power and channel conflict, especially coercive power and manifest conflict. The use of indirect influence may be an opportunistic response to special features of the market and culture, raising possibilities for further academic investigation of the development of channel management in emerging economics. Fourth, this study highlights the importance of the leading firm in managing channel conflicts, especially in the stage of accelerating growth where manifest conflicts are needed. Shifting from opponent-centered conflict to target-centered competition may be the key that channel managers need to avoid the ‘prisoners’ dilemma’ of game theory where two prisoners are faced with the difficult decision to cooperate, or to betray each other to reduce their own terms, only to end up with longer ones. Fifth, different growth rates among channels will cause channel re-structuring and resource re-allocation. This is another unexplored issue for examining strategic paradigm shift, especially with the increase of private labels (also known as store brands) by retailers (Coughlan, et al. 2006; Kumar/Steenkamp 2007), manufacturers and suppliers facing higher growth and larger demand from those branded retailing companies.

Three implications for practitioners and international channel managers can also be drawn from the findings. First, it is important, when entering a new emerging market, to start small with one channel partner and build up a successful model of cooperation before recruiting more channel members. The distributor selection process must be guided by a comprehensive understanding of what makes a channel partnership work or not, and whether distributor switching is a viable option. A successful cooperation with a local distributor serves as an a model of effective distributor relationship which draws in new partners, thus shortening the search time for new distributors.

Second, in the accelerating growth stage, managers should pay attention to the existing channel members and figure out how to motivate them. It may become necessary to fire under-performing members and recruit new ones. While monetary incentives are always popular, the channel conflicts created by suppliers changing – or threatening to change – channel partners may also stimulate better performance among those members keen to remain in the



investing suppliers' network. Prospective partners may also try to make themselves more desirable by growing and innovating. The power play that a supplier engages in through posturing, negotiating, indirectly influencing or directly coercing channel members can be effective, provided market conditions are favourable to the supplier.

Third, the different market development stages offer both opportunities and threats. As the market matures and reaches saturation, customers will also have more choices and more information, and thus becoming more sophisticated in how they shop. They would become more brand-conscious and seek out products by their brand images. The supplier will then find more opportunities for market expansion working with new distributors able to present integrated or value-added products (like the SI). Distribution through such channels is more costly and time-consuming as marketing efforts must focus on brand-building. Selection of such channels is also difficult in emerging markets where distribution experience is limited. It would be prudent to maintain various types of channels simultaneously. Thus a successful channel strategy would involve constant vigilance of market changes, and continual development of channel relationships so as to be able to re-structure the channel network as needed.

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