Environmental Factors Affecting the Implementation of Dual Marketing Channels

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OF DUAL MARKETING CHANNELS

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Abstract
This article finds support for the prediction that the existence of dual marketing channels where manufacturers sell directly to users or consumers as well as through independent marketing intermediaries are likely to become more widespread in the future. First empirical studies on and theorising about dual channels are reviewed. A model consisting of five hypotheses delimiting the environmental factors influencing the implementation of dual marketing channels is suggested, and based on answers from 231 manufacturers the hypotheses are tested. The results indicate that existing marketing channels, high costs and low perceived benefits hamper the adoption of dual channels, whereas existing customers’ demands for and competitors’ adoption of additional marketing channels expedite the adoption of dual channels. However, the importance of these factors differs depending on which functions are performed by the dual marketing channels.

Keywords: Dual marketing channels, Denmark, Internet marketing.
INTRODUCTION

Dual marketing channels may be found in several industries and take many forms, one of which is when a manufacturer both sells through independent intermediaries and directly to consumers or users (Preston and Schramm, 1965). Moriarty and Moran (1990) see indications that dual or multiple channels are becoming the dominant design in the 1990s, and as documented by several researchers many firms actually use both integrated and non-integrated distribution channels simultaneously (cf. Bradach, 1995, 1997; Brickley and Dark, 1987; Caves and Murphy, 1976; Hunt, 1973; John and Weitz, 1988; Lafontaine, 1992a; Moriarty and Moran, 1990; Stassen and Mittelstaedt, 1995; Preston and Schramm, 1965). In recent years these channels have been analysed under the headings of hybrid channels (Stern et al., 1996; Moriarty and Moran, 1990), multiple channels (Anderson et al., 1997; Cespedes and Corey, 1990), systems of plural governance (Heide, 1994; Bradach and Eccles, 1989; Bradach, 1997; Dahlstrom and Nygaard, 1999), and tapered integration (Harrigan, 1984). These plural forms of governance have been defined as arrangements “where distinct organizational control mechanisms are operated simultaneously for the same function by the same firm” (Bradach and Eccles, 1989, p. 112), as integration strategies where the firm relies on outsiders for a part, but not all, of its supplies or distribution (Harrigan, 1984), or as taking place “when a single supplier distributes its products through more than one type of marketing organization or channel” (Preston and Schramm, 1965).

In terms of empirical focus most studies have been inspired by the puzzle that franchisors are using both corporate-owned units and franchisee-owned units at the same time. However, many dual channels of distribution do not include franchises. These dual channels are likely to become widespread as more firms combine their present distribution channels with their own Internet-based channels as is done by for example the toy manufacturer LEGO (www.legoworldshop.com).
Especially in industries, such as retail banking, news, and music, where an important part of the output are in digital form the new electronic channels are combined with the traditional store-based channels and hence fundamentally changing the structure of these marketing channels (e.g. Mols et al., 1999). Seemingly the dual marketing channels combining traditional channels with new Internet-based channels promises significant advantages for the consumers. Despite its importance, however, there is a lack of empirical studies on the factors affecting the implementation of these dual marketing channels.

This article briefly reviews the literature on dual marketing channels and based on distribution channel theories (e.g. Bucklin, 1966, 1970) it proposes a research model for explaining the implementation of dual channels. The model suggests that existing channels, technology, customers and competitors influence manufacturers’ implementation of dual marketing channels. The model is separated into five hypotheses and based on the results from a survey among Danish manufacturers the hypotheses are tested. Finally, the results are discussed.

STUDIES ON DUAL MARKETING CHANNELS

Theorising on dual channels of distribution use different starting points. Oxenfeldt and Kelly (1968-1969), Caves and Murphy (1976) and Minkler (1992) base their hypotheses on organization theory, especially the organizational life-cycle. Also agency theory has been a popular starting point for studies of many dual-type franchising systems (Rubin, 1978; Brickley and Dark, 1987; Martin, 1988; Norton, 1988; Brickley et al., 1991; Carney and Gedajlovic, 1991; Lafontaine, 1992b; Gallini and Lutz, 1992; Shane, 1996, 1998; Shepard, 1993). The strategy-based literature has generated lists of advantages of dual systems in regulating both downstream and upstream activities (Porter, 1980; Harrigan, 1983, 1984, 1986). Transaction cost theory has been interested
in the ability of dual systems to protect against opportunism (Dutta et al.; 1995b), and distribution channels literature has been particularly focussed on the market coverage and conflict potential of dual distribution channels (e.g. Moriarty and Moran, 1990; Webb and Didow, 1997).

Oxenfeldt and Kelly (1968-1969) focussed on the rationale for franchising. They argued that franchisors use franchisees to gain access to necessary resources such as capital, skilled management, and knowledge of local conditions to expand and replicate their concepts relatively fast. But in the cause of time these resources become accumulated internally by the franchisor or more easily available externally from other sources, thus making it possible for the franchisors to reacquire the franchised sites. The motivation to reacquire the franchised sites arises from conflicts with and difficulties in managing the franchisees and a goal of attaining higher profits. Thus, Oxenfeldt and Kelly’s (1968-1969) explanation regards dual distribution as an unstable and transitory state. Only in systems where marginal sites are franchised can they imagine that dual distribution will prevail in the long-run. The evidence on this theory is, however, mixed with some studies corroborating it (e.g. Hunt, 1973; Caves and Murphy, 1976; Minkler, 1990, 1992) and some researchers arguing against it (e.g. Rubin, 1978; Martin, 1988; Thomas et al., 1990).

Rubin (1978) started by rejecting the argument that franchising is a way for the franchisors to satisfy their capital demands. Using agency theory, he argued that the franchisees bear the residual risk of local operations and have high-powered incentives, whereas the managers of the company-owned outlets bear no residual risk and consequently have low-powered incentives. Therefore franchised outlets need a lower degree of monitoring but also offer less income potential for the franchisor to cover his monitoring costs. For that reason outlets which are difficult to monitor will be franchised, and outlets which are easy to monitor will be company-owned. Rubin (1978) argued that monitoring costs are correlated with the distance from the corporate headquarters to the
outlets, and therefore outlets close to the headquarters will have low monitoring costs and be company-owned, whereas outlets located far away from the corporate headquarters will be franchised. The use of distance as a proxy for monitoring costs has been empirically supported by e.g. Brickley and Dark (1987), and Norton (1988), whereas e.g. Shepard (1993), in her study, found that the probability of company ownership was higher for units located at least fifteen miles from the centre. Gallini and Lutz (1992) assumed that franchisors have private information about the profitability of the business concept and argued that franchisors’ own outlets can be seen as a signalling device to inspire confidence in the franchisees about the potential profit of the business concept. Their prediction, however, was that with the growth of the franchise system, this signalling device is no longer needed and thus, the franchisor-owned units are likely to be externalized and franchised to independent franchisees. In this way franchisor-owned units are converted from a low-powered incentives situation to a situation with high-powered incentives. Lafontaine (1992b), among other things, pointed out that outlets are heterogeneous and that the dual system can be explained by the enormous costs connected with developing and enforcing a variety of contracts. Therefore the franchisors for each outlet will choose either to own the outlets or to use a standard average franchise contract.

In strategy literature dual distribution is treated as a variation of tapered integration (Porter, 1980; Harrigan, 1984). This literature identifies at least eight advantages of tapered integration: (1) lower fixed costs compared to full integration, (2) the possibility to use independent units for the irregular part of the demand while using the internal units for the stable part of the demand, (3) access to outside R&D activities, (4) reduction of the risk of becoming too dependent on either the internal or external units and thus a reduction of the vulnerability to strikes, shortages etc., (5) provision of incentives through the competition between inside and outside units, (6) full vertical integration becoming a more credible threat, (7) provision of information on cost and market
Dutta et al. (1995b) argued that the dual forms provide enhanced credibility of the termination safeguard, and therefore minimize both the vulnerability and the likelihood that the independent distributors will behave in an opportunistic way. They also argued that dual forms provide performance benchmarks and thus the opportunity for better assessment of the independent distributors’ performance. Shepard (1993) touched on this when she reported that initially refiners sometimes operate a new station as company-owned and that this provides information about the station that can be used to make optimal contracts when the station is later converted to lessee-dealer form.

Distribution channels literature has pointed to the advantages of having different channels serve different customer segments in terms of their different demands for lot size, delivery time, market decentralization (Bucklin, 1966), assortments (Bucklin, 1970), product information, product customization, product quality assurance, after-sales service, and logistics (cf. Anderson et al., 1997; Rangan et al., 1992). The approach to the study of changes in marketing channel structure has been static comparative and changes in structures have been explained by changes in marketing technology and customer demands (e.g. Bucklin, 1966, 1970; Mols et al., 1999). The literature on distribution channels has also focussed on how a direct and an indirect sales channel constitutes a dual system performing the same activities and having overlapping roles. Especially the topic of conflict in dual systems of distribution has been discussed (e.g. Webb and Didow, 1997; Moriarty and Moran, 1990).
MODEL AND HYPOTHESES

The economic approach to marketing channels has been concerned with understanding efficient channels (e.g. Bucklin, 1966, 1970; Mallen, 1973) and from this starting point, normative models for the design of customer-driven distribution channels have been proposed (e.g. Stern and Sturdivant, 1987; Rangan et al., 1992; Stern et al., 1996). For example Bucklin (1966) argues that the starting point for changes in distribution channels are innovations in marketing technology and changes in consumer wants. This starts an adaptation process where the existing channel gravitates towards the new normative channel. The adaptation process is described by changes in the functional and institutional structure. This is manifested by functional substitutions, vertical integration and disintegration, and the entering of new firms, the exit of old firms, mergers and acquisitions. However, Weiss and Anderson (1992) conclude from their study that many firms do not change their distribution channels in the frictionless way suggested by normative theory and that the conversion process is connected with substantial inertia. Bucklin (1966) also notes that the adaptation is not likely to happen overnight because of barriers and temporal constraints. The temporal constraints arise because the decision makers have the existing distribution channel as a starting point for the changes. Therefore, the existing distribution channel also influences the adaptation in the distribution channel structure. McCammon (1971) identifies five different barriers to change of marketing channel structures. First, reseller solidarity has the consequence that resellers prefer and support traditional distribution channel practices and existing institutional relationships. Secondly, entrepreneurial values differ among firms. Large firms are argued to be growth oriented and hence more entrepreneurial than smaller firms, which are less ambitious and have more static expectations. Thirdly, organizational rigidity exists because of established norms and positions in the organisation, risk aversion and sunk costs which many firms prefer to recover before they change their procedures. However, McCammon (1971) also emphasises that in case
an innovator is penetrating the firm’s core market, then it is likely to be more innovative and react much more quickly to the threat. Fourthly, the firm’s channel position can be that of an insider or an outsider, and McCammon (1971) argues that it is the outsiders, which innovate and are the initiators of major structural changes. Finally, customers are heterogeneous and not all the different customer segments are likely to accept and react equally rapid to innovations in distribution channels.

As illustrated in Figure 1 there seems to be at least four major external factors, which influence the implementation of new dual marketing channels combining Internet-based channels with traditional dealer-based channels: (1) existing channels, (2) new technology, (3) changes in customer wants, and (4) competitor initiatives.

< Take in Figure 1 >

In the subsequent sections five hypotheses are proposed and explained and the related literature is reviewed. Figure 1 provides references to the hypotheses and indications as to how the variables are causally related.

**Hypothesis 1: Existing distribution channels**

The addition of an Internet-based marketing channel to an existing marketing channel system may face resistance from both existing distributors and managers employed by the manufacturer. In a system of dual marketing channels the same functions are performed by different but parallel channels, thus creating overlapping domains and goal incompatibility. Domain similarity and goal incompatibility lead to conflict and unsatisfied distributors (e.g. Cespedes and Corey, 1990;
Moriarty and Moran, 1990; Webb and Didow, 1997). For example Moriarty and Moran (1990) point to the problem of adding another channel to an existing channel system. The channels which are put in direct competition with each other often face a lower revenue and more intensive competition for customers, and Moriarty and Moran (1990) contend that new channels typically generate conflict and morale problems inside the organization and result in confusion and anger among the external stakeholders, such as distributors, dealers and customers.

A typical solution to the conflict has been a sharper domain definition, i.e. of the population to be served, the territory to be covered, the functions or duties to be performed and the technology to be employed (Stern et al., 1996, p. 309). But it may be difficult to establish clear boundaries (Weigand, 1977) and furthermore the lack of boundaries between the different channels may be an advantage when the conflict is constructive and introduces healthy competition in a system with otherwise degraded incentives. This leads e.g. Moriarty and Moran (1990) to conclude that even though boundary mechanisms help contain conflict when it arises, they do not and should not eliminate the competitive pressure.

Another solution to the conflicts in dual marketing systems is to establish goal congruence by compensating the channels being cannibalized by the introduction of Internet-based channels. This, however, results in other problems. It may be difficult to create a compensation scheme, which is perceived as being fair and securing the long-term survival of all the dealers, and it may remove the incentives for the parties to make an effort to retain their present customers. Hence, some dealers will complain and some will find other products to sell, if the manufacturers start selling directly to the customers by use of the Internet. The manufacturers, cooperating closely with and having difficulties in replacing their present dealers, may therefore defer dual marketing channels. These manufacturers probably fear cannibalization and do neither want to be involved in conflicts
nor to compete with their dealers. They may expect that the dealers will lose trust in them, and become unsatisfied, and some of the manufacturers will wait for their present dealers to begin selling by use of the Internet. Based on this we suggest the following hypothesis:

H.1. Existing distribution channels hamper the implementation of dual channels of distribution.

**Hypothesis 2: Marketing technology**

New marketing technology often changes the cost structures in distribution channels (Mallen, 1973; Bucklin, 1966, 1970). In case of Internet-based channels, the creation of a homepage, presentation of the firm, its products, employees, addresses, e-mails, and opening hours takes time and resources. They are seldom one-shot investments because they have to be up-dated regularly and thus requires the manufacturer to either hire employees who have the necessary knowledge and skills or to have an external firm create and up-date the homepages. More advanced Internet-based sales and marketing systems involve communication with the customers, gathering of feedback from the customers, answering of e-mails from the customers and the receiving of orders. Thus, the manufacturer will have to dedicate employees to handling the Internet-based part of the marketing channel system. Furthermore, Internet-based systems may be integrated with the other systems in the firm such as order-handling, customer-complaints, logistics, payment and accounting systems.

However, a number of benefits may arise for the manufacturers. The high initial costs and the high fixed costs of an Internet-based system may be countered by lower marginal costs per interaction with the customers than for traditional marketing channels. Especially the provision of information to the customers are connected with nearly zero marginal costs per new customer. However, the gain from new channels may be captured by the ultimate consumers, the manufacturers, and/or the
distributors, and the less advantages the manufacturers expect from the new marketing technology, the less they will rush into adding the new marketing channels. In order to explore the importance of expected costs and advantages from the dual channels, the following tentative hypotheses are suggested:

H.2. High cost and low additional benefits of an additional marketing channel hamper the implementation of dual channels of distribution.

**Hypothesis 3: Customers’ wants**

As mentioned the distribution channels literature has long pointed to the advantages of having different channels serving different customer (e.g. Bucklin, 1966, 1970; Rangan *et al.*., 1992). Rangan *et al.* (1992) for example argued that an integrated system may be best suited for products with a high degree of product customization because of the need for close contact between the customer and the production department, which is likely to build transaction specific knowledge. On the other hand, a non-integrated sales channel is efficient when the product is standardized with no need for customization and exchange of information. Also Anderson and Coughlan (1987) have argued that a high level of service is most efficiently offered through an integrated channel whereas a low level of service is most efficiently offered through a non-integrated channel. In line with this reasoning, Moriarty and Moran (1990) postulate that one of the reasons for the boost in hybrid distribution channels is a wish to increase market coverage.

The addition of electronic channels to existing marketing channel system has the potential to provide a group of customers better service output in the form of a broader and deeper assortment, less waiting time, and a higher market decentralization (Bucklin, 1966, 1970). This may attract new
customers, increase the revenue of the innovative firms, and consequently lead to higher profits over a long period of time. In some industries the electronic channels are much more cost-effective than telephone and store-based networks (Katz and Aspden, 1997; Tilden, 1996), and lower costs may lead to lower prices for the consumers. In such cases seemingly loyal customers may change to the new distribution channels, and the firms that have staked on the wrong channels may find it difficult to maintain their market share. Furthermore, the electronic channels may change the way firms interact with their customers and make it easier to practice direct marketing, relationship marketing and mass customization and thus increase customer loyalty (e.g. Evans and Wurster, 1997; Kara and Kaynak, 1997; Srirojanant and Thirkell, 1998).

With the increase in computer literacy and the availability of computers and the fall in the costs of computers and Internet access, there has been a considerable growth in the segment of consumers mastering the Internet channels. Thus, if customers want and value the service provided by Internet-based channels, then market-oriented firms wishing to retain their present customers and to attract new customers will react. If on the other hand, the manufacturers do not feel that Internet-based marketing is wanted by the customers, then they will not allocate resources to it. This suggests the following hypothesis:

H.3. Existing customers’ demand for additional marketing channels expedites the implementation of dual channels of distribution.

**Hypothesis 4: Competitors**

Many manufacturers have invested huge resources in their existing distribution channels. They have built relationships with their distributors, taught them to work with their products and services,
fought for shelf space, promoted the stores, implemented the procedures used for their day-to-day activities, and developed effective organizational routines (Stern et al., 1996; Weiss and Anderson, 1992). These investments are channel specific investments, i.e. they have limited or no value if these channels cease to exist. As noted by Chandy and Tellis (1998) such investments may be the result of years of hard work on the part of the managers. They may develop a strong commitment to these investments, which can lead to sub-optimal or irrational decisions. Thus, Staw (1981) found that individuals may commit new and additional resources to a losing course of action. Hence, in order to protect the channel specific investments, the managers may be hesitant to introduce dual marketing channels risking to cannibalize their existing distribution channels. They become re-active and wait until they forced by competitors to innovate and introduce new channels. They fear that dual channels may hurt short-term profit, because new distribution channels may result in old distribution channels becoming unprofitable or the existing distributors may be less interested in selling their products. Leonard-Barton (1992) argues that development projects implies an organizational struggle to both maintain, renew, and replace core capabilities, because new technologies may both enhance and destroy existing competencies within an industry. She contends that existing values, skills, managerial systems, and technical systems may be inappropriate for some projects and that these inappropriate sets of knowledge become core rigidities and may create problems for projects which require new capabilities. Hence, the more radically different requirements a new project like the addition of new electronic distribution channels poses for a firm, the more the existing core capabilities will impede the transition to the dual marketing channels.

Furthermore, if the consumers are served differently through the alternative channels, e.g. offered different prices and conditions of delivery, then they will be confused and disappointed. This may lead to dissatisfaction among the customers, which again may lead to a lower degree of loyalty.
Hence, it may seem like the least risky strategy to ignore the new channels and thus avoid conflicts and cannibalization of existing channels. However, if the new channels offer higher service output at lower costs, then customers are likely to move to these channels. Thus, manufacturers not offering both channels risk sending their most profitable customers to the competitors’ channels and being stuck with the least profitable customers and the most costly channels. This suggests the following hypothesis:

H.4. Competitors’ implementation of new marketing channels expedites the implementation of dual channels of distribution.

**Hypothesis 5: Different functions**

Internet-based marketing channels may perform different marketing functions. They usually involve the presentation of the firm, its products, its employees, opening hours etc. The homepages may also promote two-way communication with the customers in the form of e-mails, feedback from the customers, discussion groups, newsletters, ordering information etc, and more integrated systems may connect the homepage and the electronic communication between the firm and the customers with the other systems in the firm (e.g. Greaves et al., 1999; Srirajanant og Thirkell, 1998; Evans og Wurster, 1999). Some of the functions of an Internet-based marketing channel may be:

**Information:**
- Homepage with pictures of the company, its employees and its products.
- Descriptions of the products, opening hours, addresses, telephone numbers, etc.

**Interaction:**
- Communication with the customers by use of e-mail, receiving orders,
feedback from the customers etc.

Integrated system: Homepage integrated with other systems in the company, for example logistic system, customer complaint handling, accounting system etc.

Data capturing: Gathering of customer specific information about use of homepage, Internet mediated communication etc.

The costs and benefits of having Internet-based channels carrying out the various functions may not be equally high for the manufacturers and the consumers. Also competitors’ implementation of two-way communication, integrated systems and data capturing may be regarded as more threatening for a manufacturer than if competitors only use the Internet for providing information to their customers. Finally, a manufacturer who is only using the Internet for presentation of the firm and its products is not likely to generate much conflict and cannibalization of existing channels as is a manufacturer implementing an advanced integrated Internet-based sales and marketing channel, through which the customers are able to order products. Thus, the factors hampering or expediting the creation of a simple homepage can be expected to be different from the factors affecting the introduction of an integrated Internet-based marketing system. This suggests the fifth hypothesis:

H.5. The influence of existing channels, technology, customers and competitors on the implementation of dual marketing channels depends on which functions (information, interaction, integrated system, data capturing) are performed by the dual marketing channel.

METHOD

The survey was conducted in October and November 1999 by mail questionnaire to 772 Danish manufacturers. The manufacturers all had 20 or more employees and were from the following
industries: Publishing, data hardware and software, health products, radio and television, clothing, toys, optics, pumps and compressors, paper, refrigerators and kitchen appliances, communication equipment, and office supply.

The questionnaire was pre-tested and key informants were identified by the use of the database CD-Direct. To increase the response rate the questionnaire was sent together with a cover letter with a hand written signature. As an incentive the respondents were promised to receive a small report on the results of the study. After a reminder with a fresh copy of the questionnaire and a return envelope 353 answers were received, of which 231 reported that they used dealers for distributing their products and thus, were able to supply the answers reported in Table 2. It is the answers from these 231 respondents, which are used in this study. The respondents were all marketing managers and had on average 9 years of experience in the organization and on average 6 years in their present position. Only 6.4% of the respondents had less than one year of experience in the organization, and 8.5% of the respondents had less than one year in their present positions.

Following Armstrong and Overton (1977) several tests were made to ensure that the respondents were representative of the sample and thereby the population. By use of Pearsons P2-test non-respondents were compared to respondents and respondents answering before receiving a reminder were compared to respondents answering after receiving a reminder. Using a one percent level of significance only one difference was found on any of the questions in the questionnaire and none was found on the measures of industry, firm size, and export markets. This indicates that non-response bias is not a problem. Only two variables “information” and “interaction” were measured using multiple items, and Cronbach’s alphas were $=0.91$ and $=0.72$, which indicate an acceptable reliability.
RESULTS

The data showed a large variation in the implementation stages reached by the different firms. As shown in Table 1 most firms have implemented a homepage on which they inform their present and potential customers, and roughly one third of these firms regard this function as a success. E-mail for communicating with the customers is the most used function (72%) and the most successful (36%) application of the Internet. The least used is the integrated system (4%), which is also the most complex function in Table 1. However, if the firms planning or in the process of implementing an integrated Internet-marketing system will actually implement it, then almost one third of the respondents will have an integrated Internet-based sales and marketing system in a few years. As these manufacturers are likely to continue distributing their products through their present channels, this indicates a further increase in the use of dual marketing channels combining traditional channels with Internet-based channels.

The analysis presented in Table 2 shows that most items describing the influence of the existing channels turned out to be barriers to the implementation of Internet-based sales and marketing. However, the items were mainly correlated with the use of the Internet for interacting with the customers. Thus, existing channels seem to be a barrier to the implementation of dual channels, when the dual channels are performing the functions connected with the direct interaction with the customers, such as e-mailing, ordering, and feedback from the customers. In conclusion, the results seem to corroborate hypotheses 1 and 5. The only exception is the result that a close cooperation
with the dealers promotes the use of the Internet for informing the customers.

< Take in Table 3 >

The results in Table 3 indicate that technology may be a barrier to the implementation of dual channels, however the present logistical system primarily serve as a barrier to the adoption of integrated systems, and the cost of establishing an additional channel along side the existing channels was not a significant barrier to the adoption of dual marketing channels. Thus, the results provide mixed support for hypothesis 2.

All four dimensions of Internet marketing were positively correlated with the two items measuring customer wants and demand (0.13 < J < 0.30). Thus, customers’ and users’ wants were the most important factor expediting the implementation of Internet-based sales and marketing and thus the adoption of dual marketing channels. Thus, the results support hypothesis 3.

The two items, measuring competitors’ use of Internet-based channels and the pressure the manufacturers felt because of this, were only significantly correlated with the use of integrated systems. Only one of the items was positively correlated with the customer interaction function and none of the items were significantly correlated with the information and data capturing function. Hence, this result supports both hypothesis 4 and 5.

CONCLUSIONS

All of the five hypotheses found some support by the results. It appears, however, that the implementation of dual marketing channels is determined more by customer acceptance than by any
of the other variables in the study. This suggests that most of the respondents are from market-oriented firms, and the chosen firms from industries characterized by effective competition. The results may be different if firms in monopoly positions and with no close substitutes are surveyed. In that case existing channels and the benefits of new marketing technology will probably be more important than other factors for explaining the implementation of dual marketing channels.

The results indicated that existing customers’ demand for additional marketing channels expedites the implementation of dual channels of distribution. Hence, if the customers accept the electronic channels an adaptation process is likely to take place, which will result in the closing of bricks-and-mortar shops. The pace of the development depends on a number of factors. Besides the four environmental factors focussed on in this study, factors that can contribute to a slow-down of the process are security problems and computer illiteracy among the customers. Factors that can speed up the process are for example easier and more user friendly and cost free access to the Internet and lower prices on computers and modems. New entrants into the different industries such as computer firms with relevant customer databases, competences in Internet and one-to-one marketing, logistics, and computer security are also likely to speed up the process.

The results showed that most Danish manufacturers plan to pursue the dual channel strategy, where the traditional dealer-based channels are combined with Internet-based channels. For many manufacturers the Internet is a new distribution channel which offers a higher spatial convenience than traditional distribution channels and it is therefore attractive to a large and growing segment of customers. This will change the distribution channel structure and will force manufacturers and retailers to decide how best to target this new customer segment. However, before making large-scale investments in Internet-based channels it is recommended that manufacturers and retailers analyse the use of the Internet among their most attractive customer segments and attempt to predict
the development in their use of the Internet. It is important to note, that lack of sufficient information on the market segments' preferences for channel mixes will be a crucial obstacle to the design of customer-driven marketing systems. Besides, manufacturers implementing dual marketing channels easily get into problems such as internal conflicts and even confused customers and they should take great care when choosing their marketing channel strategies. Many manufacturers should probably consider cooperating with existing retailers instead of implementing an integrated Internet-based channel along side their present channels.

The results showed that if the manufacturers expect that their dealers will find other products to sell, when the manufacturers start selling directly to the consumers from Internet-based channels, then the manufacturers will hesitate to implement the new channels. This indicates that existing retailers will be able to hamper the implementation of dual channels, if they are able to credibly signal that they will replace the manufacturers implementing dual marketing channels. Such signals could involve multiple sourcing or retaliation when a supplier experiments with Internet-based channels. However, if a large group of the consumers demand Internet-based channels, then it will probably not be possible in the long run for the retailers to avoid that manufacturers adopt dual channels.

Very little is known about the consequences of adding an electronic distribution channel to an existing channel network. This article focussed on the environmental factors explaining the implementation of dual marketing channels and ignored the many internal factors, which may help explain such a decision. Future studies could include variables like internal knowledge and skills, market orientation, the power of the actors in the channel, and the strategies considered for managing channel conflict. Especially, more empirical research is needed on the electronic marketing channels and their interaction with the existing distribution systems.
REFERENCES


Implementation of dual marketing channels: traditional marketing channels combined with Internet-based marketing channels. H.5.

The development in marketing technology: the Internet

The customers’ wants: the emergence of internet segments

Existing channels

Competitors

Figure 1: A model of dual marketing channel implementation
<table>
<thead>
<tr>
<th>Use of the Internet:</th>
<th>Not considered %</th>
<th>Considering %</th>
<th>Planned %</th>
<th>Getting implemented %</th>
<th>Implemented %</th>
<th>Successfully implemented %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Information</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For presentation of the firm.</td>
<td>3</td>
<td>11</td>
<td>6</td>
<td>19</td>
<td>34</td>
<td>27</td>
</tr>
<tr>
<td>For information about opening hours, addresses etc.</td>
<td>9</td>
<td>9</td>
<td>5</td>
<td>14</td>
<td>41</td>
<td>22</td>
</tr>
<tr>
<td>For information about products.</td>
<td>1</td>
<td>10</td>
<td>7</td>
<td>18</td>
<td>39</td>
<td>26</td>
</tr>
<tr>
<td><strong>Interaction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication with the customers by e-mail.</td>
<td>4</td>
<td>8</td>
<td>6</td>
<td>10</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Receiving orders through homepage</td>
<td>22</td>
<td>36</td>
<td>11</td>
<td>14</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Feedback from the customers through homepage</td>
<td>14</td>
<td>28</td>
<td>12</td>
<td>12</td>
<td>22</td>
<td>12</td>
</tr>
<tr>
<td><strong>Integrated system</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homepage integrated with other systems in the firm</td>
<td>31</td>
<td>39</td>
<td>17</td>
<td>10</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Data capturing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gathering of information about customers’ use of homepage</td>
<td>20</td>
<td>27</td>
<td>15</td>
<td>14</td>
<td>18</td>
<td>6</td>
</tr>
</tbody>
</table>

Note: 230 < n < 220
<table>
<thead>
<tr>
<th>Existing channels. H.1.</th>
<th>Information</th>
<th>Interaction</th>
<th>Integrated system</th>
<th>Data capturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>We do not want to compete with our dealers</td>
<td>-</td>
<td>-0.09 a</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Internet-based sales and marketing will lead to conflicts with our dealers</td>
<td>-</td>
<td>-0.20 c</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>The dealers will lose trust in us, if we start selling our products via the Internet</td>
<td>-</td>
<td>-0.21 c</td>
<td>-0.13 b</td>
<td>-</td>
</tr>
<tr>
<td>The dealers will find other products to sell, if we sell our products via the Internet</td>
<td>-0.11 b</td>
<td>-0.28 c</td>
<td>-0.16 c</td>
<td>-0.13 b</td>
</tr>
<tr>
<td>Sales via the Internet will decrease sales in our other channels</td>
<td>-</td>
<td>-0.15 c</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>We wait for our dealers to begin using the Internet for selling</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>We cooperate closely with our dealers</td>
<td>0.11 a</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>It will be difficult for us to replace our dealers</td>
<td>-</td>
<td>-0.15 c</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>If we start selling via the Internet our dealers will be unsatisfied</td>
<td>-</td>
<td>-0.24 c</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>It is important to us that our dealers are satisfied</td>
<td>-</td>
<td>-0.12 b</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: Kendall’s tau-b first order correlations; 209 < n < 224; Scales: The four functions were measured using a scale from 1=not considered to 6=successfully implemented. The other items used a five point Likert-scale: 1=totally disagree to 5=totally agree.

a: p<0.1  
b: p<0.05  
c: p<0.01
<table>
<thead>
<tr>
<th>Table 3: Technology, customers, competitors and dual channels</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Functions</strong></td>
</tr>
<tr>
<td>Information</td>
</tr>
<tr>
<td><strong>Technology: H.2.</strong></td>
</tr>
<tr>
<td>Our logistical systems are not suitable for Internet commerce</td>
</tr>
<tr>
<td>The cost of establishing Internet sales and marketing are high</td>
</tr>
<tr>
<td>The use of the Internet for sales and marketing will not lead to real improvements</td>
</tr>
<tr>
<td><strong>Customers: H.3.</strong></td>
</tr>
<tr>
<td>The users of our products want to be able to buy by use of the Internet</td>
</tr>
<tr>
<td>The market is ready for Internet commerce</td>
</tr>
<tr>
<td><strong>Competitors: H.4.</strong></td>
</tr>
<tr>
<td>Our nearest competitors have started using the Internet for sales and marketing</td>
</tr>
<tr>
<td>We feel pressured to use the Internet, because our competitors already use it</td>
</tr>
</tbody>
</table>

Note: Kendall’s tau-b first order correlations; 205 < n < 224;
a: p<0.1
b: p<0.05
c: p<0.01