

International Journal of Scientific Research and Reviews

Determinants of Continuity in b2b Channel Relationships

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ABSTRACT

The B2B marketing companies mainly follow conventional channels to distribute their products. The intermediary plays an important role in their business. The relationship between the intermediary and the company is expected to sustain long-term. The expectations of the channel partners in building long-term relationships have become the important study for researchers. The determinants of Continuity of relationships are developed from the literature on social exchange, bargaining and negotiation. The hypotheses are framed based on these determinants and the study is conducted on the channel partners of a B2B marketing company. The interdependence among the determinants along with the results reported on the role of these determinants on continuity of relationships supports the model, signifying the importance of channel relationships.

KEY WORDS: B2B Marketing, Determinants, Continuity, Channel Relationships, Long-term Relationships

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INTRODUCTION

Industrial marketing, also known as business to business (B2B) marketing, is a branch of sales and marketing that specializes in providing goods and services to other businesses, rather than individual customers. Because industrial marketing often involves large orders and long-term relationships between the producer and client, the process from first pitch to close of sale is often more complex than the process between a business and a private customer(B2C).

At its core, B2B marketing involves building valuable relationships to guarantee lasting customers -- an important goal for any company, whether a mega retail corporation or a smaller family-owned one.

- The B2B market is the largest of all the markets, and exceeds the consumer market in dollar value. The purchases made by businesses, government agencies and institutions make up more than half of all economic activity in the United States.¹
- A 2001 study found that the dollar value of B2B transactions significantly exceeded that of consumer transactions.²

With the increasing focus in B2B, the manufacturers and suppliers are reporting a change in the buyer-seller relationships. It is not unusual to see that the channel partners are looking to their suppliers to help them achieve a stronger competitive position. However, most firms overlook the sustainable competitive advantage that can be created through long-term relationships with their channel partners.

Market globalization and deregulation are intensifying competitive rivalry and motivating manufacturers to develop strategic advantages by establishing long-term relationships with channel members, as well as customers and suppliers.³

B2B channels (independent intermediaries) have historically been and continue to be the most common method of distributing goods and services⁴. Further, the usage of independents, such as manufacturers' representatives and distributors, is growing rapidly and is expected to continue⁵. However, control and coordination may be sacrificed when independent entities perform business activities. The development of long-term relationships is an approach to take the advantages like flexibility, scale economies, efficiency, and low overhead by utilizing independent channel members.

REVIEW OF LITERATURE

The degree to which a long-term relationship has been established with a channel member is reflected in the channel member's perception of the likelihood that the relationship will continue.

At the most basic level, a manufacturer cannot hope to garner the benefits expected from a long-term relationship unless the channel member is convinced the relationship is likely to last. Given the expectation of continuity, research indicates that independent channel members are more likely to be more responsive to the manufacturer's requests. Etgar 1976⁶, Arndt 1979⁷, Thorelli 1984⁸, Williamson 1985⁹.

DETERMINANTS OF CONTINUITY

Trust

We characterize trust as one party's conviction that its needs will be satisfied later on by activities attempted by other party. This definition is predictable with the accompanying definition utilized by Pruitt¹⁰ with regards to arrangement; trust is the conviction that the other party is likewise prepared to attempt coordinative activities. Trust assumes a basic part in the advancement of long-term relationships since here and now imbalances are inescapable in any relationship⁹. And no more essential level, one party must embrace activities before the other party and subsequently should depend on the other party to respect its dedication¹¹. In this manner any kind of coordinative conduct leaves parties in the relationship open to abuse. Through trust, parties in a relationship create certainty that, over the long haul, here and now imbalances will be redressed to yield a long-term advantage¹². Mutual trust is more probable than one-way trust. A channel partner is probably not going to have confidence in a manufacturer if the channel partner mistrusts it¹³.

Power Imbalance

Power is defined as the ability of one party to get (A) to get another party (B) to undertake an activity that B would not normally do. More formally stated, A's power over B is the difference between the probability of B's undertaking an activity without A intervening⁴. The concept of power can also be viewed in terms of dependency. When A is highly dependent on B, B is more powerful¹⁴. In a channel context, the availability of alternative distributors would reduce the producer's dependency on a distributor and thus contribute to its power over the distributor. Conversely, the availability of alternative suppliers would contribute to the distributor's power over the supplier.

While the effect of power is clear, the long term effectiveness of power as a control system has been addressed¹⁵. At the point when a power irregularity exists, the powerful channel partner will endeavour to abuse its favourable position and the low-control channel partner will wind up disappointed with the relationship¹⁶. In this manner, imbalanced channel relationships are described by less collaboration and more prominent conflict¹². This outcome is additionally found in

bargaining research¹⁰. Snyder and Diesing¹⁷, recommend that bargaining relationships move from focused to agreeable when a power balance is accomplished. Research on social exchange has likewise discovered that relationships adjusted as far as power is steadier than unequal relationships¹³. Along these lines, we propose that asymmetries in control constrain one channel partner to act in a way that isn't reliable with its financial advantages and rouses the channel partner to correct the imbalance.

Obviously, imbalance also happens when the channel partner overwhelms the manufacturer. At the point when this happens, the maker may likewise feel its financial advantages undermined, which risks the coherence of the relationship in the long haul. In this vein, Ford¹⁸ finds that in stable channels no member has enough energy to expect the "channel commander" role.

Communication

Improved two-way communication concerning plans, programs, desires, objective setting, and execution assessment is basic for settling debate and organizing activities⁷. Walton and McKersie¹⁹ underscore the requirement for unequivocal communication for accomplishing and checking integrative agreements and for keeping errors from emerging. Serious communication should prompt better educated parties, which in turn should make each party more positive about the relationship and all the more ready to keep it alive. Steady with this thinking, Rosson²⁰ found that new auto merchants considering which manufacturer to speak to depended vigorously on the availability of management to make their decision.

Stakes

The level of stakes alludes to the significance of the exercises engaged with the relationship to no less than one of the parties. At the point when a relationship is immaterial to the parties included (they have low stakes in the dyad), neither one of the parties will put much effort in the relationship¹². Because of an absence of effort, the parties will concentrate consideration on different openings Pruitt 1981¹⁰, Burgess and Huston 1983¹³, Scanzoni 1983²¹. Interestingly, if at least one party has huge stakes in the dyad, it will be propelled to focus on the relationship, along these lines improving the probability of continuation. It ought to be noticed that our conceptualization of stakes contrast from reliance.

Reputation

Manufacturers build up a reputation among channel partners concerning whether they "play fairly". Their reputation decreases the all the more as often as possible they end relations and suitable productive records and domains Research Institute of America 1975²². Regularly such makers set

unimaginably exclusive requirements for their channel partners. Also, in that capacity of demanding, they have a tendency to be disappointed and inclined to change channel member. Thus, their relationships with channel members can be expected to destabilize and eventually end.

Age of Relationship

Channel relationships can show notable inactivity. Relationships that have endured quite a while will probably proceed than relationships that are more youthful on the grounds that after some time alterations are made, unsuitable and unalterable dyads end, and the surviving dyads accomplish a high level of fit. This outcome over and over again happens in investigations of the sustenance of marriages¹³.

THEORETICAL FRAMEWORK

The theoretical framework shown in Fig.1 extends prior research on channel relationships by incorporating behavioral research on social exchange, bargaining, and negotiations. The model indicates that the continuity of a channel relationship, as seen by the channel member, is a function of the following:

1. Trust between the parties
2. Imbalance of power
3. Communication between parties
4. Stakes in the relationship
5. Manufacturer's reputation for "fair play"
6. Age of the dyad

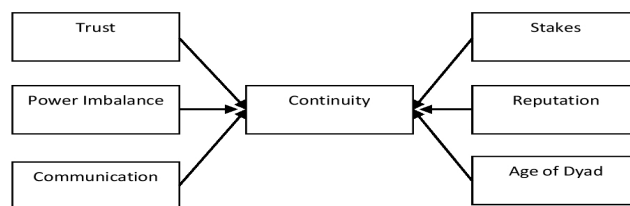


Fig.1: Determinants of Continuity

METHODOLOGY

The objective of the study is to determine the determinants of continuity in B2B channel relationships.

Based on the preceding arguments, the study is conducted with the following hypotheses:

H0: The continuity of a channel relationship will not increase as:

- the level of trust between the channel member increases.
- the power in the relationship becomes more balanced.
- communication between the channel member increases
- stakes in the relationship increase.
- the manufacturer's reputation for fairness to channel members improves.
- the relationship persists over time.

H1: The continuity of a channel relationship increases as:

- the level of trust between the channel member increases.
- the power in the relationship becomes more balanced.
- communication between the channel member increases
- stakes in the relationship increase.
- the manufacturer's reputation for fairness to channel members improves.
- the relationship persists over time.

The channel members selected for this study are the independent channel members of a B2B company. These channel members sell the products of multiple manufacturers' Anderson 1985¹⁶. Their set of principals provides complimentary rather than competing products, which they promote and gain the commission. The selected company is the highest turnover making company in the industry in the selected state in India. The company has got around 40 stockists (Channel members) in the state. All of them are taken for study, but only 37 have responded to the questionnaire send through their respective business head.

ANALYSIS AND INTERPRETATION

The data was analysed using IBM Statistics Version 25. The scale was developed to measure the determinants of continuity. The channel partners were asked to evaluate these hypothesised seven items on a series of seven point bi-polar scales. The Cronbach Alpha (Table-1) for these seven items was 0.713. An inspection of the data analysis (Table-2) indicates that the scale reliability can be improved by eliminating Age of the Dyad. Since the Alpha value is in the acceptable region, the test was conducted with all the determinants in place.

The descriptive statistics (Table-3) shows that the continuity of relationship (Mean value of 1.57) cannot likely to last if it is not properly addressed. The B2B organizations which are mainly dependent on these channel partners needs a serious evaluation of these determinants and take

remedial actions in maintaining the continuity of relationships. The manufacturers can expect more positive response Etgar 1976⁶, Arndt 1979⁷, Thorelli 1984⁸, Williamson 1985⁹ only if the continuity of relationship is assured. This mean value supports strongly the importance of research on relationship continuity.

Table-1: Reliability Statistics

Cronbach's Alpha	N of Items
.713	7

Table-2 :Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Age	22.38	28.742	.278	.719
Stakes	22.27	25.647	.491	.663
Continuation	24.57	27.252	.434	.678
Trust	21.27	27.592	.422	.681
Communication	20.86	28.898	.412	.685
Imbalance	22.16	28.029	.341	.702
Reputation	23.30	24.881	.614	.631

Table-3: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Age	37	1	7	3.76	1.498
Stakes	37	1	7	3.86	1.512
Continuation	37	1	7	1.57	1.385
Trust	37	2	7	4.86	1.357
Communication	37	2	7	5.27	1.170
Imbalance	37	1	7	3.97	1.462
Reputation	37	1	7	2.84	1.405
Valid N (listwise)	37				

The results are, in general, are in accord with the hypothesized relationships. The estimated results are reported in the Table-4. The determinants and their interdependence are discussed and the model is developed based on the following observed parameters.

Trust: Trust is the basic part in the long-term relationships Williamsom 1985⁹. It is observed that trust has got positive impact (0.024) on the stakes they hold in the relationship. Trust is also seen

improving with strong communication (0.002). The channel partner is interested to enhance the stake in the relationship if the communication is strong.

Power imbalance: The more the power imbalance, the more the channel conflicts Dwyer, Schurr and Oh 1987¹². The mean value (3.97) suggests that the channel partners are more powerful. And this imbalance is positively impacted by Age of the Dyad (0.013) and the Stakes (0.027) they hold in the relationship. The means of Age and Stakes suggests, there could be strong correlation together on Power imbalance.

Table-4: Correlations

		Age	Stakes	Continuation	Trust	Communication	Imbalance	Reputation
Age	Pearson Correlation	1	0.194	0.109	0.12	-0.009	.403*	0.218
	Sig. (2 - tailed)		0.251	0.523	0.479	0.958	0.013	0.194
	N	37	37	37	37	37	37	37
Stakes	Pearson Correlation	0.194	1	0.17	.370*	0.257	.363*	.447**
	Sig. (2 - tailed)	0.251		0.314	0.024	0.125	0.027	0.006
	N	37	37	37	37	37	37	37
Continuation	Pearson Correlation	0.109	0.17	1	0.323	.348*	0.172	.534**
	Sig. (2 - tailed)	0.523	0.314		0.051	0.035	0.308	0.001
	N	37	37	37	37	37	37	37
Trust	Pearson Correlation	0.12	.370*	0.323	1	.496**	0.026	0.294
	Sig. (2 - tailed)	0.479	0.024	0.051		0.002	0.878	0.077
	N	37	37	37	37	37	37	37
Communication	Pearson Correlation	-0.009	0.257	.348*	.496*	1	0.021	.467**
	Sig. (2 - tailed)	0.958	0.125	0.035	0.002		0.904	0.004
	N	37	37	37	37	37	37	37
Imbalance	Pearson Correlation	.403*	.363*	0.172	0.026	0.021	1	0.255
	Sig. (2 - tailed)	0.013	0.027	0.308	0.878	0.904		0.128
	N	37	37	37	37	37	37	37
Reputation	Pearson Correlation	0.218	.447**	.534**	0.294	.467**	0.255	1
	Sig. (2 - tailed)	0.194	0.006	0.001	0.077	0.004	0.128	
	N	37	37	37	37	37	37	37
* Correlation is significant at the 0.05 level (2-tailed)								
** Correlation is significant at the 0.01 level (2-tailed)								

Communication: Strong two-way communication is very important in all business scenarios like goal setting. Communication has got positive bearing on continuity of relationships (0.035).

Communication also improves Trust (0.002) and reputation (0.004) of the company. The results strongly support the importance of communication in B2B transactions.

Stakes: If there is no stakes, none of the parties involved in the relationship are interested to continue the relationship Dwyer, Schurr and Oh 1986¹². This is strongly proved in this study. Stakes got positive impact on Trust (0.024), Power Imbalance (0.027) and Reputation (0.006). If the reputation of the manufacturer is strong in the way it deals with its channel partner, there is a strong likelihood that that channel partner wants to improve his stakes.

Reputation: The decrease in reputation of the manufacturer may affect the relationship with its channel partner Research Institute of America 1975²². This study strongly supports this argument, showing a strong relationship between Reputation and Continuation (0.001). If the reputation is not strong, it may affect the stakes (0.006) and will strongly impact two-way communication (0.004).

Age of Dyad: The surviving relationships will have a high level of fit Burgess and Huston 1983¹³. The age of dyad has got positive impact on the Power imbalance. This has to be taken as a positive aspect and should not be neglected, thinking that this relationship continues.

The null hypotheses which are formulated based on the above theoretical framework (Fig.1) are tested and the results are tabulated as following.

H0: The continuity of a channel relationship will not increase as:

the level of trust between the channel member increases	Partially Rejected
the power in the relationship becomes more balanced	Accepted
communication between the channel member increases	Rejected
stakes in the relationship increase	Accepted
the manufacturer's reputation for fairness to channel members improves	Rejected
the relationship persists over time	Accepted

MANAGERIAL IMPLICATIONS

Manufacturers involved in B2B marketing who are interested in solidifying channel ties by other means can do so by improving the level of trust in their channel relationships. This can be heightened by enhancing quality communication. They need to establish effective two-way communication with their channel partners. Especially the frontline sales people, who are in direct contact with the channel partners, should be cautious in answering all queries in time and by leveraging with their higher authorities' should help in providing desired information in time. Manufacturers past behaviour also seem to affect strongly their current relationships. A negative history with other channel partners would indirectly destabilize the dyad. Manufacturer's should seriously look at their acts such as repeatedly replacing agents and encroach on the channel partners

business. This kind of activities which affect their reputation should be dealt with their future relational dyads in mind. The model presented in Fig.2 can be used as a tool in understanding the interdependence of the determinants in establishing continuity.

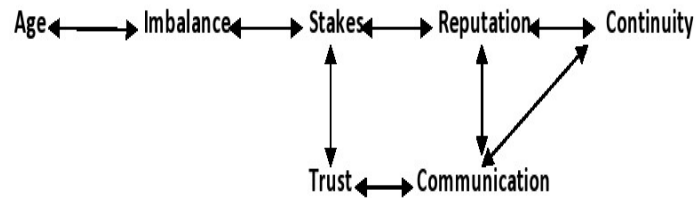


Fig.2: Relationship Dyad

CONCLUSION

The manufacturers wishing to create long-term relationships within B2B marketing channels can do so by avoiding in building poor reputation for treatment of channel partners. They should improve relationships with at least one party in each location who is raising the stakes in the dyad. This can be done by cultivating an environment of trust, which in turn, is enhanced by congruent goals, a good reputation, and good communication. Communication can be facilitated by competent personnel. Normally the importance of human relations in business dealings are overlooked or downplayed. However, from the channel member point of view, personal touch should be treated as an important thing in creating and sustaining relationships.

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