

Internet Retailing: The Future of Branded Apparel Companies

Intentional and Unintentional Approaches that can Minimize
Channel Conflict

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<p>Abstract:</p> <p>The fast growth of online marketing and the expanding role of the Internet in consumer business and procurement have led to an increase in multi-channel retailing. It has given companies a possibility to access the consumer directly and build relationships that have been unattainable until now. This has led the action sport and streetwear apparel industries to shift their conventional supply chains towards multi-channel sales systems with direct online sales channels. This shift in the relationships can easily make resellers question the goals and intentions of the manufacturer and thereby cause channel conflict.</p> <p>This thesis seeks to explore today's situation and to get an idea about reasons behind their decision to begin direct sales. It also tries to identify intentional or unintentional actions manufacturers have taken to integrate channel partners and thereby minimize channel conflict within their traditional supply chain. The research is based on an exploratory; evidence based qualitative research strategy, conducted through observations and a survey. Four companies (out of 43) responded on the survey and the results are therefore strongly based on the observations and reflection of relevant literature presented in the theory section, gathered from books, trade journals, reports and several online sources. The results show that 58 % (25/43) of the investigated brands have direct online sales. The main reason for selling online is that the end-consumers are using the Internet as a research area before purchase and there they typically see the complete collections through manufacturers lookbooks. With the resellers only offering a limited amount of these collections, the manufacturers have to present and offer it themselves to ensure growth and a strong brand image. With only 28% (7/25) out of the brands offering direct online sales, showing some promotion of the indirect sales channels, the level of integration is proven little and reasons for conflict quite evident.</p>	
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<p>Sammandrag:</p> <p>Online marknadsföringens snabba tillväxt och Internets allt starkare roll i handeln med konsumenter och anskaffningen av nya konsumenter har lett till en ökning av flerkanalig återförsäljning. Detta har gett företag en möjlighet att nå konsumenten direkt och bygga relationer som förut har varit oåtkomliga. Detta har i sin tur lett till att företag som tillverkar så kallade actionsport- och streetwear- kläder har börjat ändra sin sedvanliga leveranskedja till ett allt mer mångfasetterat försäljningssystem med försäljningskanaler på Internet där de når konsumenten direkt. Denna förändring i relationerna kan lätt få återförsäljare att ifrågasätta producenternas mål och mening och leda till konflikter i försäljningskanalen.</p> <p>Utgångspunkten för denna avhandling är att undersöka hur situationen är idag och att försöka ta reda på orsakerna bakom producenternas val att börja med direktförsäljning. Jag försöker även identifiera avsiktliga och oavsiktliga handlingar som producenter har tagit för att integrera kanal kompanjoner och på så vis minimera kanalkonflikter inom deras traditionella återförsäljningskanal. Undersökningen baserar sig på en kvalitativ undersökningsstrategi som är gjord med ett frågeformulär och observationer av företagens webbsidor. Fyra företag (utav 43) svarade på enkäten och resultaten baserar sig därför i stor mån på de ovannämnda observationer, och den övriga relevanta information som presenteras i teori delen och har hämtats ur böcker, tidskrifter, undersökningar och ur ett flertal källor på Internet. Resultaten visar att 58 % (25/43) av de undersökta varumärkena har direktförsäljning på Internet. Den största orsaken för producenten att sälja direkt till konsumenten på nätet är att den slutliga konsumenten använder Internet som en undersöknings plattform före köpet och där ser det oftast de kompletta kollektionerna i producentens kataloger. Eftersom återförsäljaren oftast presenterar en begränsad del av dessa kollektioner, måste producenten själv presentera och erbjuda den, för att försäkra sig om fortsatt tillväxt och en stark varumärkes image. Av de företag som erbjuder direkt försäljning till konsumenter, har endast 28 % (7/25) av företagen någon form av promotion gällande deras indirekta försäljningskanaler. Integrationsnivån visar sig således vara liten och orsakerna till konflikt rätt uppenbara.</p>	
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CONTENTS

1	INTRODUCTION	6
1.1	Background	6
1.2	Research Problem	7
1.3	Delimitations	7
1.4	Disposition of the thesis	7
2	THEORY	9
2.1	Multi-Channel Distribution	9
2.1.1	<i>Indirect Sales Channels.....</i>	<i>9</i>
2.1.2	<i>Direct Sales Channels</i>	<i>10</i>
2.2	Internet as a Direct Sales Channel.....	11
2.3	Channel Integration	13
2.4	Benefits of the Internet and Integrated channels for Buyers	15
2.5	Benefits of the Internet and Integrated channels for Manufacturers	16
2.6	Channel Conflict	18
2.6.1	<i>Types of Channel Conflict</i>	<i>18</i>
2.6.2	<i>Reasons behind Channel Conflict</i>	<i>18</i>
2.7	Managing Channel Conflict	19
2.7.1	<i>Product Selection Approaches that Minimize Channel Conflict</i>	<i>19</i>
2.7.2	<i>Pricing Approaches that Minimize Channel Conflict</i>	<i>20</i>
2.7.3	<i>Promotion, Branding and Marketing Approaches that Minimize Channel Conflict</i>	<i>22</i>
2.7.4	<i>Communication Approaches that Minimize Channel Conflict</i>	<i>25</i>
3	RESEARCH QUESTIONS AND FRAME OF REFERENCE	26
3.1	Research Questions	26
3.2	Frame of Reference	27
4	METHODOLOGY	29
4.1	Research Purpose	29
4.2	Research Approach and Strategy	29
4.3	Description of Population and Sample	30
4.4	Reliability and Limitations	31
5	EMPIRICAL RESEARCH	32
5.1	Introductory	32
5.2	Reasons to Go Online	33
5.3	Online Strategy	33

5.4 Product Approach.....	34
5.5 Price Approach.....	35
5.6 Promotion Approach.....	36
5.6.1 Dealer Locators	37
5.6.2 Link to Retailer on Product Level	39
6 ANALYSIS	42
6.1 Analysis of Reasons to go Online	42
6.2 Analysis of Product Selection Approach that can Minimize Channel Conflict	42
6.3 Analysis of Pricing Approaches that can Minimize Channel Conflict.....	44
6.4 Analysis of Promotion Approaches that can Minimize Channel Conflict	45
7 CONCLUSION AND DISUCSSION	47
7.2 Limitations	48
7.3 Future Research.....	48
References	49
Appendices	52
1 Survey questions and summary.....	52
2 Sample.....	54

Figures

<i>Figure 1 Disposition of thesis.....</i>	<i>8</i>
<i>Figure 2 Illustrated example of a multi-channel distribution system</i>	<i>10</i>
<i>Figure 3 The Internet impacts all activities in the value chain (Jelassi & Enders 2005 p.107)</i>	<i>12</i>
<i>Figure 4 E-mail survey questions</i>	<i>27</i>
<i>Figure 5 Online activities</i>	<i>32</i>
<i>Figure 6 Price Approach - Discounts</i>	<i>36</i>
<i>Figure 7 Billabong Store locator</i>	<i>38</i>
<i>Figure 8 Altamont 'Product-to-Product linkage'.....</i>	<i>40</i>
<i>Figure 9 Volcom 'DOS-P2P'</i>	<i>40</i>

Tables

<i>Table 1 Conceptual and operational definitions of approaches to manage and minimize channel conflict. (Developed by the author, based on Bengtsson 2007).....</i>	<i>28</i>
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1 INTRODUCTION

This chapter presents the background to the research problem, which this thesis seeks to explore. It will also explain the delimitations and provide an overview of the disposition of the thesis.

1.1 Background

The growth of multi-channel retailing is a result of the fast growth of online marketing and the expanding role of the Internet in consumer business and procurement. It has given companies a possibility to access the consumer directly and build relationships that before been unattainable. The manufacturers have to be prepared to serve the modern impulsive shopper on every level, any time of the day.

This has led the actionsport and streetwear apparel industries, along with many other industries, to shift their conventional supply chains towards multi-channel sales systems with direct online sales channels. The new distribution channel can through the disintermediation it causes, potentially change the relationship between manufacturers and resellers (here on referring to all indirect channel partners). While it reduces the manufacturer's dependence on the retailer and lowers the pricing inefficiencies, it will simultaneously increase tension between sometimes already strained manufacturer-retailer relationships. (Kumar & Ruan 2006, pg.291) This shift in the relationships can easily make resellers question the goals and intentions of the manufacturer and thereby cause channel conflict.

According to the multi-channel loyalty framework by Wallace et al. (2004, cited in Yan, 2008), greater service outputs provided by the multi-channel retailers lead to greater customer satisfaction, which in return results in greater customer loyalty. Even though his model concerns retailers, it is well applicable for the 20th century manufacturers who often have their own bricks-and-mortar stores, direct online stores and distribution through wholesalers. This idea however demands some level of integration and cooperation between the channel partners instead of the conflict mentioned earlier. While most major manufacturers have established their presence on the Internet there is a significant variation in the level of their online strategies and especially their channel integration.

1.2 Research Problem

This research tries to confirm the suspicion that more and more manufacturers have begun approaching the end-consumer directly, through online sales. As the reasons behind their decisions to do so haven't been investigated much, the goal is to find an understanding of this and at the same time observe their online strategies. As mentioned in the previous section, these actions have been known to irritate existing channel members and the researcher is therefore interested in looking at actions taken in their online strategies to minimize this possible channel conflict, be it intentional or unintentional actions. Bringing these issues to life is according to the researcher imperative in order to remain trust between the 'normal' channel members. Both in order to remind the manufacturer to not be naïve in their online strategies and to let resellers know that they too can benefit from this as long as both parties communicate and support each other.

1.3 Delimitations

This research will only touch the surface of a very large topic. It will mostly serve as an introduction to the topic in connection to the actionsport/streetwear industry, which is a sensitive business where relationships are of great importance. While the researcher will analyze the replies on the survey as an unbiased third party, the observations on the other hand, will be affected by her almost four year relationship to the industry as a sales representative and brand manager for a distribution company. The *Conclusion* will present areas, which the author feels will need more research in order to present the whole topic.

1.4 Disposition of the thesis

The first chapter acts as an introduction to the research area and an explanation of the research problem. The second chapter presents the theoretical background to the topic and provides the reader with a better understanding of the issues being discussed. Chapter three describes the research question and frame of reference in more detail and chapter four gives the reader deeper insight of the methodology. The empirical data is presented in chapter five and analysis of it, in chapter six. The research paper ends in chapter seven with a conclusion and final discussion.

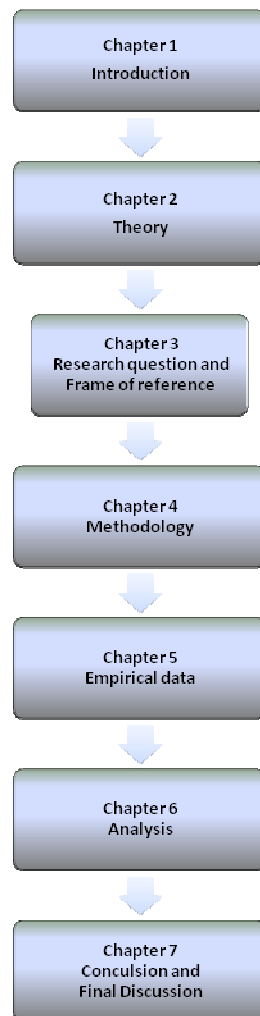


Figure 1 Disposition of thesis

2 THEORY

In this chapter we will begin by presenting concepts concerning multi-channel distribution systems, describe the Internet as a branded direct online sales channel and finish by presenting concluding theories about how to minimize channel conflict.

2.1 Multi-Channel Distribution

Distribution channels today come in every size and form. Distribution defined, is a pipeline through which goods and services flow between manufacturer and consumer and the profits generated, in return flow back in the opposite direction. These channels can be short or long consisting of many or no intermediaries, i.e. any other partner in the chain aside from the manufacturer and the end-consumer (businessdictionary.com) The words *manufacturer* and *producer* are often used interchangeably but the author prefers to use *manufacturer* despite the fact that many of the branded companies no longer perform any production themselves.

Multi-channel distribution systems are something which has become increasingly common within the past years as consumers growing demand for high-quality products; better service and faster time-to-market have forced manufacturers to rethink their distribution channels. Webb (1997, p.39) describes the multi-channel concept as an arrangement where distribution is executed by a combination of channels; direct and indirect. According to the multi-channel loyalty framework by Wallace et al. (2004), cited in Yan (2008 p.49), greater service outputs provided by the multi-channel retailers lead to greater customer satisfaction, which in return results in greater customer loyalty. Even though his model concerns retailers, it is well applicable for the 20th century manufacturers who are serving the customers through their own bricks-and mortar stores, online stores and normal distribution through wholesalers and agents.

2.1.1 Indirect Sales Channels

Indirect sales channels are represented by what could be called the ‘traditional’ sales channels. These are wholesalers, agents and representatives that work as intermediaries in the flow of getting the product or service from the manufacturer to the end-consumer.

2.1.2 Direct Sales Channels

Direct sales channels are the manufacturer's chance of building direct relationships with the end consumer. These relationships are crucial for the manufacturer to be able to stay in the game at a time when consumers want high quality service which the manufacturer can't guarantee through indirect sales. As seen in Figure 2, one level in the distribution system is skipped when selling direct. This decreases time-to-market, offers greater margins and provides the manufacturer a possibility to affect both the product assortment on the market, and the service quality. Direct sales channels also provide the possibility for manufacturers to redefine their missions and create new innovative ways to meet increasingly demanding and changing market conditions (Van Goor 2001 p.1).

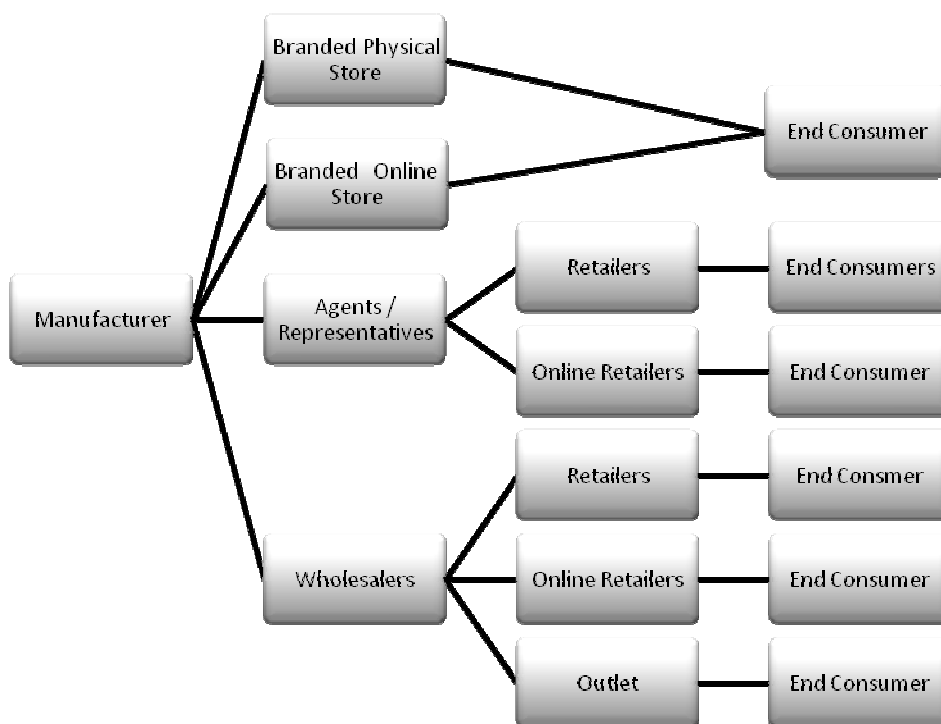


Figure 2 Illustrated example of a multi-channel distribution system

2.2 Internet as a Direct Sales Channel

With the open market that the internet provides, the bargaining power has been shifted to the consumer. Products have become closer and more obtainable than ever. This is why manufacturers have to cut the regular supply chain and go straight to the end-consumer to not miss a single cent. The manufacturers have to be prepared to serve the modern impulsive shopper on every level, any time of the day. They can accomplish this through e-commerce, i.e. online sales. (Jelassi & Enders 2005 p.69) Here on, the term *e-commerce* and online sales (sales over the World Wide Web) will be used interchangeably. A good explanation of *e-commerce* is that it allows companies and individuals to trade goods and services through a public, virtual market space (Shirland 2000 p.2).

Webb (2000 p.96) states that despite the fact that internet as a marketing channel, is quite capable of replacing conventional distribution channels in regards of communicating and conducting transactions, it will however never be able to provide for the physical involvement a bricks-and-mortar store can offer and which a tangible good, like apparel, often needs. Still, the channel has reduced the leverage of intervening companies and brought forth a trend towards disintermediation i.e. cutting out the middleman. But, as mentioned prior, due to the fact that the bricks-and-mortar stores still provide an important option to online shopping, the manufacturer has to try to also please or incorporate the traditional channels in its new ventures or otherwise face *channel conflict* (*channel conflict* will be discussed later in part 2.6 in this *Theory* section).

During the difficult economic times that the industry finds itself in, when companies have to do more with less, internet provides a great channel whereby to concentrate activities. Despite the fact that setting up an online channel is a time-consuming process which demands support from all departments of a company, it will in the end demand less sales force, an inexpensive way to store vast amounts of information, ability to provide information and demand, improve internal logistics but also improve possible business-to-business systems, create perceptual experiences and interaction with customers. Simultaneously, although mediating numerous transactions, online sales chan-

nels are known to have rather low entry and setting up costs for sellers. (Peterson et al. 1997 cited in Goldkuhl 2005 p.2)

Jelassi and Enders (2005 p.107) figure “*The Internet impacts all activities in the value chain*” clearly shows how the Internet can serve all aspects of a traditional distribution and *value chain*, and in many cases optimize the activities. *Value* refers to the difference between the consumer’s perceived value obtained through a product and the manufacturer’s cost of providing that product. Figure 3 is a slightly modified version of Jelassi’s and Enders’ model.

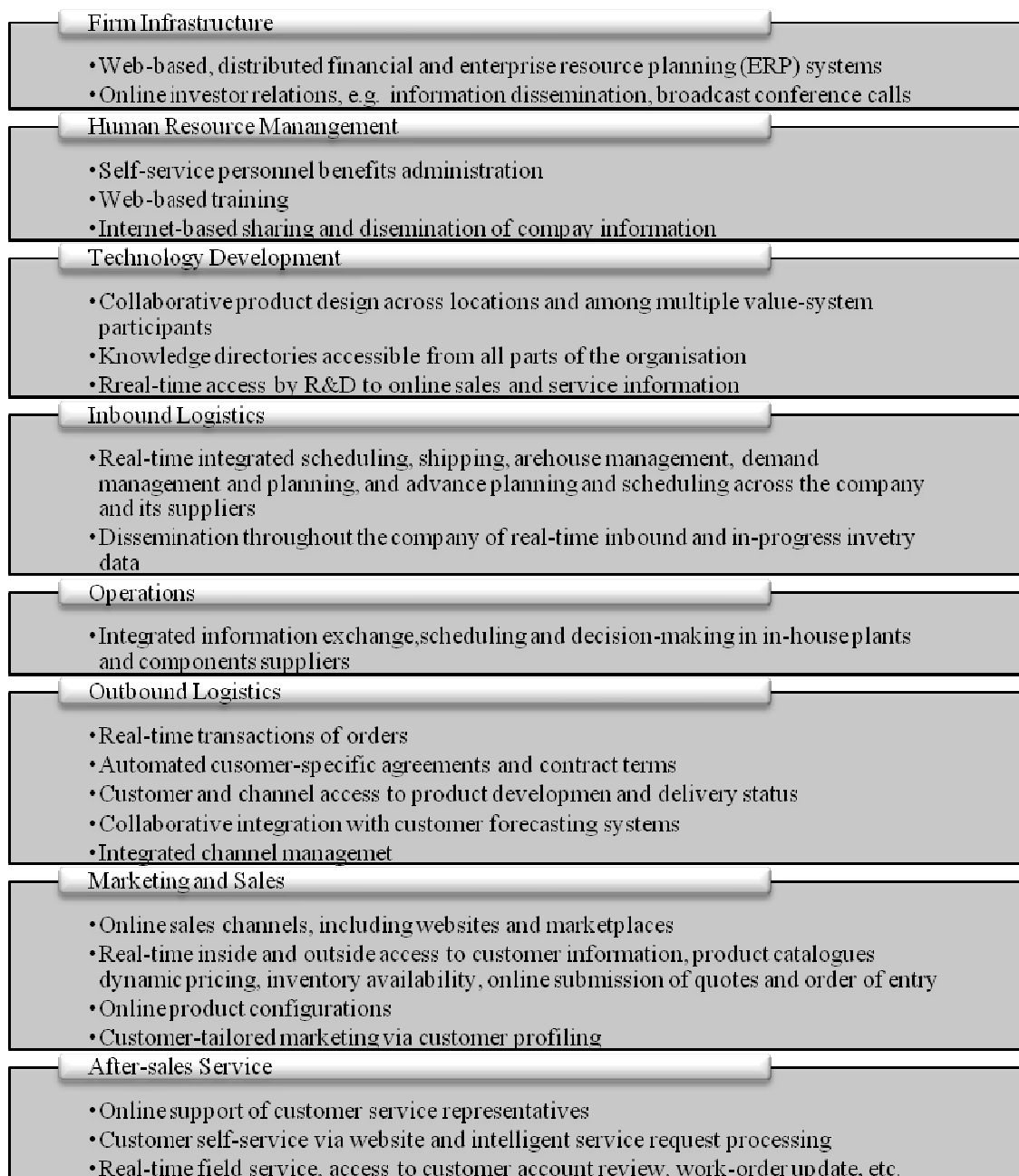


Figure 3 *The Internet impacts all activities in the value chain* (Jelassi & Enders 2005 p.107)

2.3 Channel Integration

Integration itself means joining two or more objects in order to make them work well together as a larger whole (Encarta.msn.com/dictionary). This is exactly what the point with channel integration is in multi-channel distribution systems: to work together in serving the customer. In order to explain the complete meaning of channel integration, the word *fulfillment* also needs to be explained.

Order *fulfillment* does not only stand for shipping the product to the end consumer but actually the whole process related to purchase. It includes receiving products from vendors, managing warehouse inventories, answering customer questions through call centers, processing online orders, picking product from inventory, packaging the product and then arranging for shipping and handling mail returns. This means that it is no longer just an afterthought of purchase but a critical component in serving the customer and fulfilling the purchase order in a way that will assure repeated business. (Gartner & Stillman 2001 p.423) This accounts for both online- and over the counter sales. In the latter, the shipping is simply shorter as it, as the name says, is handing the product over the counter.

How channel *integration* relates to *fulfillment* is that it builds relationships between channel partners through which they can together improve the completion of the fulfillment activities and thereby increase customer satisfaction and also increase profits. Fitzpatrick (2005) explains the importance of integration well when she says that for most customers, the event of choosing a purchasing channel is entirely situational. Depending on if it's an urgent need or a more research based urge, the customer will approach the situation completely differently and use different channels depending on convenience in that situation. Forrester Research (cited in Shopatron.com 2009) claims that 58% of shoppers begin their product research on the manufacturer website, if they are convenience oriented, they will also purchase online. Several consumers on the other hand typically need to touch-and-feel, try on and actually see the product before purchasing so through integration and for example in-store-pick up possibilities, the manufacturer is able to reach also this consumer segment while at the same time helping to increase foot-traffic and sales for the retailer. Supporting this, Jupiter Research (cited in Fitzpatrick 2005) claims that 43% of Internet users buy products from a retailer's offline store after viewing them on the seller's Website. This is quite different from the normal

perception of retailers, who feel that customers come and try on products at their store and then buy them online.

As mentioned above, a manufacturer can earn more profits from their branded online store if retailer-integration is part of their fulfillment strategy. This also makes the existing partners feel important and not left outside. Partnering with retailers can be done on at least three different levels; 100% retailer fulfilled, retailers fulfill some of the orders or through *in-store pickup* which is becoming increasingly popular. (Shopatron.com 2009)

By partnering up with the retailers, the manufacturer saves a lot of sweat because now their direct sales can no longer be seen as a threat but as support, and an opportunity for the retailers to increase sales volume and profits. Any promotion campaign done for the branded online store will have a positive relation and subsequent impact for retailer's sales. As convenience is key to any successful online business, in-store pickup should be adapted at any time possible. The benefits of using in-store pickup is that it brings consumers to the indirect brick-and-mortar stores, which otherwise might never have set their foot there. This also creates an opportunity for up-selling and brand development. According to Shopatron, it has an impressive impact on in-store sales and they state that out of their over 200 online stores that provide in-store pickup, the increased sales rate is over 25%. This delivery option has been a success with shoppers as it eliminates shipping fees, but it also increases convenience and a feeling of security as they can return the product to the store. As a bonus for the manufacturer, it has also had a positive impact on conversion rates. (Shopatron.com 2009)

According to Shopatron (2009), there are two ways by which retailer-integrated e-commerce can leverage the manufacturer's relationship to the retailer:

1. *Retailers stock more inventory to win a larger percentage of the manufacturer's online store orders.*
2. *A large percentage of customers enjoy the convenience of shopping online but the security of picking up the delivery in a store. This increases conversion rates by 10 to 15%.*

Supporting the previous statement, the following results were reached after a European Technographics© Benchmark Survey (Q2, 2009 cited in Shopatron.com 2009). As part

of the survey, consumers were asked why they had bought a product in a store after researching it online. As much as 57% said they wanted to see/touch/feel the item before buying it, 28% stated they didn't want to pay shipping costs and 27% knew it would be easier for them to return the product if they'd bought it from a physical store. Only 9% felt it wasn't convenient for them to have the product delivered to them and this supports the popularity of in-store pickup.

Some companies can conversely be afraid of cross collaborating with channel partners and feel this can be a source for channel conflict. Questions naturally arise regarding division of sales profits, who has the right to fulfill orders and from what inventories, but with good leadership and planning from senior management together with the retailers, this all can be solved. Good training, learning from previous cases, not promising too much to the customer in the start, as inventory management and response time from employees might be longer in the beginning, can all help in making channel integration a smooth process. With practice, in-store pickup will become a smooth operation, which benefits all parties; the online store benefits from increased conversion while the retailer benefits from increased foot traffic and in-store sales. As long as all parties know what their individual benefits are and that they need to prioritize the program once it's set off, the business opportunity should be clear and channel conflict avoided. (Shopatron.com 2009)

2.4 Benefits of the Internet and Integrated channels for Buyers

Multi-channel systems, especially those consisting of direct online stores and integrated channel systems can help in ensuring a positive and memorable customer experience. It provides the end-consumer with 24/7 complete product assortments, service possibilities and trustworthiness, which is especially important in e-commerce.

Building trust can be difficult for a pure online retailer but for a well-established manufacturing company with multiple channels, this is not a problem. The customer knows that there is a physical store she/he can go to in the case that problems arise.

The internet further creates a market space in which it is easier to compare products but also to find product reviews. Product reviews can help customers feel secure when thinking about purchasing a product. Research suggests that 70% of customers trust what a brand has to say about a product but as many as 83% say that online product re-

views made by other customers, influence their purchasing decision even more. (Shopatron.com 2009)

It is especially the store loyal consumers who benefit most of channel integration and in-store pick-up possibilities. She or he feels safe knowing that it is possible to return the product at the store without major effort and appreciates the fact that she can get instant satisfaction out of the product in relation to online sales where shipping takes time. It can be assumed that sales effort and support by the retailer affect the number of store loyal customers that buy the manufacturer's brand. (Kumar & Ruan 2006 p.297)

Brand loyal consumers on the other hand have a strong inclination for the manufacturer's brand and would not be seen wearing a rival brand. They will, in the absence of a direct online channel purchase from the closest available store but shift their purchases online in the case that a branded online store opens. They do so because of convenience as long as the difference between Internet price and retail price isn't too large, but this way they are also capable of creating a stronger relationship to the brand. (Kumar & Ruan 2006 p.298) The customer can also minimize switching costs on the internet since switching to another online store is only a few clicks away.

2.5 Benefits of the Internet and Integrated channels for Manufacturers

As 21% of consumers that visit manufacturers websites come with the intention to purchase, manufacturers need to direct this demand someplace or risk losing it to competition. (Forrester Research cited in Shopatron.com 2009)

Selling direct to customer through an online channel will enhance customer knowledge and help manufacturers understand the inclination and buying habits of their customer base (Digitalriver.com 2000). By creating strong customer relationships, it will be more likely that the customer becomes brand loyal and appreciates the product offerings in such a way that the customer won't even switch to competitors, despite cheaper prices or better terms. Relationship-oriented service companies are in fact receiving greater overall returns on investments, than transaction-oriented firms are (Kumar 1999, cited in Zeithaml et al. 2001 p.184-185)

Some researchers also suggest that retaining customers can drive down marketing costs as much as 90%. The argument for this is that established brand loyal customers will seek out the product with-or-without intense marketing. Service costs can also be driven down since established customers are familiar to the terms of agreement and the site's functions in general, which means that they won't be calling up the help desk as often as new customers will. (Dhar & Glazer 2003, cited in Zeithaml et al. 2001 p.184-185)

By promoting the indirect channels through the direct channel and by using integrated fulfillment strategies, the manufacturer can share the retained customers with the retailers. This will diversify the retailer's normal customer-base and increase foot traffic while creating common objectives throughout the distribution system.

As Digital River writes in its whitepaper "Managing Channel Conflict in the Online Environment", traditional Internet solutions weren't designed with manufacturers in mind but instead for retailers with direct sales strategies. They are however one of the companies that today offers solutions, which are especially designed in order to help manufacturers improve channel efficiencies. They say that the solutions help when companies want to market via both direct and indirect channels, through providing a system that delivers a single online buying point that function seamlessly between multiple partners. Quoting Digital River 'these solutions help manufacturers leverage the power of their channel partners and help new intermediaries bring e-commerce efficiency to traditional distribution channels. (Digital River 2000)

Improved inventory management and visibility across channels can also reduce the chance of inventory stockpiles across channels even though many manufacturers typically maintain separate inventories for their direct and indirect channels. Trying to ensure that the demands of both channels are met can result in surplus inventory and this means that the online store sometimes runs out of products even though the other part of the manufacturer's warehouse is stocking the exact same things. By integrating the channels so that retailers can fulfill online orders, these barriers can be broken and stock utilized to its full power. This allows in-store inventory to turn faster and removes the need to carry inventory overload across channels as it allows the online store to sell products that otherwise might only be available in stores and vice versa. (Shopton.com 2009, Digital River 2000)

2.6 Channel Conflict

With a trend that steers the industry towards multi-channel distribution and disintermediation, conflict is viewed to be inevitable because of the natural differences in the perceptions and goals of partners in the new supply chains. (Webb 2002 p.96) Merriam-Webster.com defines conflict as a “*mental struggle resulting from incompatible or opposing needs, drives, wishes, or external or internal demands*”; this definition will be reinforced in the following text.

2.6.1 Types of Channel Conflict

Channel conflict due to multi-channel sales systems don't always arise only between external partners but it can also arise within a company, internally. The sales force, distribution group and internet channel might all have different ideas about pricing, inventory, product lines and marketing activities. Webb (2002 p.98) states that as this might be inevitable it should not be apparent for the customer, not the end-customer or the indirect channels. This thesis will however not focus on resolving internal conflict but concentrate on the external conflict between channel partners.

2.6.2 Reasons behind Channel Conflict

The new distribution channel which we refer to as a direct online channel, can according to Jeuland and Shugan (1983), as cited in Kumar and Ruan (2006) change the relationship between the traditional partners, i.e. manufacturer, wholesaler and retailer as it reduces the manufacturer's dependence on the retail channel and evens-out the insufficiencies that exist because of the double marginalization problem. This introduces more tension into already intense relationships caused by the different channel goals.

The channel conflict, which it might cause, can as a more positive result also 'wake-up' existing partners when realizing that manufactures in fact aren't that dependant on them, who otherwise might become passive and lacking in creativity. Constructive conflict could in fact create innovation, positive energy, and higher levels of creativity that motivate firms to grow and seize new opportunities. But, it might also increase performance only up to a certain point, along with the conflict, until it begins to decrease as the channel conflict becomes too much. Webb (2002 p.97) calls this the threshold effect.

Research suggests that as manufacturers define their web strategies many are also trying to control the sale of their goods on the internet through indirect retailers. Not always simply to get more market share for them, but to show example or restrict how their products are displayed. This might raise conflict that implicate antitrust and trade regulation laws, as distribution agreements might not clearly state the rights of each distribution partner.

2.7 Managing Channel Conflict

Conflict can be both negative and positive but most often it has a negative tone to it. As manufacturers still are very dependent on retailers it is wise to try to take actions to eliminate conflict before it arises. This will be safer in regards of not alienating channel partners and therefore less time consuming. The researcher lists five approaches that can help minimize channel conflict.

- Product Selection Approaches
- Pricing Approaches
- Promotion Approaches
- Communication Approaches

2.7.1 Product Selection Approaches that Minimize Channel Conflict

Product concept is explained by the idea that consumers always want the best product on the market. This means it has the finest qualities, performance and features available. Companies should therefore devote all their energy to continuously improve the product. (Armstrong & Kotler 2005 p.223)

A significant reason for why branded manufacturers have decided to start selling direct, aside from increasing market share, is that the existing sales channels haven't managed to match product demand. Partly because retailers are overstocking with too many brands making it impossible for customers to find what they want, but also because many retailers buy a very slim selection out of the existing collections. This leaves many of the more expensive, often marketed pieces, which are the base for the brand image, unsold. As a result, brand loyal customers who wouldn't mind paying a dollar extra are left unable to find the great styles they see in lookbooks on manufacturer's

web sites and advertisements online and in magazines. With a manufacturer owned branded online store, this problem can be eliminated. The loyal fashion oriented consumers, who don't care about price, can have their exclusive pieces, which will support the rest of the market that might like the brand image created by these styles, but themselves, prefer a more subtle choice like most of the items found at basic retailers.

This leads us to the question of what product assortment the manufacturer should provide not to upset the existing channel members. Some brands decide to limit their online selection to specific product categories while others, create entirely new products that are only sold online (Gertner & Stillman 2001 p.429). This can help minimize channel conflict but by limiting the selection future conversion of loyal shoppers might be reduced when they come to the manufacturer's store, spend time on their site but then discover the product they want, isn't available (Shopatron.com 2009). It can damage the brand and create the exact opposite effect from building a relationship and creating an experience for the consumer. This would be harmful since part of the idea with an online store and not only offering a product or delivering a service, is to stage, market and deliver a memorable customer experience (Armstrong & Kotler 2005 p.223).

Forrester Research (cited in Shopatron.com 2009) claims that 58% of shoppers begin their product research on the manufacturer's website; this reinforces the statement that it is extremely important to offer a complete product selection. It is a fact that 40% of all European shoppers have changed their mind about which brand they are going to buy after researching the web and manufacturers should in no case risk losing customers because of offering a limited product selection (Mediascope Europe 2008 p.1). This means that product selection isn't the easiest category in which to minimize channel conflict.

2.7.2 Pricing Approaches that Minimize Channel Conflict

Researchers suggest that price is the single issue, which generates most channel conflict. Many feel that undercutting wholesalers and retailers on price is the lowest blow in online channel conflict. As a result, many manufacturers are left scared of promoting and of using discounts. This is sad since a great opportunity of maximizing every one's profits goes lost. (Webb 2002 p.98)

Fair compensation is something that can help minimize conflict since all partners of a multi-channel distribution system are out to make money. According to Coughlan et al. (2006) cited in Bengtsson (2007), evidence suggests that much conflict could be dissolved through offering appealing economic incentives or pay-of-performance systems. Pay-of-performance can be based on the amount of orders a retailer fulfill on behalf of the manufacturer and economic incentives a percentage of the sales generated from orders from a wholesaler's or retailer's territory, sort of like a commission.

The optimality of complementing the existing sales/distribution channels with a direct online channel depends critically upon the level of support allocated by the retailer to the manufacturer's products, in the absence of an online channel. This in return depends on the margins on the manufacturer's products in relation to competitors' margins in that product category. As margins need to be kept at least as attractive as the competition, the manufacturer has to trade-off benefits from increased retail support with reduced margins on sales, especially on sales to brand loyal consumers. The pricing also depends on the retailers clientele mix. (Kumar & Ruan 2006 p.311)

Brand loyal segment < Store loyal segment

In the case that a larger proportion of the stores clientele mix consists of store loyal customers, the manufacturer will find it more profitable to lower wholesale price and thereby encourage the retailer to give out more retailer support.

Brand loyal segment > Store loyal segment

In the opposite situation, the manufacturer doesn't need as much retail support because the brand loyal customers will seek out the manufacturer's products with or without help from the retailer. Therefore the wholesale price can be kept higher.

When setting a low wholesale price to induce the retailer to give support and serve a large portion of the store loyal consumers, the proportion of brand loyal consumers might naturally also increase. If selling the products to this large group of brand loyal customers for a lower price than what they are prepared to pay, a loss in profits will occur. This is a cost, which can be reduced by complementing the retail channel with a manufacturer owned branded online store.

If the manufacturer decides to complement the existing channels with an online channel, some of the consumers who previously purchased from the retailer might prefer to shop online. This especially goes for the brand loyal segment that prefers to support the brand directly. In this event, the retailer will charge retail price and retail support depending on the manufacturer's online price, price sensitivity of brand loyal consumers, and the clientele mix. If the retailer feels that the competition is still too intense and stop all of the support, it might lead to channel conflict and in worse cases a lost account. (Kumar & Ruan 2006 p.303)

In the case of channel integration, the manufacturer determines the prices so that both online and traditional channels will maximize profits. Profit sharing policies may then be used as incentives to coordinate the system and ensure the success of channel integration. The reasoning is that pricing strategy in the channel integration will effectively improve the channel coordination and reduce channel conflict, which leads to higher profit. (Yan 2008 p.52) This implies that the retailer might be able to set wholesale price slightly higher, still get the retail-support needed to catch the store loyal customers but not lose as much on in-store brand loyal customers.

Pricing strategies is a good tool by which to minimize conflict. No matter what the price is, the most important point is to keep the online prices on the same level or slightly higher than the suggested retailing price. This will to some amount eliminate the feeling of competition.

2.7.3 Promotion, Branding and Marketing Approaches that Minimize Channel Conflict

Marketers have to be able to market directly to consumers in order to promote products online. Most manufacturers have started to allocate a share of their marketing budget to online spending, but many still need to do more. Retailers and dealers must also be integrated as partners in promotion, in order to align long-term relationships with short term-revenue programs. (Shopatron.com 2009)

Marketing attracts new people to the web sites and tries to get them to try out the products, return to get more and refer it to new customers. Branding on the other hand increases brand recognition, dictates how they will remember the site, if they will become brand loyal and creates even more word-of-mouth advertising than marketing. Branding

is influenced by the customer experience and the interaction between the provider and the consumer, especially online branding needs to be multidimensional in order to encompass site design, overall look and feel and an effective logo. In order to support marketing and branding, the web site needs to be well designed so that it will balance unity and variety and support the overall business message. Any promotion, marketing and branding done outside of the web site must correspond to the physical appearance of the actual site not to confuse or disappoint the customer. (Ellis & Korper 2001 p.41-44)

In the case that the manufacturer sells directly on the web site, online promotions are a great way to lure customers in and get them to purchase. As the manufacturers should remember not to compete with their retailers they should avoid hefty discount banners but instead focus on 'free-shipping' styled promotions. 'Free-shipping' becomes more profitable when connected to order size, e.g. Free-shipping for orders over 150€. 40%-off signs should be avoided unless it is old stock or special products that retailers aren't stocking. Research actually suggests that online banners are as efficient in their ability to increase customer awareness, as television ads. In addition, it claims that give-away campaigns are also very successful. These should also be promoted in traditional medias in order to attract new customers. When demanding customers to register in order to enter the give-away campaign, the manufacturer will at the same time be able to increase membership accounts. (Ellis & Korper 2001 p.61)

Promotional campaigns are easier to conduct without conflict when working as integrated partners with the retailer. Then, all the promotional effort made by the manufacturer will directly reflect on the retailer's sales. Or in turn, if the manufacturer provides the wholesaler with a percentage of the sales to their market, then that "bonus" can be used for additional marketing in that area.

Typical strategies used by manufacturers to promote other channel partners, i.e. retailers on their web sites are *standard dealer locators* or *linkage to retailers or product level*.

Dealer locators

Dealer locators have been the standard for a long time. Most branded manufactures, no matter how big or small, have a list of either the distributors and/or the retailers for each country they sell to. In this modern age where consumers are accustomed to getting what they want, when they want it, this isn't quite enough.

It is frustrating for the shopper to first look for a product that catches her or his interest, then having to look up the distributor or the retailer, their phone number and to call them or e-mail them. If it's past office hours the customer has to wait until the next day and by then, she/he might already have lost interest, or found something else. If the shopper is persistent and waits until the next day, it might still take time until she/he finds a shop that stocks the item in question. This is site traffic straight into the trash when it could be 'monetized' and turned into value. Situations like these drop conversion rates dramatically and not even promotion can help since it is no way directly connected to the indirect channels. (Shopatron.com 2009)

Link to retailer on product level

Link to retailers on the product level, also known as *Product-to-Product Links*, or P2P links, links a shopper viewing a product directly from the manufacturer's site to an on-line retailer's site who hopefully is stocking the right size of the item. There is often more than one option of stores stocking the product in question and in this case, the first place where the manufacturer might lose the customer is when she or he must decide which of the online stores to visit. Despite the fact that the link usually is directed straight to the brands own "corner" in the shop, there isn't always a guarantee that they are stocking the product in question. Often time's retailer online stores divide the products not by brand but by product category, i.e. t-shirts, hoodies etc., and this can also confuse or cause the shopper to lose interest. The second reason why the customer might lose interest is that competitors' product offerings aren't situated very far away from the manufacturers product when linked though P2P. Similar products from competitors' brands will often be displayed right next to that of the manufacturers and if the price is better and the customer isn't brand loyal, it's a sales possibility gone to waist. (Shopatron.com 2009)

While both *standard dealer locators* and *linkage to retailers or product levels* are better than not promoting the channel partners at all, the most beneficial strategy for all partners would be to have a direct online store together with retailer integrated fulfillment. Reasoning supporting this statement can be found in chapters 2.3-2.5.

2.7.4 Communication Approaches that Minimize Channel Conflict

Communication and coordination are tools by which the manufacturer can influence the level of channel conflict experienced both externally with distribution partners and internally between departments. To minimize conflict, the manufacturer should when presenting the new direct channel to the indirect existing channels firstly have a clear idea of what customers value in different channels and through that distinguish who their target customers are so that they can present their new channel without at the same time saying that they will steal all the retailers' customers. They must additionally show in what ways they are planning to induce and support or integrate the wholesalers and retailers into their system. By presenting the direct online channel with time and in advance, the retailers can learn how the online efforts can be mutually beneficial for all parties. (Webb, 2002 p.98-100)

3 RESEARCH QUESTIONS AND FRAME OF REFERENCE

This chapter is aimed for clarifying the purpose of the study. The research questions will be defined and discussed and in the end of the chapter, a conceptual frame of reference will developed to help guide the data collection in the fourth chapter.

3.1 Research Questions

The previous chapters describe the pressure today's manufacturing companies are under. Distribution channels are changing and the purpose of each channel member is becoming more and more blurred as the manufacturers have taken on a new position as a network manager who coordinates all the value-added phases from production to sales to the end-consumer, both directly and indirectly through existing partners. This new style gives the manufacturer control of the supply chain both on the supply and the demand side. (Zentes & Pocsay 2007)

Exactly why the manufacturer feels such a pressure and need to begin direct sales through direct online sales has not been research much and thus, the first research question:

RQ#1

What are the reasons behind actionsport/streetwear apparel companies' decisions to open direct online sale channels?
--

Due to the nature of the question the researcher knows that complete answers will not be obtained from many companies. It is part of their competitive strategies and privileged data not lightly shared with outsiders. Therefore, this question will mostly be based on the few replies of the survey while the second will include observations.

As mentioned in the second chapter, direct online sale channels have lead to channel conflict rising to the forefront as channel members become suspicious of each other's goals and objectives. Actions taken by manufacturers to eliminate or minimize conflict are therefore of great interest as explained in the second research question:

RQ#2

What intentional or unintentional actions have been taken by manufacturers to minimize possible channel conflict?

3.2 Frame of Reference

The frame of reference supports the research questions mainly based on the management approaches presented in chapter 2. (See table 3.1) Research will be conducted both through an e-mail survey and observations of online stores presented in the *Empirical Evidence* section. In addition, results will also be based on reflection of relevant literature gathered from books, trade journals and several online sources. The research methods will be described in more detail in chapter four.

The first research question seeks reasons behind the manufacturers' decision to open a direct sales channel and the author feels that this cannot be based on any specific theory. This will therefore be analyzed primarily based on relevant literature and the e-mail survey results based on the questions in Figure 3.1.

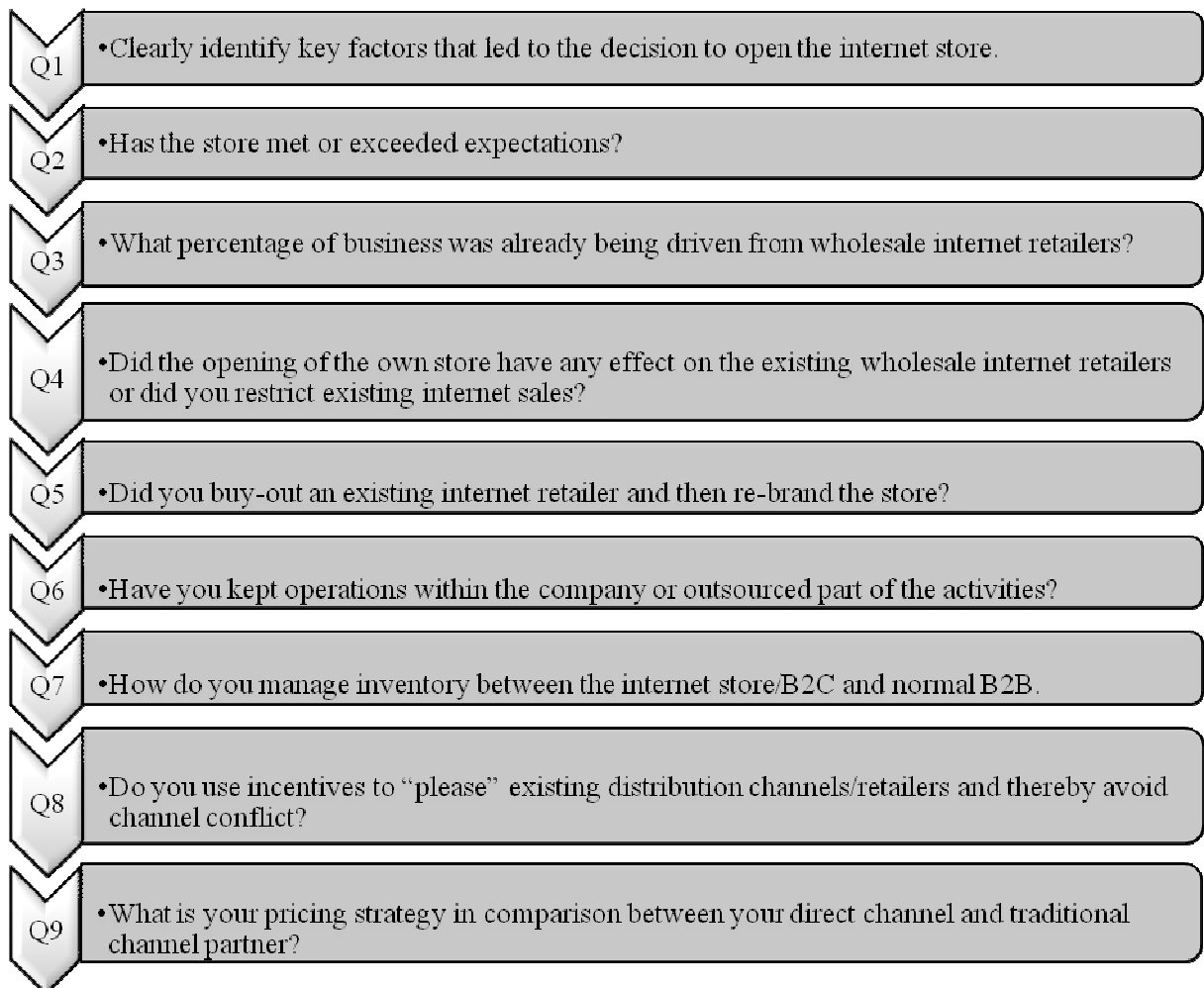


Figure 4 E-mail survey questions

Supporting the email survey, table 1 will be used to analyze both data gathered through observations, and the survey results.

Table 1 Conceptual and operational definitions of approaches on how to manage and minimize channel conflict. (Developed by the author, based on Bengtsson 2007)

Concept	Conceptual Definition	Operational Definition
Product	Product selection approaches used to minimize channel conflict.	Have the companies clearly restricted products offered online?
Pricing	Pricing approaches used to minimize channel conflict.	Are the prices competitive towards retail channels?
Promotion/ Marketing	Promotion and marketing strategies and approaches used to minimize channel conflict and promote channel partners.	Are promotion and marketing supporting or competing with other sales channels?

4 METHODOLOGY

This chapter explains how the research part of the thesis was conducted. Research purpose, approach, strategy, population and sample are discussed and the choices motivated. We end the chapter with a discussion concerning reliability and limitations.

4.1 Research Purpose

The author has chosen an exploratory research approach for this thesis. Exploratory research is usually designed to uncover basic viewpoints perceptions, behaviors and attitudes in a market place (en.mimi.hu/marketingweb.com). The research is often conducted with the expectation that subsequent research will be required in order to provide a specific suggestion for future action and so will also this thesis (Bengtsson 2007).

The purpose of this thesis is therefore:

- ✓ To explore possible trends and reasons behind manufacturer owned direct online sales channels.
- ✓ Identify intentional or unintentional actions taken by them in their direct on-line sales strategies that can minimize channel conflict.

The author feels that an exploratory approach will be the most suitable as little research has been conducted on the topic resulting in scarce amounts of literature supporting the research purpose and questions. The fact that suggestions for future research will be developed further enhances the choice of an exploratory approach.

4.2 Research Approach and Strategy

There are typically two research approaches to choose between, qualitative and quantitative. As quantitative research is based on numbers, statistical data and measures, it was not perceived to be the most suitable for this study. The researcher chose instead to use an evidence based qualitative research strategy through observations and surveying. The observations will however have a slightly quantitative inclination as some statistical data will be gathered in order to possibly identify a trend. To support this data, the analy-

sis will also be based on reflection of relevant literature gathered from books, trade journals, reports and several online sources. The researcher will also use her own knowledge of the industry when analyzing the results. This she has obtained through an almost four year career as a sales representative for some of the brands included in the sample, as well as a brand manager for a distribution company with direct online sales.

4.3 Description of Population and Sample

The collection of relevant data is very important. In order to narrow down the sample size and to investigate relevant companies, the author chose to use Baird's quarterly Boardsports Retail Report (February 22, 2010) as the main source for a population base. The report is a survey of independent surf/snow/skate retailers that show trends in the industry regarding apparel categories and brands. The motivation behind using Baird's report is that as an expert on research in the actions sports industry, Baird is bound to have the most up to date list of boardsports apparel companies. The author also used her own knowledge of the industry in selecting the brands and wanted to add Makia since she felt it belongs to the same group.

It would have been preferable to look at only one website for each independent retailer/manufacturer but a difficulty soon arose when conducting the observations. Many of the brands have very different websites and online strategies for Europe and the US, not to mention Asia or South America. The author however felt that looking at all the sites would be too big of a workload, so she only chose Europe and the US. Some of the brands have therefore been observed as two different entities, i.e. Volcom US and Volcom EU, as their online strategies clearly differ from each other. This means the sample ended up consisting of 43 brands/WebPages.

Appendix 2 shows a list of the companies, their online addresses and the group they fall into for brands with direct online sales (DOS), YES, NO, or P2P. The observations were made within a two day long timeframe (4-5.11.2010). Furthermore, all companies were contacted through e-mail and asked to contribute to this research by answering nine questions found in appendix 1.

Getting in contact with the companies proved as expected, to be a real challenge. Only four companies responded and these replies will be used to support the observations of

the whole sample (these companies will be kept anonymous and referred to as company A, B, C and D). As mentioned earlier this was expected due to the fact that most companies feel the information is sensitive to competition and managers are typically known to not have time nor interest to respond to e-mail surveys. The fact that all companies are situated abroad increased the difficulty in contacting them and completing the survey, which preferably would have been an interview, if the companies were situated in Finland.

4.4 Reliability and Limitations

Reliability refers to whether or not this research is trustworthy, i.e. its validity. The validity and reliability of a research means that the results of the research would be the same when completed by another researcher. In order to add validity to the research, the author chose to analyze the problem from two different angles, through observations and a survey. The author feels that the replies on the e-mail survey were interpreted objectively and the results would be the same if replicated. Still she must admit to possible variable errors in the observations since online strategies are continuously changing and therefore it is possible that the manufacturer will change the content of the website, thereby resulting in different results if the research was to be replicated at another time. As the phenomenon of multi-channel retailing is at the moment continuously developing, this research will only explore and present the situation at the time being. This leads to suggestions of future research, which will be presented in the conclusion.

Additional limitations to this research are firstly as mentioned above, the few replies on the e-mail survey, but they at least show how four important companies of the sample have tackled the situation. If known that only four companies would reply, the researcher would have preferred to use interviews as a tool to get deeper understanding on the issue and approached it as case studies. Secondly, it is difficult to interpret only on the basis of observations, what the reasons for why manufacturers have decided to use specific strategies in their e-commerce initiatives are. The researcher can therefore not draw conclusions that actions taken are specifically in order to minimize channel conflict, but she can however identify actions taken that can minimize channel conflict, regardless of what the genuine reason behind it might be. The author has therefore included the words “intentional or unintentional” in the research topic and research question number two.

5 EMPIRICAL RESEARCH

In this chapter, the empirical data collected through observations and e-mail survey will be presented. The chapter will begin with a brief introductory describing the percentage of brands with direct online sales, without online sales and those with product-to-product linkage. The results from the survey, not connected to the frame of reference, are then overviewed which after the results from the observations together with the remaining survey results will be analyzed in accordance to Table 3.1 in the frame of reference.

5.1 Introductory

The observations made by the author resulted in a division into three groups; those with ‘only dealer locators’, ‘link to retailer on product level (P2P)’ and ‘direct online sales (DOS)’. These are represented by 19%, 23% and 58% of the sample, respectively.

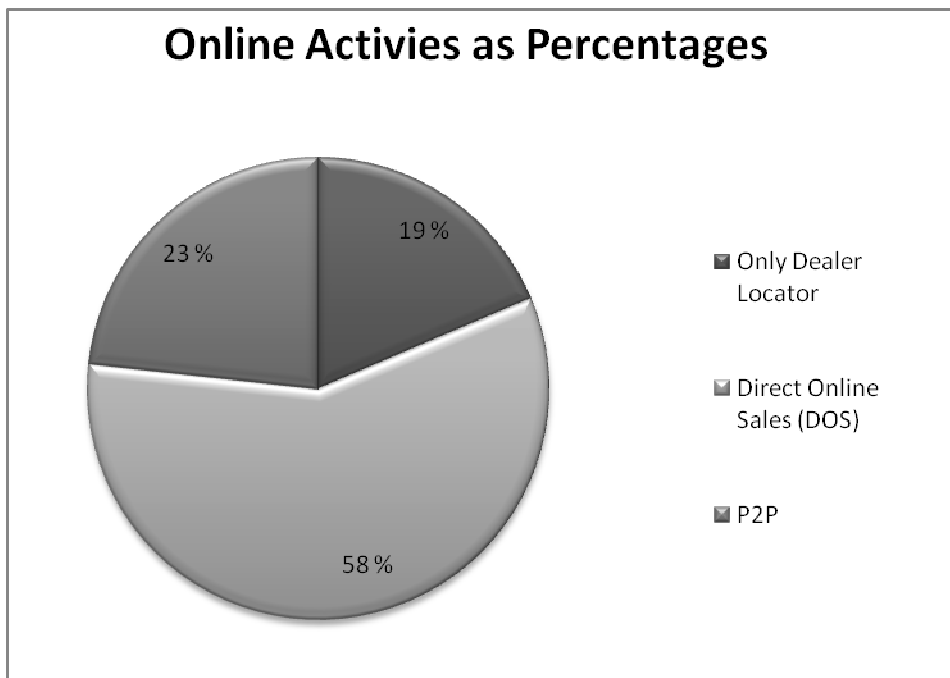


Figure 5 Online activities

5.2 Reasons to Go Online

The survey respondents were not many but they represent brands in very different life stages. With age differences from little over one year to over 20 years of history, the brands still state very similar reasons behind their decision to go direct online.

The most common fact mentioned in one way or another is that end-consumers are using the Internet, as a research area before purchase decision and that being online therefore is a must. There, the brands can ensure a full product selection which resellers for different reasons can't offer, be it that the brand is so new that they don't trust it yet, they feel the styles are too expensive or that they have too slim budgets as they overstock with other brands.

Securing a fair share of the e-commerce growth is also a reason, and for some along with it, acting as a model for other online retailers that carry their brand. The one company that hasn't yet established a wide distribution network feels that the Internet can also serve as a tool to reach greater masses. The respondents feel that they through having a direct online channel can connect with the end-consumer and receive vital information concerning trends and habits. (See Appendix 1, question 1)

5.3 Online Strategy

The respondents are not all certain about the percentage of business being driven from online sales prior to the launch of their direct online stores, but for the young company D it was as much as 50% and company B, 10%. Company C on the other hand mentions that the current situation is between five and 15%, depending on the country.

All of the manufacturers have set-up their direct online systems from scratch and no one mentions re-branding an existing store or using external partners. When asked whether their direct online stores have affected existing indirect Internet retailers, the replies vary. Company A only mentions that it has, but does not give any further explanation. For Company B it doesn't feel like it has affected the stores much but instead given themselves an opportunity to be pickier about how and where their goods are displayed online. Company C states that there has been no big effect yet, but that smaller retailers have complained while larger don't seem to have any issues concerning it. Company D

repeats itself by saying that since their direct online store only is a channel where it is possible to find all of their existing products, it shouldn't be a problem. This is due to the fact they don't market it very much and they focus all their other activities on their homepage leaving the online store outside the focus point.

When concerning operations, companies A, B and C are along the same lines having outsourced the programming, i.e. store setup. Company C also mentions having outsourced the B2C (business-to-consumer) fulfillment, i.e. warehousing, order picking, transport and finance, while keeping purchasing, marketing and management internal. The only one mentioning problems that have risen through the outsourcing is company B. The respondent states that they had to adjust to the outsourcing so much, that they might as well have set it up themselves. He also mentions that the outsourced service is not about graphics or shop design but for example consolidated access to payment providers such as PayPal, shipping and pick- packing. Company D has kept everything in-house. (See appendix 1, questions, 3, 4, 5 and 6.)

5.4 Product Approach

While it is impossible to say whether or not the product assortment is complete, without an answer from the manufacturers, the amount offered by most of the brands' does seem like complete collections. The *sale* categories are typically older season's leftover stock.

Information received from the survey implies that all four manufacturers order different stock for their direct and indirect sale channels. Company B however notes that both stocks merge as they in the end make both stocks available for all channels. Company C concurs and admits they sometimes replenish their B2C stock out of the B2B stock.

Common between all different groups, concerning almost all brands is that they present their products through sections named *product*, *catalog* or *collection*. Only a few have sections named *shop*. In these cases the product can only be viewed through the online store. A repetitive thing, which many brands have done throughout the sample, is to show the products both through a lifestyle lookbook, which strengthens the brand image, but also in separate product categories with product information like material and colors. There the items also can be viewed better. The researcher found that when clicking on *product* or *collection* in the menu bar, 68% of the DOS manufacturers had their

websites structured so that the viewer is directed straight into the shop. Only 32% direct the viewer to separate product sections, i.e. lookbooks or catalogs without prices and other shopping features, but then have a separate *shop* or *buy online* option for those wanting to shop.

The only websites/stores that seem to have a slightly restricted product assortment are the footwear brands that don't show much apparel even though the author feels, based on experience that they have wider collections. The footwear company Globe has a special section where the shopper can ask for special items that might not be available online and this clearly shows that at least this brand does not have a complete selection online.

Animal is the only brand that shows different products (categories) in their online store and normal homepage. The homepage only shows watches and wetsuits while the online store has a full product selection of apparel. Obey, Rvca and LRG are the three companies that have web exclusive or specialty products. Examples of these are mugs, water bottles, goggles, skateboards, special design t-shirts etc. LRG actually has a banner saying 'be sure to check out specialty products that you can't find in stores'.

5.5 Price Approach

The survey respondents are on the same line when discussing price. Everyone offers the same retail prices as given to their indirect dealers. They don't want the customer to save money when shopping online, but simply offer complete collections. According to company C, they never markdown items from their special editions collection, and they only sell the current production online. No outlet stock and pricing. Supporting this, Company D claims that they even offer some items with higher prices than elsewhere. Company B sums it up by saying that their main goal is to supply the end consumer better than before, without hurting existing sales channels.

When looking online, the pricing approaches vary between the three groups to some extent. Significant for brands with 'only dealer locators' is that none of them present prices and in the 'product-to-product' group only Element US and RipCurl US, do so. All of the 'direct online sale' websites show prices. Only 12% of them display discounted products mixed with current products while 60% have separate *good deals* or *sale* sec-

tions. 28% of the sample has no visible sale sections or discounts on their products online. Notable is that Makia and Globe US, are the only ones who do not show the percentage discount or the real price of the product in their sale sections.



Figure 6 Price Approach - Discounts

5.6 Promotion Approach

The manufacturers were asked whether or not they use incentives to ‘please’ existing distribution channels. Company A’s response was that they try to be as respectful as possible towards their dealers but that they at the same time try to think forward at how they can run their business more effectively. Company B feels the distributor plays such an important role in marketing the brand in their territory, that the manufacturer gives them a margin of its direct online sales to the distributor’s area. Company C simply answered no, while Company D has the agenda of only pushing indirect channels in their sales and marketing and leaving their own store outside of almost all activities.

When first looking at the manufacturers with ‘only dealer locators’ it was noticeable that some of these brands have more complex sites than others but as a common factor, they all have focused on marketing, promoting their teams and creating a strong brand image or awareness throughout their websites. Many have blog-typed sections that are constantly updated with events, movie clips, music and other happenings.

The ‘link to retailer on product level’ group has similarly as the previous group focused strongly on blogging, marketing their team riders, events, advocates and other supporters but they also understand the importance of marketing their sales channels and in the end, products. Distinguishable for this group is that they promote their channel partners at many different stages and places on their websites.

Supporting both of the previous groups, the direct online sellers mostly have all of the above, the blogs, team news, video clips etc. For some 20% of the DOS websites it however strongly looks like sales come before everything else. They direct the viewer straight into the shop so that the person browsing the site might not even notice that they have another homepage as well. For about 12%, the website functioned on a very poor and unsatisfying level.

5.6.1 Dealer Locators

Out of the sampled brands, 19% had neither links to product on retail level nor a direct online sales channel. These brands are categorized as ‘Brands with only dealer locators’, since this is the only way through which they promote their distribution and sales channels. Insight, Zoo York and Enjoi are the only three brands that don’t have dealer locators at all. Zoo York state that theirs is under construction.

This is not the only group with this feature as the rest of the brands in the sample also have dealer locators. The most typical dealer locator allows the viewer to look-up the distributors, search based on country and city, and some even by store name. A common thing noted through the observation was that the dealer locators most times only focus on the US and Canada. Europe is not always presented even though the author knows that brands are distributed there. For Europe many only mention distributors, if even that. The most detailed and most easy to use dealer locator belongs to Billabong. (See Figure 7)

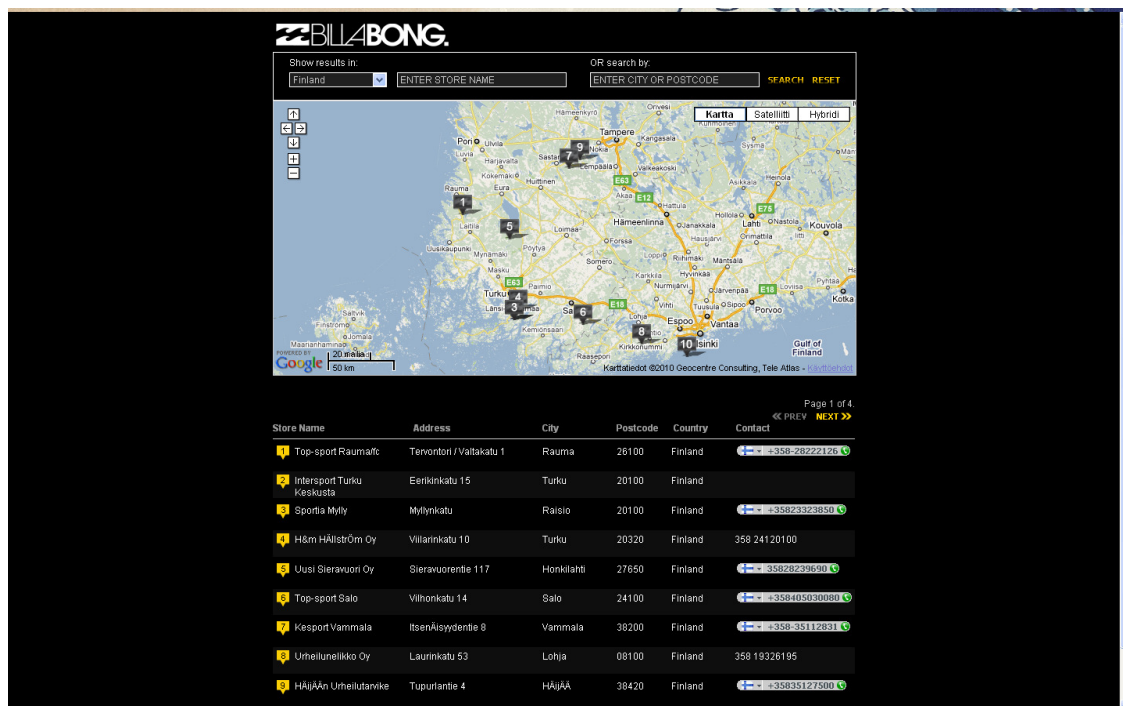


Figure 7 Billabong Store locator (<http://www.billabong.com/eu/stores> Accessed 18.10.10/)

Burton has a feature, which depending on what country you are browsing from shows different stores from your area and their information on the bottom corner of the page. In the main menu, under *shop online*, the brand also presents their other online partners and talks about spreading the love, before advertising their own branded direct online shop. Quiksilver is another brand using dealer locators in a clear promotional way. They promote their Quiksilver Union Shops, which they explain by the following statement.

‘Quiksilver Union represents 40 of Europe's best core and independent surf retailers. The vision is to provide them with customer excellence from sales, marketing and service support ensuring success for both companies. Every year special products on a limited nature will be developed and marketed exclusively for the Quiksilver Union clients. “The best of the best”.’

All, except for one brand also promote their indirect online retail channels and the numbers of online retailers listed range from nine to forty two. Volcom, Rip Curl and Roxy are the brands that promote their direct bricks-and-mortar channels, i.e. their branded stores located around the world.

5.6.2 Link to Retailer on Product Level

The option of 'Link to retailers on product level' comes out as slightly more popular than 'simple dealer locators' with as much as 23% of the sample using P2P. Some of the brands with direct stores also use P2P but we categorize them in the third group.

In addition to the dealer or store locators, these companies all have a *buy now*, *buy online*, *available online*, *where to buy* or *find retailer* button next to each product item. This 'button' lists the indirect online dealers who sell the brand. There are three levels of linkage, first option is that it shows all the brands carrying the brand, second; it shows the online retailers carrying that style, or in the third case, the viewer has to first choose color and size before the site lists the online retailers carrying that exact style in the wanted size.

In the group with P2P but no direct sales, direct linkage between the product being viewed and the product page at the indirect online retailer is offered by six out of ten brands. Two simply link to the stores carrying the brand but possibly not the style and the other remaining two only link to the brands dealer locator/online retailer page. Reef is one of the brands who use P2P and in addition to listing the online retailers carrying the specific style; they also list online retailers in two separate categories in their dealer locator section; premier online dealers and additional online dealers. The author draws the conclusion that the premier online dealers are the ones cooperating with P2P. Altamont is another brand that belongs to this group. Its P2P function is one of the clearest in the group. (See figure 8)

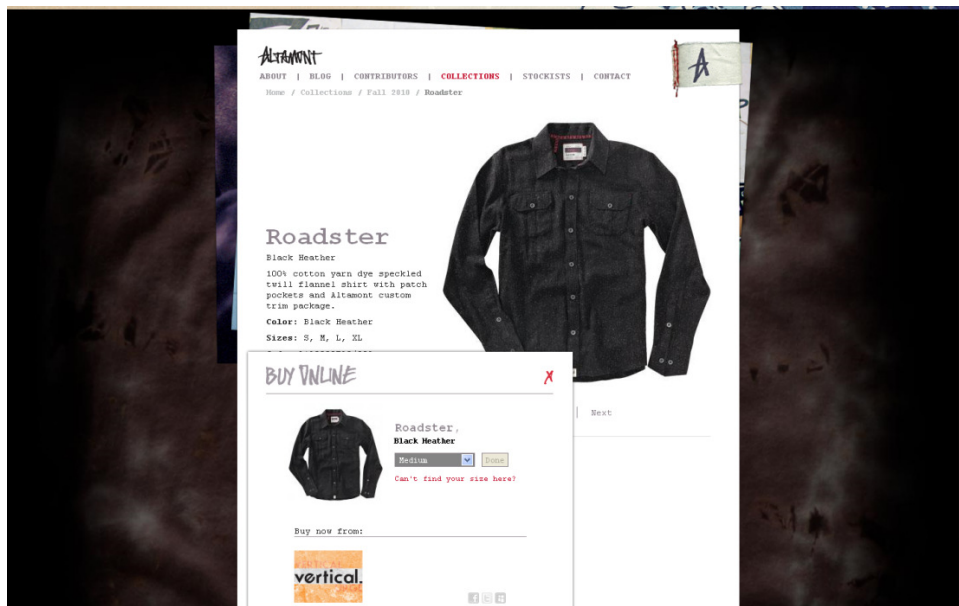


Figure 8 Altamont 'Product-to-Product linkage' (<http://altamontapparel.com/collections/fall-2010/flannels/roadster/black-heather/> Accessed 18.10.10)

Out of the DOS manufacturers, 28% offer some level of P2P in addition to their own direct sales. The level varies between only linking to the 'authorized online retailer page' and direct link on a product level. Two of these, only offer P2P when they themselves don't have the product in stock. Volcom US has a very clear system with the options to *add to cart* or *buy from dealer*. They also constantly promote indirect online retailers in their direct online store.

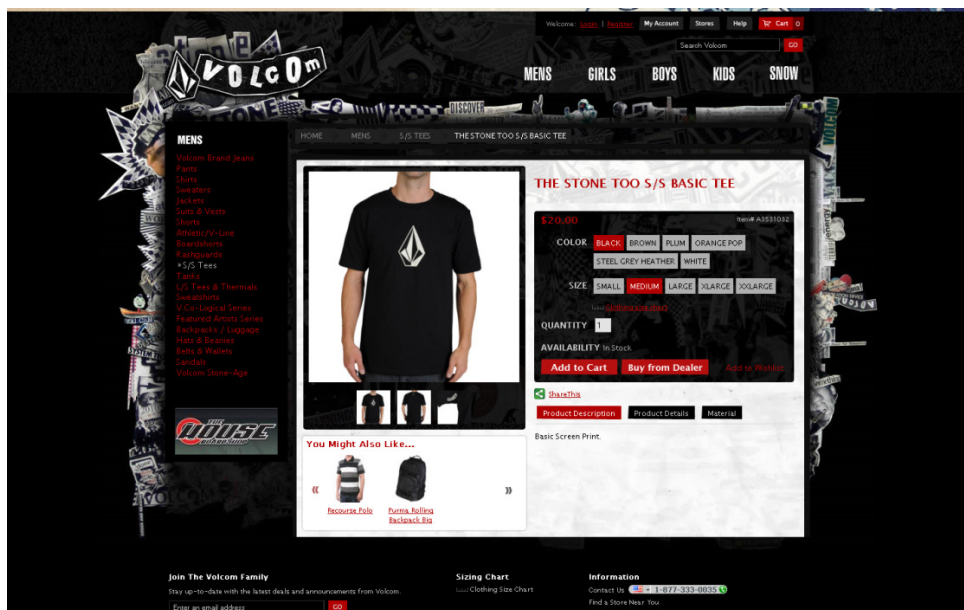


Figure 9 Volcom 'DOS-P2P' (http://shop.volcom.com/the-Stone-Too-S/S-Basic-Tee/A3531032,default.pd.html?dwvar_A3531032_color=WHT&start=1&cgid=mens-ss-tees Accessed 18.10.10)

Three manufacturers use the services of Shopatron on their online store, but only one clearly states that they offer integrated fulfillment. This is *Independent* and below is a copy of their explanation of the service.

“What the heck is Shopatron?”

The NHS Fun Factory is powered by Shopatron. When you place an order at NHSFunFactory.com, all of our dealers in the Shopatron network have the option to fill your order, providing they have your entire order in stock. If more than one of our dealers has the inventory to ship your order within the 24-hour frame, then the retailer closest to your shipping address is chosen. If none of our retailers has all of the products you ordered, NHS will ship your order directly from its warehouse. This may sound like a complicated and time consuming process, but it happens seamlessly and without delay. We are very proud to say that NHS Fun Factory is a complete representation of ALL products each of our brands have produced- the most comprehensive product selection we have ever had online. We are also very proud to say that you and NHS are supporting our industry's retailers when shopping at the NHS Fun Factory.” (Comment from Independents/NHS Fun Factory’s online order policies)

A common sight on both the manufacturer’s homepages and their online shops are banners advertising free shipment on either all orders or orders over specific sums. Large discount banners were only seen at 12% of the online stores.

6 ANALYSIS

The findings of the Empirical research in chapter 5 will be analyzed according to the frame of reference with support of the Theory in chapter 2.

6.1 Analysis of Reasons to go Online

The theory section presented Wallace's (2004) idea stating that the greater service outputs provided by multi-channel concepts can possibly lead to greater customer satisfaction and customer loyalty. This idea is reinforced through the replies received through the survey, which indicate that at least for these companies, the main reason to go online is to serve the customer better by ensuring a full product assortment that smaller resellers can't provide. The researcher similarly feels that this is the most important reason for why manufacturers need to be online. Through her over three year long period as a sales representative for multiple brands part of this research, she has too often seen the most marketed pieces and other image pieces be left out of the buyer's selection, i.e. not finding their way into the stores. This is often due to the buyer's perception that the items aren't for the 'masses' and often priced too high for their budgets.

The results furthermore backup Digital River's comment, which states that the manufacturer receives great amounts of knowledge about the customers' buying habits and preferences that in this constantly changing market, are essential for a brand's ability to grow. This is central as the theory also states that the creation of strong relationships to the end-consumer can increase brand loyalty, drive down marketing costs and also help in diversifying the resellers' customer base.

6.2 Analysis of Product Selection Approach that can Minimize Channel Conflict

The empirical data shows that the brands feel it is important to show their complete selections online. Both noticed through observations and confirmed through the survey,

this is one of the main reasons why the manufacturers want to be online to begin with. What the researcher noticed is that brands should be more cautious when labeling their menu bars, here referring to the *product*, *collection*, *catalog*, or *shop* selections. The words mean different things and a consumer can become both confused and disappointed when trying to navigate through the pages without finding what she hopes for.

In order to minimize channel conflict, the brands should avoid only showing products in their *shop* section or having a *product* section, which actually is the online store. It feels “pushy” to be directed straight into the shop when wanting to look at styles. This can be avoided by using special lookbooks or catalogs for viewing the styles. The researcher suggests dividing the catalog into smaller sections so that the viewer doesn’t have to look through a 100page pdf file when only wanting to look at t-shirts. Having to download large files is time consuming and will easily make the viewer lose interest. The lookbooks and catalogs can with today’s technology easily be structured so that the viewer can flip through styles without the problems mentioned above. As Kotler says, companies should devote all their energy to continuously improve the product. As the product online is not only the product itself but also the service of viewing it and possibly buying it, the company must remember to deliver a memorable customer experience no matter what the viewer’s intentions are. (Armstrong & Kotler 2005, p.223)

Specialty products are a good way to differentiate the online offerings from those sold by other channel partners without upsetting them. When doing this it is important to remember not to offer noticeably ‘better’ products online and leave the resellers hanging with ‘old boring stuff’ but instead do collaborations with artist, limited edition pieces or cups, skateboards etc. that the brand might not otherwise produce.

Only offering the current season’s collection is also a way to show respect to channel members. Nikita mentioned doing this and it somehow feels classy. The researcher feels that manufacturers should focus on selling leftover stock with discounts to distributors and only after this in outlet malls and definitely not online. It is an unnecessary source of conflict where channel members will start comparing when and how large discounts the manufacturer offers. This will be discussed further in the next chapter.

6.3 Analysis of Pricing Approaches that can Minimize Channel Conflict

This approach is difficult to research without honest answers from all retailers. The simple issue of showing price or not is nevertheless also of interest and this is observable. The results were as expected and the ‘dealers only’ did not show price. This is commendable as prices vary a lot between the US and Europe, but also within Europe. Most of the ‘P2P’ companies did not use pricing (8/10) and the researcher agrees with this approach as she feels that it is not necessary. It only causes confusion if the indirect retailer that the customer is linked to, offers a different price.

All of the DOS manufacturers show prices and at least the four respondents on the survey state that they use retail suggested prices, or higher. Nikita’s strategy of using country specific prices (determined by distributors) depending on where the customer is browsing the webpage from is a good example of how to co-operate with indirect supply channels and thereby minimize channel conflict.

In the price category it is however the discounts, which presumably cause the most conflict. The researcher was therefore interested in observing the sale sections of the online stores. The results were that as much as 12% show *sale* products mixed with normally priced products. On a reseller’s point of view, it doesn’t look good when the manufacturer puts -50% discounts on their direct online store. Especially mixed together with other products, which makes it more difficult to tell ‘seasons’ a part. 60% of the DOS have been smart enough to use a *sale/good deal/outlet* section while 28% show no discounts at all.

Makia is one of the brands that don’t show the percentage of the discount. Their *sale* section simply presents new prices and this saves them from looking cheap or showing that some styles haven’t work or that they have sold poorly. This is one way to possibly go around conflict but another one as mentioned in the previous chapter is to only offer current collections, thereby skip the discounts and instead sell this left over stock through outlet stores. If a manufacturer has a huge discount section online, it gives a feeling of the brand being quit unsuccessful with its styles, production or sales, as it shouldn’t be in any manufacturer’s interest to carry old stock for long. Nikita has again come up with an alternative approach to the discount issue. This fall they offered -50% on last year’s

fall production's leftover stock. This was only for a limited time and a year old stock and the researcher feels this is a good idea that might be more approvable for the channel members since the increased marketing pushes customers to remember the brand, drives them online to check-out the items and at the same time the new collections and through that also to the stores.

6.4 Analysis of Promotion Approaches that can Minimize Channel Conflict

Three out of the four respondents for the e-mail survey feel that it is very important to respect the other channel members while trying to develop their own business. While mutual respect should come naturally as all partners influence each other's possibilities to do business at all, the question whether the manufacturers just acknowledge the fact or also act upon it, is still not clear. The result of this research leans towards the latter.

When browsing the websites, the researcher couldn't really find anything that clearly promoted bricks-and-mortar stores, i.e. indirect retailers. She feels that there is room for a lot more collaboration between the retailers and the manufacturers. The distributor might of course be obligated to work as a middleman and this is often times the reason why such projects don't happen, but through proper communication between all parties, it should be possible.

Dealer locators have been discussed as a more tangible aspect of promotional support towards the indirect channels. Brands categorized as 'only dealer locator' brands were represented by 19% of the sample. This categorization doesn't naturally mean that there's nothing else on their WebPages but this was the easiest way to categorize the different levels of online approaches so that it would support the theory presented in chapter two. While the rest of the sample also supported the dealer locators, the level of their standard varied surprisingly between companies. The largest difference is nevertheless between the supports Europe receives in comparison to the US. The researcher believes that the reason for this lies in the structural differences of supply chains in the US and Europe. The author has the belief that action/lifestyle apparel brands' supply chains in Europe are mainly based on distribution networks of companies representing several different brands while the US has representatives working with fewer brands.

The difference here is in the amount of support that each can allocate to the brands. How this relates to the dealer locators is that when the distributors have too many brands on their hands, they feel they don't have time to provide the manufacturers with the information needed to uphold the dealer locators. Billabong however had a well developed locator with all necessary information and could serve as an example of a great dealer locator.

Link to retailer on product level is another promotional activity investigated in this research. With 23% of the sampled brands using this feature it shows that at least some try to connect their end-customers with the retailers. Although sometimes confusing the viewer into thinking that it is a direct online store, this is the beginning to full integration discussed in the theory part of this paper. A positive result is that six out of ten P2P manufacturers have direct product linkage, which means that the shopper is directed straight to the product in the indirect online retailers store and assured that they have it in stock.

An even closer step to channel integration and thereby avoidance of channel conflict, is the DOS offering P2P. While only 28% of the DOS did so, these are good examples for future direct online stores. If all of them worked, it'd be even better. Especially for those brands that have decided to only show products in their online store, it would be crucial to offer some level of product-to-product linkage in order to support their retailers and avoid conflict. The researcher feels that if not, it will eventually bite them in the back. When retailers feel that they aren't getting any support and that the competition is too great, they will switch their retail support to some other brand and after that, it will be difficult to regain their trust.

To end this section it shall be pointed out that promotional campaigns are always easier to conduct without conflict when working as integrated partners with the retailer. Then, all the promotional effort made by the manufacturer will directly reflect on the retailer's sales. Or in turn, if the manufacturer provides the wholesaler with a percentage of the sales to their market, then that "bonus" can be used for additional marketing in that specific area.

7 CONCLUSION AND DISUCSSION

The results clearly show that more and more manufacturers in the action/streetwear apparel industry are beginning to open direct online channels to the end-consumer. The researcher actually completed the observations twice, once in May and again in September 2010, and even during this short time period both the number of P2P and DOS had increased.

Answering the first research question, the report shows that 58% of the investigated brands have direct online sales. Although only knowing the reasons why four brands have decided to sell direct online, both the results and the theory suggest that one of the main reasons is that the end-consumers are using the Internet as a research area before purchase and with the resellers only offering a limited amount of the collections, the manufacturers have to present and offer it themselves to ensure growth and a strong brand image. With only 28% (7/25), showing some promotion of the indirect sales channels, the level of integration is proven very little and reasons for conflict quite evident. Despite the fact that the research shows that channel integration isn't yet a very familiar concept in the online strategies, the 'link to product on retail level' is definitely a beginning. Still, it looks like there is quite a way until retail integrated order fulfillment like in-store pick-up will become a common trend.

As some previous researches have mentioned in other industries, the researcher is similarly of the opinion that the companies should think long and hard before going direct online. Poorly functioning sites and indifference towards other channel partners can possibly ruin their brand image and trust. Researchers suggest that there aren't any first mover advantages in online sales and therefore there's no reason to hurry. It is nevertheless important to remember that loyalty is known to migrate across channels, and by adding a direct online sales channel the manufacturer can actually support the traditional sales channels and strengthen the common goal. This goal sometimes gets lost in the world of distribution but according to the author it should be to support and strengthen brand image, increase brand awareness and market share while at the same time generating profits for all parties.

7.2 Limitations

This research did not reach as strong implications as hoped for due to some problems in the beginning. The problems caused the researcher to delimitate the area of research leaving the survey and the rest of the paper not completely coinciding. The survey did however support the observations on some important questions, thereby confirming the situation of the direct online trend.

7.3 Future Research

As the researcher noticed when beginning this project, there are a hundred different aspects to this topic. Order fulfillment, customer service, resellers' perceptions of the on-line trend and integration strategies are among topics that need to be researched in order to help management fully understand the importance of channel integration and direct online sales, but also the time and commitment it takes from the whole company as it will affect all departments.

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APPENDICES

1 SURVEY QUESTIONS AND SUMMARY

1. Clearly identify key factors that led to the decision to open the Internet store.

All three companies seemed to have similar reasons for selling direct online.

Here are the main reasons:

- To go with the time and step into the retail online business.
- Act as a model for retailers dealing with our brand.
- Endless demand from end-consumers for products that they could not find in existing sales channels.
- Existing channels stuffing/overstocking with other brands.
- Securing a fair share of the growth of e-commerce sales.
- End-consumers use the Internet as a research area for purchase decisions and this makes being online a must.
- Connect to end-consumer.
- Company D - As a yet small brand we had to open our website as quickly as possible. The ground stores are not yet ready to buy in everything from our collection. We also aimed on out-housed online stores in the beginning to reach a wider group of customers abroad our home borders.

2. Has the store met or exceeded expectations?

Company A. – Yes.

Company B. – So far yes!

Company C. – Difficult first year, now doing very well.

Company D. - Yes. Definitely.

3. What percentage of business was already being driven from wholesale Internet retailers?

Company A. – No reply.

Company B. – 10%

Company C. – Not sure what it was when we started but currently, 5-15% depending on country.

Company D. - Almost 50 %

4. Did the opening of the own store have any effect on the existing wholesale Internet retailers or did you restrict existing Internet sales?

Company A. – Yes. (No explanation)

Company B. – Did not effect them yet, but provides an opportunity to be more picky on where and how we sell our goods online, without decreasing the offering to our customers.

Company C. – It did not have a big effect yet. Some smaller retailers are complaining but bigger ones do not have an issue.

Company D. - No, because we don't do any kind of marketing on our own webstore. We just want it to be one possible channel for the end customer to find all our existing products.

5. Did you buy-out an existing Internet retailer and then re-brand the store?

Company A. – No.

Company B. – No, we set up our own system.

Company C. – No, we build our own store under our own brand

Company D. – No. We build everything from scratch.

6. Have you kept operations within the company or outsourced part of the activities?

Company A. – We outsourced the programming of the store

Company B. – We outsourced the store setup, but had to adjust so much to the outsourcing that we might (almost) have set it up ourselves. But the outsourced service is not about graphic design or shop design, more about consolidated access to payment providers such as Paypal etc. in different currencies. We also outsource a part of the pick/pack/shipping.

Company C. – We kept some of it internally (purchasing, marketing, management) and outsourced other parts such as B2C fulfillment (warehousing, order picking, transport, etc), finance and IT.

Company D. - Everything in-house

7. How do you manage inventory between the Internet store/B2C and normal B2B.

Company A. – Our warehouse and an internal team for our store manage Inventory. It's a totally different stock than our other dealers have.

Company B. – We pre-order product specially for the online store, but it merges with the other "normal" B2B stock, so we make the online stock available to our "normal" dealers, and the other way around.

Company C. – We have separate stock for our Internet store and own retail stores. It is completely separated although we sometimes replenish B2C stock out of the B2B stock.

Company D. - Using two different stocks (is I understood your question correct!)

8. Do you use incentives to "please" existing distribution channels/retailers and thereby avoid channel conflict?

Company A. – We try to be as respectful as possible towards our dealers. But on the same time we have to go forward how we can run our business more effectively

Company B. – Yes. We think the distributor still plays an important role in marketing the brand in his territory, and therefore should get a margin out of all products sold in their area.

Company C. – No

Company D. - Yes, but only pushing them in sales and marketing, leaving our own webstore fully outside of almost all activities

9. What is your pricing strategy in comparison between your direct channel and traditional channel partner?

Company A. – We offer the same retail prices as given to our dealers

Company B. – To have the same retail price online and offline on every market. So that our customers don't really save money when buying online, but the product is available. Our main goal is to supply the end consumer better than before, without hurting the existing sales channel!

Company C. – We use the same recommended retail price and retail pricing. We will not mark down more than the market. Some of our special edition products are never marked-down in the online store. We also only sell the current collection online. No outlet stock and pricing.

Company D. - Our webstore is either the same price level or even more expensive than elsewhere.

2 SAMPLE

List of brands included in the sample, their websites and indication whether they have direct online sales (DOS) or linkage to retailer on product level (P2P). Information gathered 4-5.11.2010.

Brand	Website	DOS
Volcom-US	www.volcom.com	YES
Sessions	www.sessions.com	YES
Rvca	www.rvca.com	YES
Roxy	www.roxy-europe.com	YES
Rip Curl-EU	www.ripcurl.eu	YES
Quicksilver	www.quicksilver-europe.com	YES
Obey	www.obeyclothing.com	YES
O'Neill	www.oneill.com	YES
Nikita	www.nikitaclimbing.com	YES
Makia	www.makiaclimbing.com	YES
LRG	www.l-r-g.com	YES
Lost	www.lostenterprises.com	YES
Independent	www.independenttrucks.com	YES
Hurely	www.hurley.com	YES
Globe US	www.globe.tv/us	YES
Globe EU	www.globe.tv/eu	YES
FOX	www.foxeuropa.com	YES
Fallen	www.fallenfootwear.com	YES
Ezekiel EU	www.ezekieleurope.com	YES
Etnies	www.etnies.com	YES
DVS	www.dvsshoes.com	YES
DC	www.dcskoes.com	YES
Burton	www.burton.com	YES
Animal	www.animal.co.uk	YES
Analog	www.analogclimbing.com	YES
Rip Curl-US	www.ripcurl.com	P2P
Reef	www.reef.com	P2P
Neff	www.neffheadwear.com	P2P
Matix	www.matixclimbing.com	P2P
Fourstar	www.fourstarclimbing.com	P2P
Emerica	www.emerica.com	P2P
Element		
USA	www.elementskateboards.com	P2P
Billabong		
US	www.billabong.com/us	P2P
Billabong		
EU	www.billabong.com/eu	P2P
Altamont	www.altamontapparel.com	P2P
Zoo York	www.zooyork.com	NO
Volcom-EU	www.volcomeurope.com	NO
Split	www.splitusa.com	NO
KR3W	www.kr3wdenim.com	NO
Insight	www.insight51.com	NO
Ezekiel USA	www.ezekielusa.com	NO
Enjoi	www.enjoico.com	NO
Element EU	www.elementeurope.com	NO