GROWING BIG: DEVELOPMENT OF STAFIX LTD`S CHANNEL MANAGEMENT IN GERMANY

Case Study: Stafix Ltd. and Igepa group

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### Abstract
The company Stafix Ltd. started working with the wholesaler Igepa group in March 2010 in the German market. Stafix did not have a lot of experiences about working with a wholesaler but nevertheless things just happened to work out fine in the end. Stafix is also operating in other European markets such as France and Spain and is planning to work with a wholesaler also in those markets in the future. Therefore the overall intention of this thesis is to give some kind of a guideline to Stafix for those future co-operations. With the help of the findings from the case study Stafix shall be able to have a better understanding of what are the important things to take into consideration when starting to work with a wholesaler in order to reach even better wholesale contracts and avoid doing the same mistakes in the future.

The research task is to discover the companies’ objectives towards the co-operation and analyse it according to the theoretical background of channel management. Therefore the theoretical background of channel management is introduced at first. To do so, the researcher refers to the work of several considerable authors. In a summary the most important points of channel management that are to be considered when starting to work with an intermediary will be noted. In the second part the researcher will introduce the participants of the case study and analyse their objectives with the help of participant observation and interviews.

In the third part the most important elements of channel management, which are channel participants, channel structure and channel conflict, will be illustrated in detail according to the results from the research methods and will be combined with the findings from the theory. The discussion gives a short review upon the thesis as well as a short glance into the possible future of the co-operation.

### Keywords
Channel Management, Distribution, Wholesaler, Marketing Channel, Germany

### Miscellaneous
Confidential pages: 33-36; 38-40; 46-50;
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1. BIG PLAYERS KNOCKING ON STAFIX’ DOOR

1.1. Background and Research Motivation

The company Stafix Ltd. sells high-tech printing material to printing houses all over Europe. The author of this paper started working for Stafix Ltd. as an Account Manager Germany in April 2008. Back then the product Stafix® was a widely new and unknown product.

After two years, the situation has changed quite a lot. The number of returning customers, in the German market, has more than doubled. Daily sample requests, inquiries and orders became more regular, and the general interest in the product is still growing steadily. Of course such a development brings not only new opportunities but also new challenges to a small company. Decisions upon new workforce, new premises, production capacity and pricing strategies are only a few examples of the organizational challenges that the company’s managers of a fast growing company are facing.

For Stafix one of the most important challenges was the development of their distribution channel. Hitherto Stafix was only selling directly from Finland to the printing houses in the German market. Overtime two main indicators that showed the need for change in channel structure emerged: Stafix® on the one hand wanted to turn all the small orders coming from each printing house into one big deal in order to gain profitability. The German clients on the other hand kept asking for a local distributor because they wanted faster delivery times. Ergo the company figured that working with a wholesaler could be the solution.

When at the same time some of the biggest German paper wholesalers showed interest in Stafix® and were offering to take it into their portfolios, the company decided to open a new distribution channel and start indirect selling. But how would that work? What would have to be considered and would it bring them closer to reaching their distribution objectives? Those were some of the questions that arose and that will be addressed in this thesis.
To avoid any misunderstandings it shall be mentioned at this point that the company name is Stafix and the product name is Stafix as well. Whenever the product is addressed it will be referred to as Stafix® with the trademark sign. In any other case the author refers to the company.

1.2. Objectives and Research Question

When Stafix started to deal with Germany’s biggest paper wholesaler the Igepa group, they didn’t have much experience about working with an intermediary. The company had many blind spots, for example about negotiating prices and delivery terms. It was difficult for Stafix to estimate what would be an adequate minimum size order, what an appropriate price to ask for, and how the wholesaler would influence the market price that had been already established in the German market. Intermediaries can help a manufacturer to gain effectiveness and efficiency but at the same time the delegation means losing some control over how and to whom the product is sold (Kotler & Keller 2009, 252). Especially for a product like Stafix® (the material requires a special printing method and its processing involves usually a lot of guidance) this loss of control can be dreadful because the reputation can be ruined very fast and customers lost forever. Hence Stafix was facing the challenge that they wanted to gain efficiency through a wholesaler but at the same time they needed to minimize the risk of losing too much control by giving proper guidance to the wholesaler.

The theoretical relevance of this thesis is to give a valuable summary of the most important parts of channel management gathered from various books to Stafix. The theoretical background of this thesis will focus on the most important parts of channel management that need to be considered for Stafix situation.
The practical relevance is to prepare the company for future co-operations with a wholesaler in other markets, like Spain and France. It shall serve as a kind of reference work for the company in order to be prepared for future projects similar to this case study.

The main research question can be defined as follows:

“What was most important regarding channel management when starting a co-operation between the companies Stafix Ltd. as the manufacturer and Igepa group as the intermediary?”

In order to answer this question the author will first outline the theoretical background of distribution channel management gathered from relevant literature. The end of the theoretical part will give a summary about the most important factors of distribution channel in order to later on be referred to in the practical implementation of the project. In a second part the two companies of the case study will be introduced and their needs and objectives will be analysed with the help of participative observation and interviews conducted by the author. Then the results will be illustrated and interpreted according to the earlier outlined theory. The third part of this paper will give a conclusion upon the results and show how Stafix can utilize the results in the future.

1.3. Research Methodology

Qualitative research consists mainly of collecting, analysing and interpreting data by observing what people do and say in their natural settings. Due to the fact, that the author of this thesis is working for Stafix, one of the case study participants, the main research method utilized in this thesis will be participative observation. The researcher had direct insight in the relationship through frequent contact with both parties. She took part in meetings, phone calls, trainings, had access to Stafix’ database and hence was able to observe the two parties and analyse their behaviour in natural settings. It shall be mentioned at this part that due to the researcher’s involvement with one of the co-operating companies,
some of the conclusions and observations may be subjective considerations and only valid for Stafix, not for companies in general.

The second research method used is interviews, conducted with the two co-operating companies, to get an insight of their objectives and attitudes towards the co-operation. The researcher chose the questions of the interviews based on to the results of the theoretical background.

The theoretical background of this paper has been collected from a variety of articles, white papers and books as well as podcasts and blogs about distribution management, channel management and marketing in general. After evaluating a few different books upon channel management, the researcher decided the book “Marketing Channels: A Management View” by Bert Rosenbloom to be the main source for the theoretical part. The book provides a very easy access towards the complex topic of channel management. It is well structured and underlined with visual effect – just the way this thesis should turn out as well.

2. CHANNEL MANAGEMENT

According to Larry E. Greiner (1972), a growing company goes through various different development stages and each stage of growth is accompanied by its own crisis. The nature of a management's solution to each revolutionary period determines whether a company will move forward into its next stage of evolutionary growth or not. (Greiner, 1972.) If a company reaches the next level of growth depends on the solutions a management comes up with or the decisions it makes in order to overcome a revolutionary period. Decisions regarding channel management are such management solutions and hence can be seen as cutting-edge towards future growth for a company. In fact, decisions about the marketing channel system (also called distribution channel system) are among the most critical that a company’s management is facing (Kotler & Keller 2009,
Channel management is a vast topic and many books have been written about it already. The following paragraph is giving a short definition of channel management as well as an overview of the most important elements of channel management when starting to work with an intermediary.

2.1. Definition of Channel Management

In a podcast about channel management, the consultant Mike Marks (2009) points out that over the years distributors, retailers and manufacturers themselves got smarter about distribution but not necessarily smarter about working together. He mentions that the main problem is the lack of mutual understanding of each other’s work. The manufacturer does not understand how the distributor works and how he makes money. The flat spot of the distributor on the other side is that he does not have sufficient enough understanding of brand marketing and is rarely an innovative risk taker. Marks states that in order to have a successful collaboration the dysfunctional understanding of channel management needs to be brought to a mutual basis. (Marks, M., 2009.)

To reach this mutual basis it is crucial to have the same perception of what channel management is and especially what and whom it involves. Books like “channel management is general management” (Cespedes 1988) have been trying to emphasize the importance of distribution channel management for decades. Nevertheless, channel management is still a rather new term and there are not many clear definitions for it. Also the job description for channel managers varies between “business development manager” to “team marketing manager” and “sales coordinator”. All of them refer to a position, which is involved in marketing channel decision-making but each related to a different point of view; either managerial, marketing or sales-related. (Rosenbloom 2004, 9.)
There is rarely one valid definition for a business term. The business world is dealing with a variety of political, economical, social, environmental and technological influences and besides every business is dealing with its own specific influences. Hence every businesses channel management is different. Consequent there cannot be one single valid definition of what channel management is.

Rosenbloom (2004) defines channel management as follows:
“Channel management can be defined as the administration of existing channels to secure the co-operation of channel members in achieving the firm’s distribution objectives.” (Rosenbloom 2004, 272).

In the book “Marketing of High-Technology Products and Innovations” channel management is defined as ongoing activities that a firm uses to maintain channel relationships and effective channel performance over time (Mohr, Sengupta & Slater 2005, 253).

Regarding the above mentioned definitions channel management is about maintaining existing channels and the relationship between its channel members in order to reach certain distribution objectives. Both above-mentioned definitions are focusing on already existing channels and the maintenance of those. The researcher wants to add at this point that channel management is also about the adjustment of channels over time, recognize the need for change and add new channels if needed.

2.2. Channel Management as Part of the Marketing Mix

After having defined what channel management is, it is helpful to take a look at the place channel management occupies in the marketing mix. The traditional 4P marketing mix is made out of the elements product, price, place and promotion and was first established by Jerome McCarthy (1964) in the 60’s. Later on Booms and Bitner’s (1981) extended the 4P to a 7P marketing mix by adding the elements participants, physical evidence and
process. Channel management is located in the element “place” - sometimes also referred to as distribution, channel management, distribution management or marketing channels.

For a long time the element place and therefore distribution was seen as a strategically less important marketing tool then the other elements of the marketing mix. But this view has changed in the past years and marketing channels have been growing in importance. Companies have finally understood that the essence of modern marketing management is about finding a better combination of all the elements than the competition (Rosenbloom 2004, 159).

The decision upon which marketing channels to use is one of the first assessments of a company. The channels chosen affect all the other elements in the marketing mix. For example the pricing strategy is different when selling directly or through an intermediary. Also the sales force, advertising and the product portfolio have to be adjusted accordingly. (Kotler & Keller 2009, 253.) Hence the job of a marketing manager is to develop the right combination of the four Ps (or seven, depending on which

![The Marketing Mix](image-url)
strategy a company wants to follow) to provide and maintain the desired level of target market satisfaction \( (Ts) \), which is described as follows by Rosenbloom (2004):

\[
Ts = f(P1, P2, P3, P4)
\]

Ts = degree of target market satisfaction
P1 = product strategy
P2 = pricing strategy
P3 = promotional strategy
P4 = place (distribution) strategy

The marketing manager has to decide how much emphasize to give to each strategy and how to combine them so that target market satisfaction is as high as possible (Rosenbloom 2004, 159.)

Which one is the most important element of this function? How important is the variable “place”? Unfortunately there are no general answers to these questions as there is no general solution to the above-described function. As already mentioned earlier, there are too many different influencing variables and they are different for each company. Market variables, product variables, company variables etc.

What can be pointed out is that channel management needs to be designed in line with the other elements of the marketing mix and needs to conform to the overall company strategy. Furthermore a company needs to understand that channel management needs to be adjusted over time. A company has to follow customer needs and buying habits as well as changing purchase quantity, location convenience, delivery speed, product variety and service when making decisions regarding channel management (Mohr et al. 2005, 255.)

2.3. Channel Structure and Flow

What are the main and first decisions a channel manager has to make and how can those decisions affect a company’s sales objectives? The first important decision that should be made is regarding channel structure. A
very fundamental choice is direct versus indirect. A *direct channel* is one in which a company sells directly to the customer with a company owned sales force from the manufacturers warehouse via a forwarder directly to the warehouse of the customer (see Figure 2, two-level channel.) An *indirect channel* is a channel in which a company uses one or more intermediaries to market, sell, and deliver goods to a customer. The two options are not excluding each other since a firm may combine direct and indirect channels for certain target groups, which is then known as a hybrid or dual channel. (Mohr et al. 2005, 255.)

![Figure 2. Different channel structures. (Adapted from Rosenbloom, 2004)](image)

There are various diagrams and charts in marketing channel literature, which give a general idea of the different amount of channel participants but they fail to explain the actual channel structure any further. Channel structure should not only point out the channel participants but also which and how distribution tasks are allocated amongst them (e.g. Rosenbloom 2004. Figure 1.11., 23).

Having understood the concept of channel structure it is helpful to take a look at the different channel flows that are included in each level. Members of each distribution channel are supposed to perform certain functions to fulfil the objectives of the channel. Figure 3 shows the different
marketing flows and the consequent relations between the channel members.

FIGURE 3. Channel flow and their member relations. (Adapted from Rosenbloom, 2004)

What the concept of channel flow is trying to clarify is that, while some flows (e.g. product flow) is rather simple and self-explaining others (e.g. information flow) are rather complex and all the channel members are connected and interacting with each other. This is also one way how to understand the difference between channel strategy and logistics management. Logistics is concerned mainly with the management of the product flow whereas channel management involves planning and managing all of the flows. Channel management involves much more than just managing the physical product flow through the channel. (Rosenbloom, 2004. 15f.)

Furthermore this concept shows that some functions create a forward flow of activity from the manufacturer to the consumer – for example the physical movement of the product. Others in turn create a backward flow from consumer to manufacturer such as for example orders or payments. (Kotler & Keller 2009, 254.)
This concept may seem simple and negligible at the first glance but creating a clear picture of the different flows, their members and their relations from the very beginning can save all the involved companies from a lot of trouble. Communication is the key word and can be seen as the glue that holds together a channel of distribution (Mohr et al. 1990).

2.4. Channel Concepts

It has been pointed out now that there are different options for channel structures, direct versus indirect selling and that there are all kinds of channel flows involved. In the following it will be explained what a distributor or intermediary actually does and what adding an intermediary to a channel changes for the manufacturer. Rosenbloom (2004) is speaking of two basic aspects regarding channel concepts: specialization and division of labour and contactual efficiency. (Rosenbloom 2004, 30.)

Specialization and division of labour means that distribution tasks are allocated inter-organizationally. The different tasks are divided amongst the channel members according to who is better in performing them. A wholesaler for example is often better at handling certain tasks such as selling and promoting, assortment building, bulk breaking, warehousing, transportation, financing, risk bearing, market information and service performance (Kotler & Keller 2009, 278f.) A manufacturer’s strength lays for example in production and giving technical guidance.

The concept of contactual efficiency is referring to the relation between negotiation efforts and reaching a distribution objective. By using an intermediary the level of negotiation effort can be reduced while the same or even higher distribution objectives can be reached. Figure 4 shows the effect the addition of an intermediary has on the contactual efficiency of a manufacturer. The red lines clearly indicate that in the first option the company has to make three times the effort to contact four customers then in the second option via a wholesaler.
The wholesaler works as multiplier of contacts for the manufacturer. Without the intermediary the manufacturer has to contact each customer on his own, which creates, in the illustrated case, four contact-strings. With the intermediary the manufacturer reaches the same amount of customers but with only one contact-string through the wholesaler.

Nevertheless it shall be mentioned at this point that there are also downsides of working with a wholesaler. The main objective of the customer is to have full access to the entire range of products and a fast and efficient delivery. The manufacturer might conclude that the addition of an intermediary can solve those customer requirements. He should keep in mind though, that earlier there was a direct contact with each customer and therefore some kind of a business relationship and control. When adding a wholesaler the manufacturer loses some of this control because he is not in direct contact with the customer anymore, at least not regularly. This means that in order to utilize the wholesaler as a multiplier of contractual efficiency the manufacturer has to establish a trustful long-term
relationship with the wholesaler and monitor his work as less as possible but as much as needed. (Peppers & Rogers 2004, 429f.)

2.5. Channel Participants

There can be found various terms for channel participants in the literature of distribution and channel management. To clarify the role of each participant the following paragraph gives some short definitions of each channel participant.

2.5.1. Definitions

• **Manufacturer/Primary Producer:** firms that are involved in extracting, growing or making products (Rosenbloom 2004, 32).

• **Intermediary:** Intermediaries are independent businesses that assist producers and manufacturers in the performance of negotiatory functions and other distribution tasks. (Rosenbloom 2004, 36f.)

  One sub-category of intermediary is the *Wholesaler*. The wholesaler consists of businesses that are engaged in selling goods for resale or business use to retail, industrial, commercial, institutional, professional or agricultural firms as well as to other wholesalers. (Rosenbloom 2004, 36f.)

  A sub-category of the wholesaler then again is the *Merchant wholesaler*. A firm engaged primarily in buying, taking title to, usually storing and physically handling products in relatively large quantities and then reselling the products in smaller quantities to retailers; to industrial, commercial or institutional concerns and to other wholesalers. (Rosenbloom 2004, 36f.)

• **Reseller:** A company that buys goods from a manufacturer and resells them to customers unchanged (Investorwords 2010, reseller).

• **Retailer:** a firm engaged primarily in selling merchandise for personal or household consumption and rendering services incidental to the sale of goods (Rosenbloom 2004, 49).
• **Secondary Producer:** A company, which adds value to the product created by the primary producer (Department of natural resources 2010).
• **Consumer:** An individual who buys products or services for personal use and not for manufacture or resale (Investorwords 2010, consumer).

### 2.5.2. Their Responsibilities and Requirements

Manufacturers need to choose their channel members carefully because to customers, the channels are the company. Therefore it is important that the intermediary represents the values of the manufacturer and understands the product as best as possible. Besides, the manufacturer should examine the intermediary according to hard facts such as number of years in business, product portfolio, growth and profit record, financial strength and cooperativeness. (Kotler & Keller 2009, 260.)

In the following paragraph the different channel members will be explained according to their objectives but also their responsibilities. Distribution channels can be inefficient because intermediaries and manufacturers may work at odds with each other. The members may have conflicting objectives and sometimes have their own goals set prior to joint objectives (Mohr et al. 2005, 253.) Therefore it is crucial that each member understands the goals of the other party from the very beginning of the cooperation.

**Manufacturer**

The table below shows some of the manufacturer’s responsibilities according to Gorchels (2004, 148) and its requirements according to Hollensen (2004, 531) with the authors` explanatory notes:

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production &amp; Delivery: the manufacturer has to produce a product of consistent quality and</td>
<td>Market share: the manufacturer hopes to gain market share by adding an intermediary as</td>
</tr>
</tbody>
</table>
**deliver it on demand inside a certain time frame.**

**Support:** the manufacturer has to provide technical support as well as training for the wholesalers` sales and technical staff.

**ROI:** increase profitability through having less but bigger orders and lower processing and material handling costs.

**Multiplier of contacts.**

**Products:** the manufacturer has to develop existing products according to the market demand and also develop new products demanded by the customers or the market and therefore has to do market research.

**Channel member loyalty:** the manufacturer expects the wholesaler to sell his product according to the arrangements made and is not selling competitive or competitors’ products as well or instead.

**Warranty:** the manufacturer has to have a warranty and return policy.

**Contribution goal:** the wholesaler is expected to contribute to a set distribution goal.

**Marketing:** the manufacturer has to proceed with marketing methods, take care of the brand marketing, and gain sales leads which can be followed by the wholesaler.

**Consumer brand loyalty:** the wholesaler is supposed to help gaining brand loyalty by fostering the brands image via marketing means.

**Pricing:** the manufacturer has to price the products so, that the wholesaler is able to enter the market with competitive prices.

**Distribution penetration:** the wholesaler is supposed to have sufficient stock and outlets in the defined geographical region to be able to serve the market demand.

**Contract:** the manufacturer has to work out a contract defining the relationship

**Communication support:** the manufacturer expects to be informed of customer requirements, changes in product expectations, etc.
Contact: the manufacturer has to assure a contact person for the wholesaler which can be called in emergencies and also as sales call assistance.

Market development: the manufacturer wants to develop and explore the market further regarding new customers, new products and new applications for his product.

Wholesaler

The following table shows some of the most important responsibilities according to Rosenbloom (2004, 42f) and requirements (Hollensen 2004, 531) of a wholesaler towards the manufacturer with explanatory notes by the author:

TABLE 2. A wholesaler’s responsibilities and requirements

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market coverage: having active wholesale outlets and reaching objectives through concentrated marketing in a defined geographical area.</td>
<td>Satisfactory stock-turn: in order to be able to control its cash-flow the wholesaler needs a fluctuant turnover of its stocked products.</td>
</tr>
<tr>
<td>Sales contacts: work as a mediator between the manufacturer and the customer and multiply the total amount of customers over time.</td>
<td>Financial Drivers: Gross margin, ROI on inventory and cash flow are the financial objectives of the wholesaler.</td>
</tr>
<tr>
<td>Inventory: making the product easier available with faster delivery times in the geographically defined area and therewith reducing the manufacturers’ financial burden and the risk associated with holding large inventories.</td>
<td>Marketing: The wholesalers` most important marketing tools are distribution exclusivity, promotional allowance and competitive prices.</td>
</tr>
<tr>
<td>Processing orders: exchanging large number of small orders from many</td>
<td>Supply: the wholesaler expects a continuity of supply within a</td>
</tr>
</tbody>
</table>
different customers into one big order.  
Saving processing costs for the manufacturer.

**Gathering market information:**  
wholesalers are closer to the market geographically and have continuous contact through frequent sales calls, hence they know more about the customers’ needs and wishes.

**Distribution exclusivity:**  
for helping the manufacturer multiplying his customers the wholesaler wants and partly also needs exclusive distribution right among distributors in his respective area.

**Offering customer support:**  
provide any kind of on-the-spot support to a large number of customers.

**Promotional allowances:**  
in order to be able to promote the material to new customers the wholesaler needs support from the manufacturer for example through price reductions for special offers.

The wholesaler as an intermediary or mediator has responsibilities to both sides of the value chain – the manufacturer and the customer. Besides the tasks the wholesaler is offering to the manufacturer, merchant wholesalers are also supposed to perform the following distribution tasks for their customers:

- Assuring product availability
- Providing customer service
- Extending credit and financial assistance
- Offering assortment convenience
- Breaking bulk
- Helping customers with advice and technical support

In regard of the research question of this thesis, the particular tasks will not be explained in detail but can be referred to in Rosenbloom. (2004, 44-46.)
**Customer**

The manufacturer and the wholesaler have at least one goal in common: profit. To gain profit you need customers, hence it has to be priority to satisfy the customers’ needs and offer added value through the new collaboration. So what do customers expect from the manufacturers distribution channels? The following table shows a summary of the most important customer needs that the manufacturer and the wholesaler should always keep in mind according to Gorchels (2004, 71) and Hollensen (2004, 531) again with explanatory remarks by the author:

<table>
<thead>
<tr>
<th>Customer’s need</th>
<th>Manufacturer’s responsibility</th>
<th>Wholesaler’s responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Availability</strong></td>
<td>Sufficient production</td>
<td>Sufficient stock</td>
</tr>
<tr>
<td><strong>Technical Advice</strong></td>
<td>Train the wholesaler’s technical staff</td>
<td>Provide technical support according to the manufacturer’s training</td>
</tr>
<tr>
<td><strong>Supporting Services</strong></td>
<td>Train the wholesaler’s staff and provide supporting tools &amp; material</td>
<td>Provide supporting services according to the manufacturer’s guidelines</td>
</tr>
<tr>
<td><strong>Choice</strong></td>
<td>Produce and provide products</td>
<td>Combine the manufacturer’s products with a variety of complementary products and create a valuable product portfolio</td>
</tr>
<tr>
<td><strong>High Quality Standard</strong></td>
<td>Quality assurance</td>
<td>Check quality of delivered material before sending it to the customer</td>
</tr>
</tbody>
</table>
2.6. Channel Conflict

The past paragraph outlined the different responsibilities and the different requirements of each relevant channel participant. No need to mention that the requirements of one party don’t always match with the requirements of the other and vice versa. Hence there is a lot of source for conflicts. The fact that there is a lot of literature about channel conflicts proofs that it is a rather common phenomenon. In order to make a co-operation between a manufacturer and a wholesaler function they have to work together to reach a common goal instead of just working for their own goal. Channel management can be compared to a social system - whenever one of the members feels that the actions of another member are constraining its or the common goal, frustration is created.

Various books upon channel conflict deal with different aspects on how and why conflicts arise. It would be beyond the scope of this thesis to go into detail of all the aspects, nevertheless the following paragraph will give a short insight upon the different causes of conflicts, types of conflicts and how to manage conflicts.

Causes of Conflict

In her book “Manager's Guide to Distribution Channels” the author Linda Gorchels (2004) for example focuses on the difference in goals and objectives of each channel member as the source of channel conflict. The figure below, taken from that book, shows possible points of friction between a manufacturer and a distributor.
She lists the categories Financial Drivers, Marketing, Competitive Advantage, Time Horizon, Planning Output and Sales and the different objectives towards those categories of each party.

<table>
<thead>
<tr>
<th>Category</th>
<th>Manufacturers</th>
<th>Distributors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Drivers</td>
<td>• Revenue and Budgets&lt;br&gt;• Market Penetration&lt;br&gt;• Profit&lt;br&gt;• ROI&lt;br&gt;• Stock Price</td>
<td>• Sales&lt;br&gt;• Gross Margin&lt;br&gt;• Cash Flow&lt;br&gt;• Earns and Turns&lt;br&gt;• Owners’ Risks</td>
</tr>
<tr>
<td>Marketing</td>
<td>• Target Market Segments&lt;br&gt;• Positioning</td>
<td>• Accounts</td>
</tr>
<tr>
<td>Competitive Advantages</td>
<td>• Product, Quality, Features&lt;br&gt;• Warranty</td>
<td>• Account Relationships&lt;br&gt;• Stock Levels</td>
</tr>
<tr>
<td>Time Horizon</td>
<td>• 1, 2, and 5 years</td>
<td>• Tomorrow, this month</td>
</tr>
<tr>
<td>Planning Output</td>
<td>• Team Commitment</td>
<td>• Action Timetable</td>
</tr>
<tr>
<td>Sales</td>
<td>• Qualification and Persuasive Presentation</td>
<td>• Take Orders, Build Relationships, and Explain Promotions</td>
</tr>
</tbody>
</table>

FIGURE 5. Points of Friction in a channel structure. (Taken from Gorchels, L., 2004, p. 139)

The figure shows, that for example the manufacturer’s attitude towards sales is differing from how the distributor sees it. Whereas the manufacturer sees every sales-contact as a consultative process the manufacturer is more focused on building a business relationship with the customer. The wholesaler is hoping to get the customer also interested in other products of his portfolio whereas the main target of the manufacturer lies solely in his product. The categories will not be discussed in detail now but what is important to learn from Gorchels’ overview is that the participants’ different requirements are the sources of conflict in this viewpoint. (Gorchels 2004, 139f.)

**Types of Conflict**

The above-described conflict between channel members is known as **vertical channel conflict** since the conflict is arising between different levels within the same channel.
A second type of conflict is the so-called **multichannel conflict**. This kind of conflict may arise, when the manufacturer is establishing more than one distribution channels that are selling to the same target market. Especially price issues may arise when one channel is working with for example cheaper prices then another channel. It is important to clearly define which channel is operating in which area or towards which target group. Otherwise the manufacturer is running the risk that his channels are cannibalizing each other (Kotler & Keller 2009, 264f.)

**How to avoid or manage conflicts**

There are two different types of channel conflict and numerous causes for channel conflict. So what can the participants do to avoid channel conflict? To avoid conflicts it is important that each channel member understands and respects the other member’s goals and objectives. Furthermore it is important that everyone is clear about his responsibilities. This can only be reached by communicating, meaning the members have to meet up and discuss about the issues and then most importantly they have to outline clear roles and rules and write them down. But what happens when a conflict occurs despite all careful preparation? How can the conflict be resolved?

The first step is realizing that there is actually a problem that needs to be solved. Unfortunately, in most cases the conflict is detected when it is already well developed and obvious, which is too late. Hence something like a warning system should be implemented. This can for example mean that the channel members meet on a regular basis and talk about the development of the co-operation or that the channel members try in some other way to survey other channel members’ perceptions of his or her behaviour. (Foster, 1974.)

A second step is appraising the effect of conflict. This means some kind of action-reaction-detection so the channel manager is able find out what were the actual problems that cause the conflict.
Last but not least the conflict should be resolved. The channel manager has to take according action if it the conflict is affecting channel efficiency. (Rosenbloom 2004, 120-123.)

2.7. Summary

So why bother? Why would a company want to start working with an intermediary/wholesaler when everybody else is talking about cutting distribution costs and “disintermediation”? And what are the most important parts of channel management that have to be taken into consideration in order to make a co-operation successful. The following paragraph is summing up all the results of the theoretical part in order to be able to address them later on in the practical implementation.

Advantages of working with a wholesaler:
As outlined in part 2.4 a company that adds a wholesaler to its channel system is able to reduce its negotiation efforts while achieving the same or an even higher distribution objective. Especially companies that don’t have the financial and human recourses to carry out direct marketing in a particular market profit from working with a wholesaler. The manufacturer gathers market information, promotes the manufacturer’s products, negotiates with clients, processes orders, finances, takes risks and distributes the product to the customers. All this helps the manufacturer to gain a bigger market share in the respective market. Intermediaries can help a manufacturer to gain effectiveness through more efficient order processing which at the same time means improved profitability due to less processing and handling costs. The manufacturer is also able to improve customer relationship management because country managers can now concentrate on creating long-term relationships with key accounts rather than taking care of each and every contact.
Disadvantages of working with a wholesaler:
The main disadvantage of adding an intermediary to a company’s channel system is that through the delegation, the manufacturer is losing control over how and to whom his products are sold. When direct selling the negotiation effort is very high but therefore the manufacturer has a business relationship with each and every customer and knows his customer’s wishes, problems, requirements and can act accordingly. A second downside is the phenomenon of channel conflict. The more levels a channel has, the more likely it is that conflicts arise and the more complex they get. There are two main types of conflict: Vertical channel conflict and multichannel conflict. Vertical channel conflict occurs between channel members within the same channel whereas multichannel conflict refers to conflicts between different channels.

Most important parts of channel management:
First thing to do is to define a suitable channel structure aligned with the company’s overall marketing strategy. The channel structure is not a static construction. The company needs to recognize the need for channel structure adjustments, plan and implement the changes carefully. After a company has realized the need for change, it needs to choose suitable channel members and analyse each member’s requirements and responsibilities from the start in order to avoid misunderstandings and prevent conflict. In order to be able to minimize the loss of control and avoid channel conflict it is important to build a long-term business relationship with the intermediary. Therefore regular meetings and updates where the two parties revise and manage the development of the cooperation are crucial. In case the manufacturer has established more than one channel in the same region it is important to coordinate them carefully to avoid cannibalization.

The most important elements of channel management when implementing a new channel member can be defined as channel structure, channel participants and channel conflict.
3. BRINGING THEM TOGETHER

3.1. The Cooperating Companies

The case study that is used in this thesis in order to explore what is most important in channel management is examining the case of the Finnish manufacturer of printing material Stafix Ltd. and the German paper wholesaler Igepa group. The two companies are introduced in the following paragraphs first in general and then according to their products, competition and general position in the respective market.

3.1.1. About Stafix

International Business (IB) graduate José Ayala founded the company Stafix in 2007. During his studies in IB José Ayala had been an intern in the company Emfit, where he got to know the material, which would be his company’s core product later on. He started researching how the material could be made printable and began to further develop the material. In 2007 the product was finally ready to be introduced to the market.

Inside three years the company has grown from a two-man start-up into an international operating company with currently nine employees. Besides the managing director José Ayala and the Sales & Marketing Director Aleksi Rastela the company employs mainly foreigners, which are taking care of the respective markets all over Europe.

Stafix’ core product is a material called Stafix®. It is a statically charged, printable polypropylene film that adheres to virtually any clean, dry surface without any adhesives. The film has a permanent static load charged inside, which creates an adhesive force that makes the material adhere. In order to make the material printable in sheet fed offset, the 50-micron thick film is glued onto a 0.355mm thick paper backer by two glue lines from both sides.
Stafix® is available in white and transparent, in the format 480x650mm and since the beginning of the year also in 320x450mm. Stafix® is printable with traditional and UV sheet fed offset printing method. At the moment Stafix® cannot be printed in gravure printing, silk-screen printing, digital printing, or others. Stafix®’ main unique selling proposition is that it adheres to almost any surface without the use of any chemicals, glue, pins etc. Therefore the advertiser of a product or a service can use any surface for advertising without being troubled about harming the surface in use.

3.1.2. About Igepa group

The Igepa group is one of the leading paper merchant groups in Europe and serves more than 40,000 customers. It is a co-operation of seven judicial autonomous paper merchants in family property. The companies of the group represent a cohesive marketing, brand, IT and purchasing policy while at the same time being autonomous.
The map shows how the seven merchants of the Igepa group are divided over Germany. On its website Igepa mentions six core values: People, Strength, Quality, Loyalty, Scale and Confidence (Igepa 2009, www.igepa.com.) The company was founded in 1960 and is headquartered in Hamburg. With 21 sites in Germany in total the wholesaler has the largest amount of sales outlets among all German wholesalers. The worldwide turnover was 1,65 billion Euros in 2008 and the sales volume 1,62 million tons. The Igepa group has about 40.000 clients worldwide with a 3.000 tons turnover per day. Igepa group currently employs about 2.350 employees worldwide.

**2H-Papier**

The co-operation between Stafix and Igepa group was not implemented in the entire German market from the beginning but started with the region of the merchant 2H-Papier (this will be explained later in this thesis in detail). Regarding this fact the researcher found it important to include some more detailed information about this merchant at this point.

2H-Papier is a family owned business since 1889. As part of the Igepa group they are responsible for the Bavarian area. They have two Logistic
sites, one in Garching near Munich and one in Nuremberg. They employ 660 people and their share of the third-party deal is about 60% with around 4500 clients. They have over 12,000 products in their warehouse and their turnover per day is around 220 tons.

In their booklet 2H-Papier mentions what they are looking for in suppliers: “In choosing our supply partners, we place great value on their reliability, performance, readiness for dialogue and decisive action. We expect visionary thinking beyond just paper.” (2H-Papier, 2009) They describe their core values as “The appreciation of collective action, collegiality as well as trustworthiness outward and inside the company”. Furthermore they claim, that „The integration into the IGEPA group is a guarantee for lasting stability and security“.

Their portfolio ranges from the distribution of printing material, printing equipment, Hardware, Software and a range of services such as logistics, training, finance and installation. The following figure shows the different segments into which 2H-Papiers` product management is divided:

![Figure 8. Product-Management organisation of 2H-Papier. (Adapted from 2H-Papier, 2009)](image-url)
**Competition**

This thesis is not focusing on the decision upon which wholesaler to chose. The decision had already been made and the co-operation was already in an early stage when the researcher decided to use the co-operation as a case study. Even though Igepa group is the largest German paper wholesaler they are facing competition and this paragraph should give a short overview upon the wholesaler landscape in Germany and compare them according to their hard facts.

There are five major paper wholesalers in the German market. The market leader is Igepa group followed by Schneidersöhne. Papier Union comes third, Deutsche Papier fourth and the European market leader Antalis follows on the fifth place. The percentages seen in the below chart are taken from a survey done in 2004, unfortunately more recent numbers could not be found from all companies. Papier Union is the only one providing a market share value on their webpage, which states that their market share is 18,5% nowadays. But by reading the industry news it was possible to see that at least the ranking of those five companies has stayed the same in the past years.

**TABLE 4. Comparison of the biggest wholesalers in Germany (by the author)**

<table>
<thead>
<tr>
<th></th>
<th>Igepa Group</th>
<th>Schneider-söhne</th>
<th>Papier Union</th>
<th>Deutsche Papier</th>
<th>Antalis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founded</td>
<td>1960</td>
<td>1902</td>
<td>1962</td>
<td>1998</td>
<td>?</td>
</tr>
<tr>
<td>Locations</td>
<td>21</td>
<td>17</td>
<td>17</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Market share (2004)</td>
<td>33%</td>
<td>25%</td>
<td>16%</td>
<td>12%</td>
<td>6%</td>
</tr>
<tr>
<td>Turnover</td>
<td>1.650 Mio €</td>
<td>789 Mio €</td>
<td>545 Mio €</td>
<td>?</td>
<td>221 Mio €</td>
</tr>
<tr>
<td>Sales</td>
<td>1.62 Mio t</td>
<td>800.000 t</td>
<td>565.000 t</td>
<td>?</td>
<td>270.000 t</td>
</tr>
<tr>
<td>Clients</td>
<td>40.000</td>
<td>?</td>
<td>?</td>
<td>11.000</td>
<td>12.000</td>
</tr>
<tr>
<td>Employees</td>
<td>1.642</td>
<td>1.236</td>
<td>850</td>
<td>600</td>
<td>457</td>
</tr>
<tr>
<td>Palette space</td>
<td>180.154</td>
<td>126.000</td>
<td>?</td>
<td>?</td>
<td>89.000</td>
</tr>
<tr>
<td>Products</td>
<td>7.000</td>
<td>8.000</td>
<td>9.500</td>
<td>5.000</td>
<td>15.000</td>
</tr>
</tbody>
</table>

The overview shows that Igepa group is a good choice for several reasons. They have the most sales outlets, which speaks for a good regional market coverage. According to their numbers they have the largest amount of customers, which is also an advantage. They don’t have the largest
number of products but this can actually also be seen as an advantage. Not having too many products means that they select the products that they take into their portfolio more carefully and work more according to the motto quality instead of quantity, which of course is very suitable for Stafix.

3.2. Participant Observation

The author of this thesis is employed as Account Manager DACH in the company Stafix. Therefore the author has a close relationship to one of the co-operating companies. In order to utilize this close relationship and find out more about the perceptions of the companies towards their co-operation one of the research methods was participant observation and will be described in the following.

3.2.1. Description

In order to gather data for the later following interpretation, the researcher used participant observation as a main research method. The observation is based on the experiences of the researcher in her function as Account Manager DACH for the company Stafix. It shall be mentioned at this point that the description of happenings has been done mainly from a retro perspective point of view since the concerning events happened before the writer started her work on this paper. The experiences will be assorted systematically and existing memos of meetings, phone calls, emails and trainings will be utilized as back-up data of the observation. In June 2009 Stafix got a phone call from the Igepa group saying that they were interested in their product and that they would like to work with them.

3.2.2. Results

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3.2.3. Interim conclusion

The participative observation offered valuable information regarding
- Channel structure
- The channel participants requirements
- Channel conflicts

3.3. Qualitative Interviews

Since the participative observation was done from a retro perspective point of view the researcher felt at some point that it would be helpful to corroborate the findings with interviews. Therefore the author conducted interviews with the co-operating companies.

3.3.1. Description

The questions for the interviews have been structured according to the findings from the theoretical part in order to be able to analyse the findings accordingly.

The interview covered questions regarding the wholesalers` perception towards the product and how it fits into their product portfolio. Besides that, the main target was to find out more about what are the wholesaler`s requirements as well as how they see their responsibilities as a wholesaler towards the manufacturer. Furthermore it was asked how the cooperation is supposed to help reaching their business targets and if they aim to expand the co-operation in the future.

The interview with the manufacturer Stafix Ltd. has been conducted face to face by the researcher with the sales and marketing manager of Stafix, Aleksi Rastela. Ones more the author tried to corroborate her findings from the participative observation regarding channel structure, requirements and
responsibilities and how the co-operation will help reaching the company’s sales objectives. Furthermore, one main target of the interview was to point out how the company is trying to prevent and deal with existing or upcoming channel conflicts.

3.3.2. Results

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3.3.3. Interim conclusion

The two interviews conducted by the researcher gave a valuable insight on what the two cooperating companies expect from each other, how they see their responsibilities and how the future of the co-operation could or should look like. Both interviews corroborated the findings from the participative observation regarding channel structure, the participants’ requirements and gave new insights upon channel conflict and the companies’ responsibilities.

4. CONCLUSION & DISCUSSION

The following paragraph combines the results of the research methods with the findings from the theoretical part. In order to answer the research questions, the paragraph will be divided into the parts that the researcher found the most important points to be considered by Stafix when starting to work with a wholesaler. They are mostly congruent with the points listed in the theoretical part. But to give a better understanding of Stafix’ situation, the order will be changed. First, the channel participants will be defined and their responsibilities and requirements analysed. Then, the results upon channel structure and channel flow will be illustrated and then the findings upon channel conflict. The researcher will combine the results from both research methods and present the overall outcome of the case study. The last part will discuss the outcome of the thesis and give a short look into the possible future of the co-operation.
4.1. Channel Participants

In the theoretical part of this thesis the researcher gave definitions and information about the different possible channel participants. To understand Stafix situation in the German market and what the switch from a two-level to a three-level channel means it is important to understand who are the participants and what are their roles.

4.1.1. Definitions

In the following table the researcher will define Stafix’ channel participants according to the definitions given in the theoretical part. The left column will name the definition and the right column will list the according company including a short explanation.

4.1.2. Their responsibilities and requirements

In the following paragraph the researcher will combine the responsibilities and requirements pointed out in the theoretical part with the findings from the research.

4.2. Channel Structure

4.3. Channel Conflict

Vertical Channel Conflict

Some bullet points can help Stafix to avoid vertical channel conflict of any kind in the future:
- Write minutes of meetings
- Have all agreements that have been made in written form
- Have a summary of each parties responsibilities in written form
- Have one or two regular contact persons instead of different ones each time
- Have regular contact with the other party by email/phone
- Have regular face to face meetings with the contact person
- Have a meeting about the co-operations development at least twice a year

Those are of course theoretical means to ensure that the co-operation keeps working well. But only having them in theory is not the key to a successful co-operation, the key is more how those theoretical means are implemented in practice.

Multichannel Conflict
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4.4. Discussion

FIGURE 9. The combination of Theory and Practice results in learning. (From to the Open University)

Most of the learning that takes place happens through a combination of theory and practice. Learning requires both theory and practice to be present. Theory on its own is not sufficient. The ideas or theories have to
be practised in real situations to see how they work. Similarly the practice is not sufficient on its own. Without reflection or critical thinking the learning effect will be much smaller. This is why this thesis is valuable for the company Stafix. Stafix as a company does not have the chance of practicing a co-operation with a wholesaler. Surely the literature upon channel management gives hints and advices on how channel management is supposed to work but without any experience it is hard to implement the theory into practice. This thesis summarizes and analyzes the implementation of the co-operation between Igepa group and Stafix Ltd. and combines it with the theory given in books. Even though this case study was not a practice it is even more important to write the findings, happenings and decisions down in order to learn from this one experience and utilize the lessons learned for future co-operations.

Stafix Ltd is a young company that tries to find its way from a small Finnish start-up to an internationally well-known brand. Starting to sell via wholesalers helps Stafix to grow internationally. It gives the company and its product more credibility because after all printing houses expect to buy a certain quality from wholesalers. Besides the wholesaler has larger resources to explore markets which Stafix would not have on its own.

At the time this thesis will be handed in, the official co-operation between Stafix Ltd and the Igepa group has just started. Hence it will not be possible yet to analyse the progress of their collaboration. Ones the co-operation is fully installed and successfully running for a while, someone else might write a thesis analysing the outcome of the co-operation, if it helped the two companies reaching their sales objectives and how the channel structure change affected Stafix’ customer relationship marketing.

So far at least the co-operation is on a good way. After the first on the spot trainings and the kick-off event in March 2010 2H-Papier had already seven new printing houses which had tested the material successfully and were planning on introducing it to their clients. Earlier Stafix had only two printing houses in the Bavarian region, now they already had nine altogether. Also the communication between the two companies seemed to
work fine. The Account Manager DACH was in regular contact with the contact person from 2H-Papier as well as with some of the back selling staff. They were communicating regularly via phone and also face-to-face meetings were scheduled on a quarterly basis. In the beginning of March the wholesaler had made its first big order to fill their warehouse and according to the latest information given by the wholesaler the material was in regular demand.
5. REFERENCES


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6. APPENDICES

Appendix 1: Interview with Aleksi Rastela, Marketing & Sales Manager Stafix

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Appendix 2: Interview with Danielle Buyukli-Boerebach from Igepa group

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Appendix 3: Email to the wholesalers xy and xy clarifying the exclusivity issue.

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Appendix 4: Email to Danielle Buyukli-Boerebach clarifying the reclamation-process.

_confidential_
### Appendix 5: Overview of the biggest wholesalers in Germany.

#### 4.2 Die wichtigsten Papiergroßhändler in Deutschland

<table>
<thead>
<tr>
<th>Name der Wholesaler</th>
<th>Umsatz/Betriebsorte (€)</th>
<th>Ansatz</th>
<th>Sortiment/Vertriebswichtige Artikel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Die Kiepe Verlagsgesellschaft mbH</td>
<td>1 Mio. t in 2004</td>
<td>1 Mio. t in 2004</td>
<td>7 Mio. t in 2004</td>
</tr>
<tr>
<td>Die Schmincke &amp; Söhne Papiergesellschaft mbH</td>
<td>660.000 Euro Umsatz in 2004</td>
<td>1 Mio. t in 2004</td>
<td>15 Mio. t in 2004</td>
</tr>
</tbody>
</table>

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