

Research on the Influencing Factors of the Marketing Channel Integration of China

Seiki Sen

Josai University

Abstract

For Chinese manufacturers, the key point of marketing channel model decisions is the lengthways integration of the marketing channel. Based on the review of some papers investigating these influencing factors, we propose some research hypotheses on the lengthways marketing channel integration of Chinese manufacturers. Then we validate these hypotheses by investigating data from manufacturers owned by the Jiangsu Suntian industry holding group company.

Key Words: Marketing Channel, Integration, Influencing Factor

1. Introduction

The mode selection of enterprise marketing channels includes selection of direct channels and indirect members, etc. At present, for Chinese manufacturing enterprises, the key problem in the marketing channel mode decision is the lengthways integration of marketing channels. That is to say, the enterprise enters into the market through their own marketing channels or marketing channels provided by other independent enterprises. Different lengthways integration of marketing channels shows different control power on marketing channels and different required resources. If the lengthways integration of the marketing channel is fixed, it is difficult to alter it.

This paper demonstrates the factors that influence the lengthways integration of marketing channels for Chinese manufacturing enterprises through the survey data of manufacturing subsidiary companies owned by Jiangsu Suntian industry holding group company. In the next section, we review some papers focused on studies of the influencing factors of a lengthways integration of marketing channels. Based on that literature, we propose seven research suppositions. Then we adopt a multiple linear regression method to demonstrate these suppositions through the survey data of manufacturing subsidiary companies owned by the Jiangsu Suntian industry holding group company.

2. Literature Review

During the last twenty years, foreign scholars demonstrated the factors that influence the lengthways integration of marketing channels from different views. Existing literature concentrates on the following fields:

2.1 The influence of marketing channel cost on a lengthways integration of marketing channels

During the process of the marketing channel integrative decision, the criterion of the decision is to maximize the long term efficiency of marketing channels. Louis W. Stern defined channel efficiency as the ratio value of channel revenue to channel cost. Namely,

$$\frac{\text{Income} - \text{Direct Cost}}{\text{Management Cost}} = \frac{\text{Revenue}}{\text{Management Cost}} = \text{Channel Efficiency}^{[1]}$$

Management cost is the channel flow cost of one product from producer to final consumer. During the process of a marketing channel integrative decision, the enterprise will consider how to minimize the unit channel flow cost in order to maximize channel efficiency. Louis W. Stern suggested the following: If the market potential for an enterprise is bigger, the enterprise's sales are bigger. Because an economy of scale exists for channel flow, an enterprise will be inclined to adopt a higher lengthways integration of marketing channels^[2]. Some scholars demonstrated the theory. Lilien adopted the data to Fortune 500 enterprises to demonstrate the theory^[3]. Klein adopted the data of Canadian enterprises to demonstrate the theory^[4]. Kim found a positive relationship between sales and a lengthways integration of marketing channels from foreign manufacturers in America^[5]. But Weitz didn't find the obvious relationship between sales and lengthways integration of marketing channels in some enterprises whose sales exceeded fifty million dollars^[6].

2.2 Influence of trade cost on a lengthways integration of marketing channels

During the last twenty years, scholars have extensively explored and carried out deep research from the view of trade cost. In an imperfect market, when the trade cost of traversing the market exceeds the interior management cost brought by a lengthways integration of marketing channels, an enterprise will be inclined to adopt a lengthways integration of marketing channels. The trade cost includes searching costs, endorsing costs and supervising costs. Because limited rationales for human beings exist along with opportunism, special assets during the trading process, and uncertainty, trade costs will largely increase. Therefore, many enterprises will adopt a higher lengthways integration of marketing channels^[7].

Some scholars have demonstrated a lengthways integration of marketing channels from the view of trade cost. Anderson demonstrated it through thirteen electrical component enterprises in America^[8]. Osborne found the validity of trade cost analysis in the field of lengthways integration of marketing channels from medium and small enterprises in New Zealand^[9].

2.3 Influence of market experience on the lengthways integration of marketing channels

In studying the influence of market experience on lengthways integration of marketing channels, foreign scholars centre on the lengthways integration of marketing channels in an international market. From research on international processes, Johanson got the following result^[10]. An enterprise's governing structure varies with the development of its activity in international markets. When one enterprise has abundant international market experience, it feels the risk of developing a market internationally is low. So it will be inclined to devote many more resources in the international market, and it will be inclined to adopt a higher lengthways integration of marketing channels.

Crick found a positive relationship between international market experience and a

lengthways integration of marketing channels from England enterprises^[11]. Kwon Yung-Chul found the same result as Crick from American manufacturers^[12]. But Bell didn't find an obvious relationship between international market experience and a lengthways integration of marketing channels in some European small software enterprises^[13], and Oviatt didn't find one in new international ventures^[14].

2.4 The influence of enterprise strategy on a lengthways integration in marketing channels

Research on the lengthways integration of marketing channels, from the view of an enterprise strategy is how an enterprise's overall strategy influences a lengthways integration of marketing channels and how channel integration influences the competitive position in the market. Michael Porter proposed three kinds of basic competitive strategies: total cost lead strategies, difference of strategies and specific strategies. He deemed that lengthways channel integration can improve an enterprise's capability relative to other enterprises through providing a series of extra values within the control scope of the management level. Of Porter's three kinds of competitive strategies, the difference of strategy has the closest relationship with the lengthways integration of marketing channels. The enterprise which adopts a difference of strategy will be inclined to adopt a higher lengthways integration of marketing channels.

Anderson & Coughlin found a positive relationship between the difference of strategy and a lengthways integration of marketing channels from semiconductor enterprises in America^[16]. But Aulakh & Kotabe found that in some southwest enterprises in America the influence of the difference of strategy on the lengthways integration of marketing channels is not obvious^[17].

3. Research Hypothesis

Based on the antecedent research and the status of Chinese enterprise's marketing channels, we propose seven research hypotheses about a lengthways integration of marketing channels for manufacturers. These hypotheses are illustrated in Figure 1.

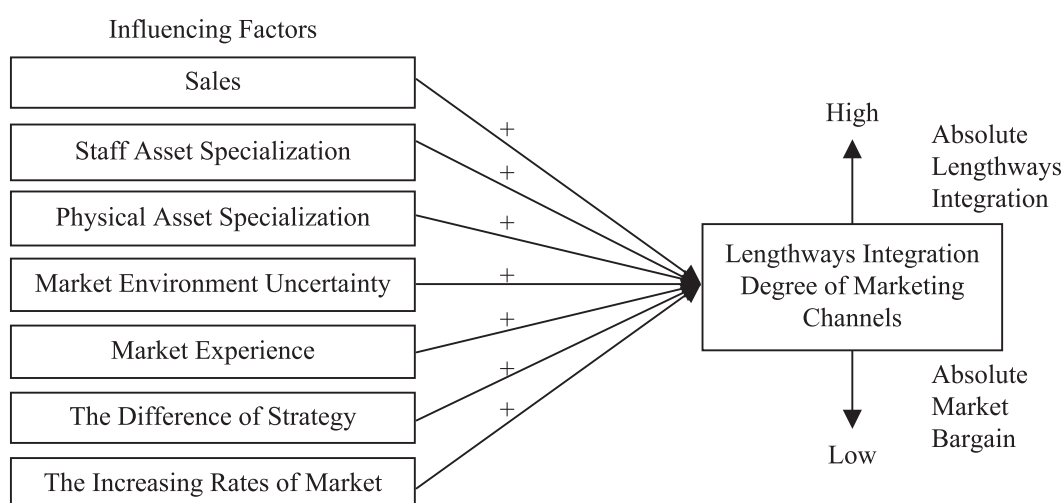


Figure 1 Research Hypotheses of Channel Integration

Hypothesis 1 : There is a positive correlation between sales and the lengthways integration of marketing channels.

If an enterprise constructs a high lengthways integration in marketing channels, it can get strong control power in a channel, but it needs to devote more human resources and capital resources, and assume more responsibility and risk. Commonly, when the sales of an enterprise are small, it is not economical to construct its own marketing channel because the sell cost of a unit product is very high. With the increase of sales, a high lengthways integration of marketing channels can help an enterprise to apportion the sell cost in order to depress the sell cost of a unit product; in this case an enterprise will be inclined to construct a high lengthways integration of marketing channels.

Hypothesis 2 : There is a positive correlation between staff asset specialization and a lengthways integration of marketing channels.

Trade cost influences a lengthways integration of marketing channels in three aspects: staff asset specialization, physical asset specialization and market environment uncertainty. The hypothesis studies how staff asset specialization influences a lengthways integration of marketing channels. The staff is an interrelated staff in a distribution field. If a salesman needs longer term cultivation, and the sale knowledge mastered by the salesman is more special, the staff asset specialization is stronger. The staff asset specialization will induce the staff to choose the conduct of opportunism. If the staff asset specialization is stronger, an enterprise will be more inclined to adopt a high lengthways integration of marketing channels.

Hypothesis 3 : There is a positive correlation between physical asset specializations and a lengthways integration of marketing channels.

The special physical asset includes special tools, equipment, and stock in the course of sale activity. These assets can improve the efficiency of sale activities. Except for special sale activity, the value of these assets is limited. These special physical assets will increase the trade cost between channel members. Therefore, an enterprise will be inclined to adopt a high lengthways integration of marketing channels so that the trade cost can become an interior cost.

Hypothesis 4 : There is a positive correlation between market environment uncertainty and a lengthways integration of marketing channels.

An uncertain market environment is difficult for decision makers to forecast. In such a market environment, decision makers need to vary their conduct routinely, but doing so will increase trade costs. Therefore enterprises will be inclined to adopt a high lengthways integration of marketing channels in order to reduce this kind of trade cost.

Hypothesis 5 : There is a positive correlation between epidemic market experience and a lengthways integration of marketing channels.

The development process of an epidemic market is the process of accumulating market knowledge. If one enterprise has abundant experience in epidemic markets, it will have a clear and realistic recognition of market environments. It can better understand the risk and income of the market. It will have strong confidence to devote more resources to the market. As a result the enterprise will adopt a high lengthways integration of marketing channels.

Hypothesis 6 : There is a positive correlation between the different degrees of strategy and a lengthways integration of marketing channels.

A difference of strategy can commonly create superiority among relative competitors for an enterprise through different products, service, or brands, etc. Through a high lengthways integration of marketing channels, an enterprise can have strong control power on every channel flow, so it can implement its difference of strategy efficiently. Therefore, the enterprise which executes a difference of strategy will be inclined to adopt a high lengthways integration of marketing channel.

Hypothesis 7 : There is a positive correlation between the increasing rates of markets and a lengthways integration of marketing channels.

In a high speed growing industry, where the future of the market is promising, an enterprise may commit more resources. Therefore, if an enterprise adopts a high lengthways integration of marketing channels, it will obtain more power control over the market.

4. Research Method

4.1 Data Collection

This paper adopts the method of questionnaire inquiry to collect data, and applies the method of statistics to analyze the data. Inquired subjects are the principals of the marketing departments of manufacturing subsidiary companies owned by the Jiangsu Suntian industry holding group company. Because the difference of channel modes in different enterprises is large, and because some enterprises adopt different degrees of lengthways integration in marketing channels in relation to different kinds of products, the enterprises owned by the Jiangsu Suntian industry holding group company were subdivided to the second level and third level. Every questionnaire includes the aim of the inquiry, and an illustrated method for filling in the questions. The questions adopt a five point scale method to measure the extent of the lengthways integration of marketing channels, sales, asset specialization, market environment uncertainty, market experience, difference of strategy, and an increasing market rate. At the end of every question, an explanation of the question is provided.

The lengthways integration extent of marketing channels is measured on a five point scale, from an absolute market bargain (denoted by 1) to absolute lengthways integration (denoted by 5). In order to avoid the subjects having difficulty understanding academic language, we adopted a different mix depending on whether the enterprise is a wholly owned sale subsidiary, whether it is a joint venture sale subsidiary, or whether the enterprise engages in sale activity. In the paper, we inquire about the enterprise's extent of lengthways integration in their marketing channels in an epidemic market, mainly the Chinese market except the Jiangsu market.

The main reasons for this are that enterprises inquired are inclined to adopt a high lengthways integration of marketing channels in the Jiangsu market, and the difference of a lengthways integration of enterprise marketing channels in an epidemic market are obvious.

Two indexes are adopted to measure sales: the total sales in past year and the rate of the sales in an epidemic market to total sales. Due to the differences of industry characteristics, the sales in an epidemic market adopted to measure sales will result in error. Therefore, we adopt two indexes: 1) the total sales and 2) the rate of the sales in an epidemic market to total sales, to measure the condition of sales in an epidemic market.

The measurement of staff asset specialization adopts two indexes: the time spent on

cultivating new salesmen to master product knowledge and market knowledge, so that the extent of knowledge mastered by these salesmen can be applied to other enterprises. The measurement of physical asset specialization adopts two indexes: the number of specialized assets during the course of sale activity, and the value of specialized asset during the course of sale activity. The measurement of market environment uncertainty adopts four indexes: anticipating the degree of the final customer, the retailer, the wholesaler and the conduct of the competitor. The measurement of market experience adopts two indexes: the number of the provinces where an enterprise develops its business, and the history of developing business in an epidemic market. The measurement of a difference of strategy adopts three indexes namely product quality, after service, and the difference of degree between brand and competitor. The measurement of market increasing rate adopts two indexes: the average increasing rate of industry market capacity in the past three years, and the forecast for the increasing rate of industry market capacity in the future three years. For the variable in which two or more measurement indexes are adopted, we use the arithmetic average value of these indexes as the value of variable in statistics analysis.

We sent out two hundred and eighty questionnaires, and received back two hundred and forty three of the questionnaires. After excluding some questionnaires, we have assessed two hundred and twenty eight available questionnaires.

4.2 Model

We adopt an OLS multiple regression model to verify each forenamed research hypothesis. The research model is as follows.

$$\begin{aligned}
 & \text{Lengthways Integration Degree of Marketing Channel} \\
 & = \alpha + \beta_1^* \text{Sales} + \beta_2^* \text{Staff Asset Specialization} \\
 & \quad + \beta_3^* \text{Physical Asset Specialization} \\
 & \quad + \beta_4^* \text{Market Environment Uncertainty} \\
 & \quad + \beta_5^* \text{Market Experience} + \beta_6^* \text{Difference of Strategy} \\
 & \quad + \beta_7^* \text{Market Increasing Specialization} + \varepsilon
 \end{aligned}$$

Independent variables include Sales, Staff Asset Specialization, Physical Asset Specialization, Market Environment Uncertainty, Market Experience, Difference of Strategy and Market Increasing Rate. The Dependent variable is the Lengthways Integration Degree of Marketing Channels. We use this model to analyze the lengthways integration of marketing channels of Jiangsu Suntian industry Enterprises in epidemic markets.

5. Results and Analysis

5.1 Regressions Results

The result of the analysis is shown in Table 1.

For hypothesis 1, the correlation coefficient between sales and lengthways integration of marketing channels is 0.522, and $P\text{-value} = 0.001 < 0.05$. Therefore, the statistical results sustain this hypothesis.

For hypothesis 2, although the correlation coefficient between staff asset specialization and lengthways integration of marketing channels is positive, the $P\text{-value} = 0.508 > 0.05$. Therefore, the statistical result is not significant.

Table 1 Regression Results

Multiple R	R Square	Adjusted R Square	Standard Error	Observation Value
0.574	0.330	0.256	1.17	228

	Coefficients	Standard Error	<i>t</i> Stat	<i>P</i> -value
Intercept	-0.982	1.147	-0.856	0.395
Sales	0.522	0.150	3.476	0.001
Staff Asset Specialization	0.124	0.187	0.666	0.508
Physical Asset Specialization	-0.102	0.154	-0.663	0.510
Market Environment Uncertainty	-0.083	0.179	-0.463	0.645
Market Experience	0.157	0.119	1.320	0.192
Difference of Strategy	0.301	0.282	1.068	0.290
Market Increasing Rate	0.008	0.260	0.030	0.976

Illustration: 5% of the significant level

For hypothesis 3, the correlation coefficient between physical asset specializations and the lengthways integration of marketing channels is -0.102 , that is to say, they are (negatively correlated), since $P\text{-value} = 0.510 > 0.05$. Therefore, the statistical result is not significant.

For hypothesis 4, the correlation coefficient between market environment uncertainty and lengthways integration of marketing channels is -0.083 , that is to say, they are negatively correlated, with $P\text{-value} = 0.645 > 0.05$. Therefore, the statistical result is not significant.

For hypothesis 5, although the correlation coefficient between market experience and lengthways integration of marketing channel is 0.157 , the $P\text{-value} = 0.192 > 0.05$. Therefore, the statistical result is not significant.

For hypothesis 6, although the correlation coefficient between the different degrees of strategy and lengthways integration of marketing channel is 0.301 , the $P\text{-value} = 0.290 > 0.05$. Therefore, the statistical result is not significant.

For hypothesis 7, although the correlation coefficient between the increasing rates of market and lengthways integration of marketing channel is positive, the $P\text{-value} = 0.976 > 0.05$. Therefore, the statistical result is not significant.

5.2 Analysis

From the regression results, we know that sales are the most important influencing factor during the course of the decision to begin a lengthways integration of marketing channels. With the increase of sales, an enterprise will have a larger sale scale effect, and it can devote more resources into channel construction. Therefore, in this scenario, an enterprise is inclined to adopt a high lengthways integration of marketing channels.

Though we find that staff asset specialization, market experience and difference of strategy are positively correlated with a lengthways integration of marketing channel, all $P\text{-value}$ are bigger than 0.05 , so these correlations are not significant, but we can get some results as follows. To some extent, when the staff asset specialization is stronger, an enterprise will be more inclined to adopt a high lengthways integration of marketing channels. To some extent, when epidemic market experience is more abundant, an enterprise is more

inclined to adopt a high lengthways integration of marketing channels. To some extent, when the difference in the degree of strategy is larger, an enterprise is more inclined to adopt a high lengthways integration of marketing channels.

Physical asset specialization and market environment uncertainty are negatively correlated with lengthways integration of marketing channels; these absolute values of correlation coefficient are around 0.1. These results are not consistent with the initial hypotheses. All *P-value* are bigger than 0.05, so these correlations are not significant. We can not find that physical asset specialization and market environment uncertainty have any influence on the lengthways integration of marketing channels. The correlation coefficient between an increasing rate in the market and a lengthways integration of marketing channel is very small, and the *P-value* is very big. So we do not see increasing rate of market having any influence on a lengthways integration of marketing channels.

6. Conclusion

Research results show that sales is the main decision factor during the decision making related to a lengthways integration of marketing channels for the enterprises we inquired into, and other influencing factors are not important. From the foregoing analysis, we know what the key problem is in a lengthways integration degree of marketing channels for an enterprise in the course of channel construction, and that the problem is influenced by many factors. Therefore, we can find that the factors considered for the inquired enterprises are comparatively simple when the enterprises are deciding on the degree of integration of lengthways marketing channels.

This demonstration research has some shortfalls. Firstly, sample data were collected for manufacturing subsidiary companies owned by the Jiangsu Suntian industry holding group company, so the sample data is not completely representative. Secondly, research hypotheses included seven influencing factors of a lengthways integration of marketing channels, but we know that the decision of channel integration is a complicated process, so we may ignore other latent influencing factors, such as the management style of leadership. In future research, we will take these factors into account.

References

- [1] Coughlan, Anne T., Anderson, Erin, Stern, Louis W. and EI-Ansary, Adell, *Marketing Channels*, 6th ed. (Tsinghua University Publishing Company and Prentice Hall, 2001), p. 168.
- [2] Lanying Huang, Chin-Chun Hsu, Factors on channel integration decisions of Taiwanese manufacturers in the export market, *Journal of American Academy of Business*, Cambridge, Hollywood, Mar 2003, pp. 312–321.
- [3] Lilien, Gay L., Advisor 2: Modeling the Marketing Mix Decision for Industrial Products, *Management Science*, Linthicum, Feb. 1979, pp. 191–204.
- [4] Klein, Saul, Fraizier, Gary L., Roth, Victor J., ‘A Transaction Cost Analysis Model of Channel Integration in International Markets’, *Journal of Marketing, Research*, 1990, pp. 196–206.
- [5] Kim, Jooheon, Daniels, John D., Marketing Channel Decisions of Foreign Manufacturing Subsidiaries in the US: The Case of the Metal and Machinery Industries, *Management International Review*, Volume 31, No. 2, 1991, pp. 123–139.
- [6] Weitz, John, Forward Integration into Distribution: Empirical Test of Transaction Cost Analysis, *Journal of Law, Economics and Organisation*, Volume 4, 1988, pp. 121–139.
- [7] Rindfleish, Eric, Heide, Jan B., Transaction cost analysis: Past, present, and future applications, *Journal of Marketing*, Oct 1997, pp. 30–54.
- [8] Anderson, Erin, The Salesperson as Outside Agent or Employee: A Transaction Cost Analysis, *Marketing Science*, Summer 1985, pp. 234–254.

- [9] Osborne, Kerri, The channel integration decision for small- to medium-sized manufacturing exporters, *International Small Business Journal*, London, Apr-Jun 1996.
- [10] Johanson Jan, Vahlne Jan-Erik, The International Process of The Firm-A Model of Knowledge Development and Increasing Market Commitments, *Journal of International Business Studies*, Washington, spring-Summer 1977.
- [11] Crick, Dave, An investigation into the targeting of UK export assistance, *European Journal of Marketing*, 29 (8) 1995, pp. 76-94.
- [12] Kwon Yung-Chul, Hu Michael Y., Comparative analysis of export-oriented and foreign production-oriented firms' foreign market decisions, *Management International Review*, Wiesbaden, 35 (4) 1995, pp. 325-336.
- [13] Bell, Jim, The internationalization of small computer software firms: A future challenge to "stage" theories, *European Journal of Marketing*, 29 (8), 1995, pp. 60-75.
- [14] Oviatt, Benjamin M., McDougall, Patricia Phillips, Challenges for internationalization process theory: The case of international new ventures, *Management International Review*, 37 (2), 1997, pp. 85-99.
- [15] Porter, Michael, *Competitive Strategy*, Beijing, Huaxia Publishing Company, 1997.
- [16] Anderson, Erin, Coughlan Anne T., International Market Entry and Expansion via Independent or Integrated Channels of Distribution, *Journal of Marketing*, 1987, pp. 71-82.
- [17] Aulakh, Preet S., Kotabe, Masaaki., Antecedents and performance implications of channel integration in foreign markets, *Journal of International Business Studies*, Washington, First Quarter, 1997, pp. 145-175.