Exploring Channel Evolution with History

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This paper discusses the evolution of the distribution channel of the Australian Information Communication Technology (ICT) industry over a 21 year period, introducing an effectiveness of the methods used to investigate this. The paper opens with a discussion of the value of historical analysis, arguing that 'applying history helps us by identifying the reasons for important transitions'. A historical focus both allows us to interpret the past via the identification of key events that triggered change; and by considering the patterns that these form; we are able to surmise the impact of present and future events. The practical problems associated with extended longitudinal research have been well documented and include substantial resources required, drop out, poor choice of focus (as one cannot foresee if research subjects will evolve in ways of interest to the researchers), etc. This paper illustrates an effective way of overcoming at least some of these problems by using archival material in combination with narrative event analysis and any necessary clarification and augmentation provided via depth interviews with industry experts. Narrative event analysis enables consideration of the important explanations that can emerge from considering timing, order and interaction of events over simple correlation between variables. The analysis enables consideration of 'moving pictures' of networks as they evolve rather than only static pictures. The analysis of archival data avoids problems of imperfect recall and because the material used (articles in trade journals published during the review period) is from the perspective of many different observers, we also avoid dependence on the perspectives and interpretations of only a few observers. The paper focuses on a description of the classification and coding of the archival data for events using structural conditions topography. One of the key findings is that the following mechanisms/conditions are appropriate for classification and interrelating of the processes and the events of the channel's evolution. Market conditions *which relate to preferred structure of the optimum channel network, size of market, industry growth, competition relating to number of vendors and distribution partners in the channel, long term strategic trends and the frequency of mergers and acquisitions were important drivers.* Product conditions *are connected to market conditions and these play a particularly important role in the information technology market where there is a constant emergence of new products and technology with products superseding other products and with short product life-cycles.* Influence conditions *(i.e. social mechanisms) are concerned responses to product and market conditions, in particular with how vendor distributor relationships are managed by vendor distributor management. This involves fit in terms of organisation culture and expectations between vendor and distributor, fit of personality of account manager on vendor distributor side, inter personal skills of account manager, communication frequency, interpersonal skills and how conflicts are managed.* Commercial agreement conditions *(risk/return profile of distribution) are the final key mechanism. This relates to the vendor commercial distributor agreement, basic functions, channel strategy, nature of commercial relationship, performance targets and formal reporting. The paper presents a portion of the analysis of the archival data using this frame to show the interrelationships of these four categories. Structural conditions have a significant impact on the structural evolution of the channel and on the relationships within the channel of distribution. Structural evolution is driven in part by market conditions. Mergers and acquisitions have resulted in increased channel consolidation and the emergence of fewer channel partners and this has moved the relationship processes from high conflict and adversarial to highly collaborative forms – though these do often include considerable conflict. Product conditions relating to convergence of new product technology over time have also impacted on channel structure expanding the channel further into retail and online alternatives. However this greater complexity of tasks (in conjunction with adversarial history) has resulted in the need for increasing levels of channel coordination to manage and resolve the considerable conflicts that continue to emerge. Evolution of commercial conditions has resulted in more professionalism and a formalised partner planning process which in turn is impacting on the influence conditions. The paper concludes with a discussion of further development of this methodology and the further analysis that will be undertaken.*

Introduction

It is the purpose of this paper to examine the evolution of the Australian Information Communication Technology (ICT) channel over a twenty year period. 'History matters'[1] in business research as this allows consideration of true causality – that which emerges through long(er) timeframes. Much business research infers the causes of business evolution from correlational methods. When the deep processes (including causes) of firm or relationship evolution are considered this is often in the context of one or more case studies where there is limited generalisability and/or the analysis methods are difficult to ascertain and replicate.

This paper addresses these limitations by applying the method of narrative event analysis methodology, using this to consider the evolution of businesses and their relationships within the broader context of the industry in which they operate. Narrative event analysis involves stories and the systematic investigation of chains of events and / or actions that lead to a conclusion.[2]

There is a long standing debate about the strength of historical inquiry (evidence) and whether it provides 'historical understanding' or 'causal explanation'.[3] However, we argue that the strength of narrative analysis is that it enables important consideration of important explanations that emerge from considering the timing, sequence and interaction of events instead of simple correlation between variables.[4]

There are many approaches to narrative event analysis and many have been developed from the biological, natural and cognitive sciences. A definition that resonates is that narrative analysis (i.e. stories) concerns chains of events and / or actions that lead to a conclusion (i.e. outcome).[5] Although the term narrative[6] and cognate concepts like sequence analysis,[7] event structure analysis[8] and stream analysis[9] are widely used, no settled definition is yet established.

The narrative event analysis is guided to an extent from the work of Franzosi[10] who developed a distinct approach to the analysis of what he terms 'narrative data'. ambition, however, was to convert qualitative data text into a numerical scale by adopting a coding framework that, in his most celebrated applications, allows counts of coded events from over 15,000 narrative texts that enabled him to develop di-graphs or maps. The Franzosi approach has merit in that, by mapping events we are able to develop a conceptual picture of 'what went on' when analysing the evolution and development of business networks such as supplier or channel networks.

The aims of the research are Firstly, to explore how structural conditions in the environment develop an industry over time. Secondly, to understand how channels of distribution evolve in an industry over time. Thirdly, does conflict intensify in distribution channels as the industry and channels of distribution mature and become more complex.

The contribution of this paper will highlight the importance of narrative event analysis in determining key paradigms and emergent themes when examining industry behaviour as it evolves over a significant period of time. What role can narrative analysis properly play in the development of technically rigorous marketing? Its role could be challenged by the positivist's who would have little sympathy for those who identify with 'qualitative' marketing (historical, ethnographic) methods. However, it would be premature to right off narrative analysis because its strength lies in its ability to capture evolutionary networks such as distribution channels and complex social interactions (i.e. narrative). Both historians Eton[11] and ethnographers Becker[12] appear to agree that the practice of assembling the evidence for a chronology of events, actions is relatively unproblematic. Debates do continue about both the nature and validity of historical and ethnographic evidence.[13]

The tool for the analysis of sequential structure of events has seen the development of software ETHNO.[14]

The contribution of narrative event analysis is to use the method to analyse other industries and marketing channel types to allow practitioners to understand how channels evolve over time and how structural conditions shape the evolvement of a marketing channel.

Such narrative methods are very much aligned with IMP approaches to research. Surface phenomena such as relationships and networks are explained in terms of their development over time through the ongoing deeper patterns of actions and interactions taking place among the organisations involved.[15]

Factors Shaping the Evolution of a Distribution Channel

The context of narrative event analysis is to explore distribution channel networks within the Australian Information Communication (ICT) sector in Australia. This is a suitable context for an event-based analysis because – interaction of individuals and institutions create events and behaviours that develop a channel over time.

The evolution of a channel of distribution is shaped by two significant factors.

Firstly, the interaction of actors, events and phases over time develop a channel. The actors are the experts that can relate to researchers their perceptions of critical events, their drivers and attribution of how they are related to each other. Events are defined as important markers in the evolution of a channel. A major critical event or series of events can lead to a phase change; a substantive change in the channel configuration.

Secondly, structural conditions shape channels. The notion of structural conditions is derived from Marx[16] who identified them as factors that are environmentally determined and objective in nature.

Structural conditions can be numerous. Four types of structural conditions are considered here, emerging from structural condition topography.[17] *Market conditions* relate to the structure of the optimum channel network, size of market, industry growth, competition (relating to number of vendors and distribution partners in the channel), long term strategic trends and the frequency of mergers and acquisitions. *Product conditions* relate to information technology market where there is a constant evolvement of new products and technology, products superseding other products and short product life-cycles. Third, *Influence conditions* (Social Mechanisms) relate to how vendor distributor relationships are managed by their respective management. This involves the fit of organisational culture and expectations between vendor and distributor, the fit of personality of account manager on vendor distributor side, inter personal skills of account manager, communication frequency, interpersonal skills and how conflicts are managed. Finally, *Commercial agreement conditions* (risk/return profile of distribution) relates to the vendor commercial distributor agreement, basic functions, and channel strategy, nature of commercial relationship, performance targets and formal reporting.

The Focal Case: The Australian Information Technology Sector

The focal case for the research is the Australian Information Communication Technology (ICT) industry, focusing on the time period 1986 to 2007. The industry and associated distribution networks are an interesting context in which to study business channel evolution because of their rapid development and maturity over a relatively short time span.

Australia today has a sophisticated, world leading ICT sector characterised by rapid growth and a high adoption of ICT by both business and consumers.

The ICT industry has been the driving force behind the Australian economy's productivity growth over the last 20 years. Australia's ICT market is 13th largest Information Technologies (IT) market in the world and the fourth largest in the Asia Pacific region after Japan, China and Korea.

The Australian (ICT) industry is represented by 25,000 specialist firms generated incomes of $79.9 billion in 2007. To put this contribution in perspective in relation to the Australian economy, in 2007-08 the IT industry contributed 4.6% of GDP, dominating other sectors in Australia such as agriculture (3.1%) industries and is approximately equal to the mining sector (5.0%). The composition of the industry sector includes:

- more than 85 software and services companies
- 36 technology hardware and equipment manufacturers and suppliers
- 3 semiconductor and semiconductor equipment suppliers
- 26 diversified telecommunication services, and
- 5 wireless telecommunications services companies.

Most of the leading international ICT companies have operations in Australia including BenQ, Hewlett Packard, IBM, Toshiba, Motorola, Microsoft, Nokia, Panasonic, SAP, SingTel Optus, Oracle-Peoplesoft, NCR, and Sun Microsystems.

Underneath locally listed companies and multinational corporations is a plethora of small privately owned companies competing for the ICT dollar. More than 50 percent of ICT specialist businesses operate in New South Wales (NSW) and Victoria.

The Australian ICT industry was chosen because it represents a dynamic and evolving industry. However, the research conducted and methods could equally be applied to different industry types.

Research Method

The research method followed involved collecting and categorising archival data from selected ICT trade journals and industry reports over a twenty year period commencing 1986 through to 2007. The industry experts were interviewed for approximately 45-60 minutes using semi-structured questions and were selected based on their industry and channel experience of over twenty years in a variety of senior management ICT roles. The industry experts were interviewed to verify the key events that occurred in the ICT industry over the twenty year history and act as a quality check in verifying and identifying the key events from the archival trade journals. The ICT trade journals used came from two reputable sources (Computer Reseller News and Australian Reseller News) and represent narrative pictures of events that occurred in the past history of the Industry and distribution channels within it.

A four step narrative event analysis was guided by a procedure developed by Franzosi.[18] As a *first step*, archival data and in-depth interview transcripts were examined in order to identify the nature of timing of critical events, phases and other processes taking place as well as the actors involved. *Second*, a coding system was developed to classify occurrences within the archival data on a micro and macro level. The micro level involved coding narrative events such as mergers (m) and conflict (c) and macro coding for structural conditions such as market conditions (mc) and product conditions (pc). *Third*, the coding of narrative events was used to guide and anchor the development and analysis of the narrative events to explain how the Australian IT channel developed over time and the different phases that occurred over a twenty year time frame. Content and causal analysis was undertaken of the narratives of key actors available from archival data and interviews of industry experts reflecting on the evolvement of the Australian IT Channel. *Finally*, discussion and conclusions were made.

Early History of the Channel

The narrative event analysis covered four key phases commencing 1986 through to 2007 and are summarised as follows:

Phase 1 (1986-89) was characterised by relatively harmonious relationships, high margins and vendors managing channel partners remotely from overseas leaving distribution to grow the market in Australia. In Phase 2 (1990-93), the channel was expanding, vendors who operated remotely eventually established their own subsidiary offices and took a more active role in developing the market and more sophisticated partnering. During this phase the channel network evolved into wholesale, retail and office and computer superstores with the result that the channel relationships became more complex for vendors to manage.

The products during the early period of Phase 1 were relatively simple, and readily accessible. For example new PC and software products were being sold (at a high margin) to a corporate market with an insatiable appetite for PC products through a channel structure of ICT resellers and distributors. In Phase 2, margins became tighter and competition increased. In response many of the vendor distributor partners adopted a push strategy of selling as much as they could in response and many were not capable of managing complex rapidly growing businesses. This resulted in vendors being reluctant to extend credit facilities to undisciplined distributor partners. This in turn triggered distributor collapses in Phase 3 (1994-99). This brought about an increase in channel conflict between vendors and distributors. The main events of Phase 3 were the launch of Netscape navigator and the associated start of the dot-com boom. Major vendors also started to panic as Dell, with its direct model of selling PCs challenged the current indirect model that vendors employed to go to market. There was considerable talk in the channel that indirect engagement was dead, with respect to distribution and that vendors needed to employ a direct model of end user engagement or face extinction. This discourse created higher incidences of channel conflicts between vendors and distributors in Phase 3 and 4.

This brief introductory description of the first three phases outlines the broad sweep of channel evolution and sets the context for a more detailed analysis of Phase 4. The motivation for highlighting Phase 4 (2000-07) is that it highlights the rapid structural and channel relationships changes that were occurring during this phase. All phases are interconnected with prior phases and help in understanding how structural conditions in the environment such as market, product, influence/social and commercial agreements shape channel relationships.

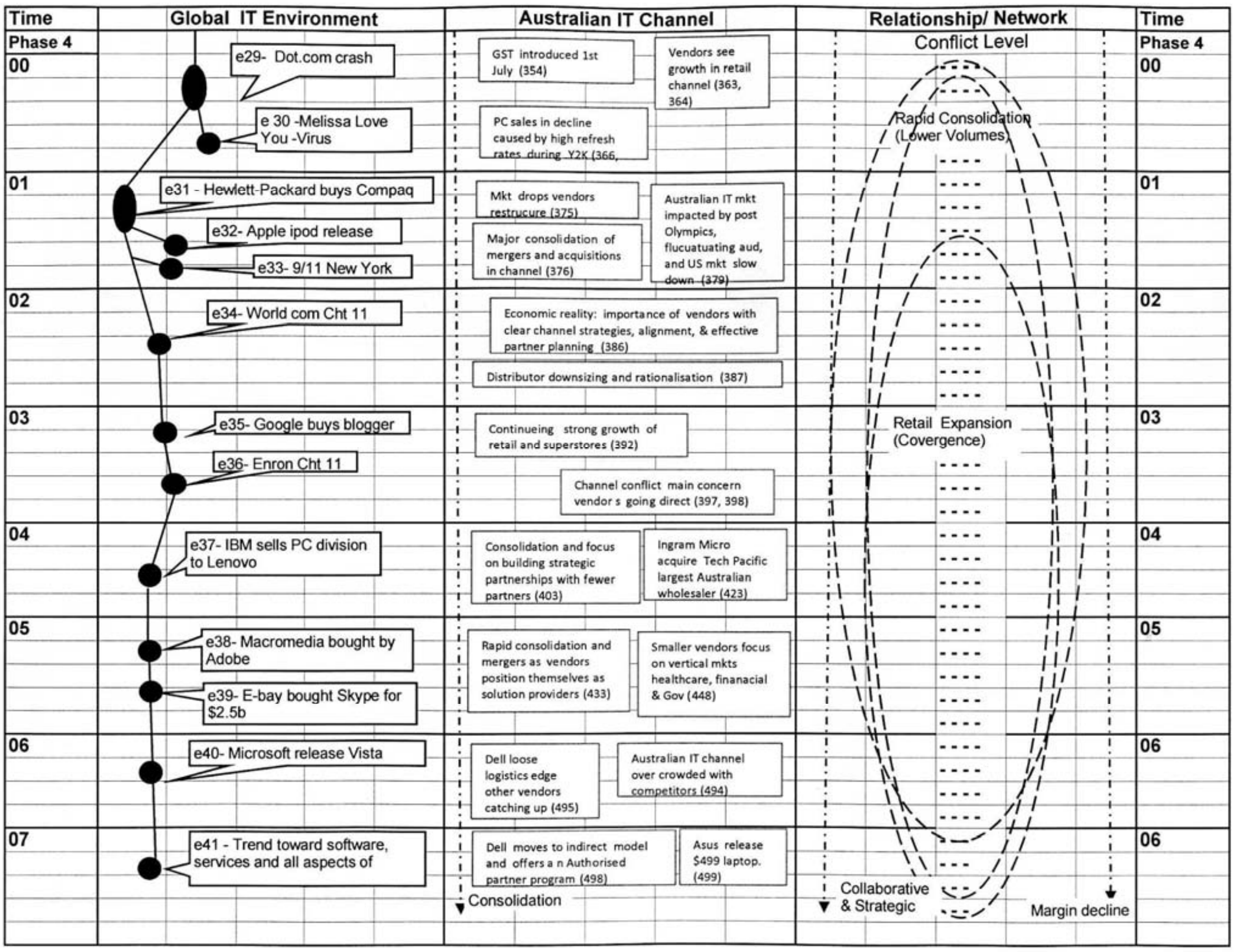
Australian ICT Channel Events: Phase 4

To more comprehensively demonstrate the application of narrative *event analysis*, a portion of the archival data and in-depth interviews related to Phase 4 (2000-07) was examined. This analysis shows how the structural conditions (macro) interplay with the micro events in the Australian channel to create interesting outcomes that relate to intensity of conflict, impact of mergers and acquisitions on channel consolidation, margin erosion and explains how channel relationships have become highly collaborative. The use of event mapping and event counts will enable a rich analysis of the data. All events were numerically referenced sequentially back to an archival database.

The year 2000 started with a great thud with markets dropping and information technology vendors having to restructure their operations. The critical events that shaped the channel during Phase 4 were driven predominantly by market conditions and to a lesser extent product conditions. This emerged from an examination of Figure 1.4 showing a *narrative map* of key events in Phase 4 (2000-07). The narrative map is interpreted as follows: the bottom of the map shows the most recent events and the top most distant. From left to right the map classifies events as global information technology events, Australian technology events and relationship network issues.

Figure 1.4 indicates that the channel experienced a major shock in the year 2000 with the dot-com crash, accompanied by continuing mergers and acquisitions. One of the most notable events was the largest acquisition in IT history which was the acquisition of Compaq Computers by Hewlett Packard. As discussed later, the accompanying narrative analysis confirms that this event prompted further consolidation in the Australian IT channel. As the channel matured the channel relationships established at this point resulted in increasing consolidation in the Australian IT Channel.

Figure 1.4 Australian IT Narrative Map



One of the interesting side-effects of consolidation and maturity in the channel was the vendors applying a higher degree of selectivity in who they partnered with. An industry expert who was working for a large IT wholesaler early 2000 made this comment about this phase:

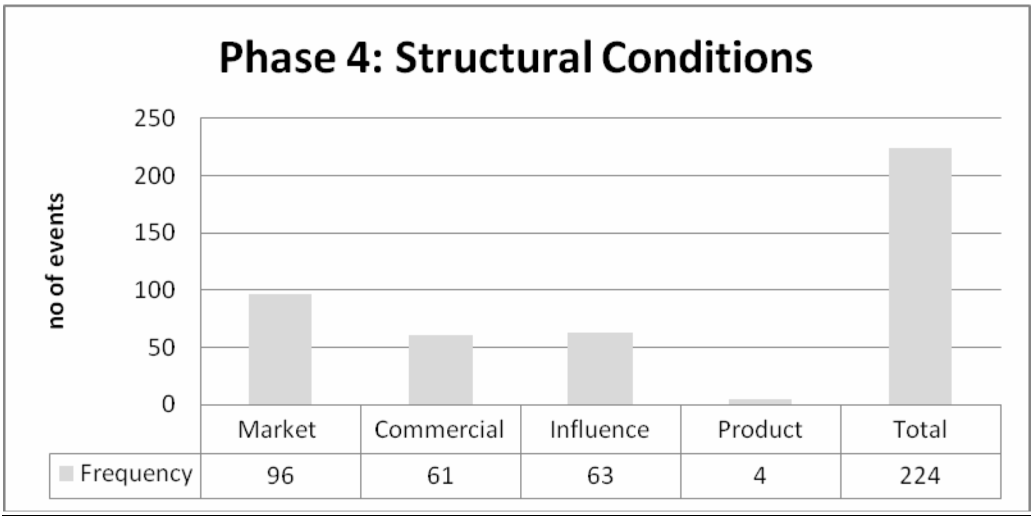
> Market maturity had forced many vendors to look carefully at their channel and partnering strategies. Before the slowdown a lot of stuff was being bought for no reason but selling IT products is a lot harder these days. Vendors want partners that will be part of the sales cycle now rather than those that just process orders. They need the channel to sell solutions and outcomes that customers are demanding.

This narrative highlights that as margin continued to decline in selling hardware related products, vendors tended to look for channel partners who could sell more complex product and service solutions.

The event in 2004 of IBM selling its PC division to Lenovo was significant. This came about as a result of the realisation by IBM that it was better for them to deploy its strategic resources selling IT service solutions not PC hardware. The decision was based on economy, in that IBM could not make an acceptable return of investment.

Figure 2 presents the frequency of event that occurred for each structural condition considered in this analysis. The total number of events analysed was 224 of which 43% (96) represented market conditions, 27% (61) commercial conditions, 28% (63) social conditions and 2% (4) were product conditions. This leads to a preliminary conclusion that the market conditions were having, perhaps the most, major impact on channel relationships.

Figure 2



A closer examination of the structural conditions and events occurring during phase 4 expands on the nature of and relationships between structural condition and events represented in Figures 1.4 (Australian IT narrative map) and 2 (structural conditions frequency).

Market Conditions

A substantial number of events related to market conditions are highlighted impacting on the channel in Phase 4. The new millennium started with the industry being impacted by the uncertainty caused by over-valuation of dot-com companies. These companies expected that they could build enough brand awareness to charge profitable rates for their services later. The prevailing motto of ‘get big fast’ reflected this strategy. During the loss period the companies relied on venture capital and especially initial public offerings of stock to pay their expenses. The novelty of these stocks, combined with the difficulty of valuing the companies, sent many stocks to dizzying heights and made the initial controllers of the company wildly rich on paper. However, the dot-com bubble burst, numerically, on 10 March, 2000 when the technology heavy NASDAQ Composite index peaked at 5,048.62 (intra-day peak 5,132.52), more than double its value just a year before. The reason for the collapse of the dot-com's stemmed from not having developed sustainable revenue and profit streams to maintain them as viable businesses. One of the major outcomes of the dot-com crash is that it signalled that high growth was over. As a result of this vendors became much more selective in choosing channel partners. Also, the dot-com crash impacted the generous rebates and marketing development funds that vendors had been giving their distributors prior to the crash. These support programmes had to be pulled back as vendors faced declining sales, profits and share prices and this had negative impacts on relationship quality.

However, there were also positive outcomes from this series of events. Considering these events from a channel perspective highlights that the dot-com era created a new route to market for many vendors who developed an online e-commerce presence. However, the commencement by major IT vendors of online presence created conflicts with existing indirect channel partners. An example of how conflict emerged in 2001 was when retail partner Harvey Norman terminated its relationship with IBM because of its direct online selling initiative. An IBM senior manager defended its online initiative through the following narrative:

> There is no doubt we are selling direct in the VSB (very small business) space. We are giving customers a choice in how they want to purchase IBM products, but we are still predominantly selling through partners in that VSB space and will continue to do so. Direct sales are still a small percentage of our business and we don't see that changing going forward. We are at a point where we can allow customers to buy directly from us if they want to, but we also have a very strong business partner channel.

The merger was supposed to generate cost synergies reaching approximately $2.5 billion annually and drive a significantly improved cost structure. The above IBM narrative was indicative of vendors experimenting with online activity. It did however create conflicts with indirect channel partners. The conflicts often occurred because vendors did a poor job in communicating their online channel strategy to existing channel partners. The dot-com era gave impetus to vendors adopting multi-channel models. In essence, vendors were still reliant on their channel partners to reach customers but it did not stop them finding a shorter route to market via online direct sales.

Market consolidation, acquisitions and mergers intensified throughout Phase 4. Hewlett-Packard Company and Compaq Computer Corporation merged in 2001 to create an $87 billion global technology leader. This would enable the new HP to offer the industry's most complete set of ICT products and services for both businesses and consumers, with a commitment to serving customers with open systems and architectures. The chairman and chief executive officer of HP at the time Carly Fiorina explained the strategic rationale for the merger:

> This is a decisive move that accelerates our strategy and positions us to win by offering even greater value to our customers and partners. In addition to the clear strategic benefits of combining two highly complementary organisations and product families, we can create substantial shareowner value through significant cost structure improvements and access to new growth opportunities. At a particularly challenging

time for the IT industry, this combination vaults us into a leadership role with customers and partners – together we will shape the industry for years to come.

The post merger was plagued with problems. Firstly, Hewlett Packard had to lay off thousands of former Compaq, DEC, HP, and Tandem employees,[19] its stock price and profits declined. Though the merger initially made it the number one PC maker, it soon lost the lead and further market share to Dell. Secondly, the merging of Compaq with HP's lucrative printing and imaging division was criticised as that overshadowed the latter's profitability.

Another major IT shift in 2004 was Lenovo's acquisition of IBMs PC division. It was strategically very important because it was the realisation that IBM is in the services business. As an industry expert explained: 'IBM why do they sell hardware, they don't make money out of hardware. It gets them in to accounts, well so do services.' The Lenovo Group completed its $1.25 billion acquisition of IBM's personal computing division in May 2005, making the Chinese vendor the world's third largest PC maker behind Dell and Hewlett-Packard. The planned sale was initially unveiled in December. In a public statement by, Lenovo Chairman Yuanqing Yang said the acquisition, '[w]ill see a new era for the global PC industry' and promised to deliver 'high-quality products and world-class service'. Bolstered by IBM's customer base, Lenovo, going forward, expects to post annual revenue of about $13 billion.

In conclusion, market conditions in Phase 4 were attributed to the dot.com crash of 2000, mergers and acquisitions that resulted in channel consolidation with fewer vendors and distributors. This resulted in higher levels of collaborative relationships between vendors and distributors and more focused partner planning.

Product Conditions

Product / Service drivers were important in redefining strategic direction for major vendors. Firstly, Apple dropped 'Computer' from its name, but its computer business is still growing, even if the iPod player is the company's real star. Apple's resurgence started with the first iMac, in 1998. Little by little, Apple has been persuading people to opt for Macintosh computers over Windows PCs. It began to reformulate its channel strategy with a focus on more direct sales through its online website and Apple owned stores at the expense of Apple resellers. The iPod and its migration path would give Apple access to vast consumer markets that were loyal to its products and technology.

Secondly, in November 2007, after numerous delays, Microsoft launched Vista, Office 2007 and Exchange 2007. Though Microsoft CEO, Ballmer, called it 'the biggest launch in our company's history', it didn't have that feel. Consumer versions of Vista and Office were not available until the New Year 2008, thus missing the holiday buying season. The launch of Vista went down in history for another reason: it was the last of the traditional big product launches. With more people tapping into hosted applications, Google experimenting with Internet-based productivity applications and users receiving a steady stream of product updates over the Web, big-bang launches may fade into the past.

The result of product conditions resulted in Apple re-inventing itself with a range of new innovative products. Microsoft had it its last big product release Vista in 2006. Many IT vendors started to position and move their business models to encompass service solutions as a way of improving profit margins. For example IBM sold its PC hardware business to Lenovo to focus on IBM service solutions.

Influence Conditions

Narrative event analysis highlights the important (and sometimes indirect) role of influence drivers in reshaping the relationships in the channel. During the 2000s the trend has been for vendors to work with fewer partners. The thinking behind this is for core strategic relationships to drive sales through channel partners. As Brian Corrigan from Australian Reseller News explained,

> During the 2000s the trend was to work with fewer partners. As the market has matured the differentiation between vendors and distributors has become smaller and smaller. What you need is a better educated channel with better use of relationships to drive sales. At the end of the day people buy from people. So it's becoming a relationship game.

The merger between Hewlett Packard and Compaq impacted relationship quality with channel partners. When Hewlett Packard resumed selling direct they did a poor job in communicating their direct channel strategy and implementation to partners. Steve Rust an Industry Expert at the time commented.

> It was driven by HP global management who made strategic decisions in going direct and it was pretty ugly in the channel. Initially HP did a great job in communicating their direct channel intent to existing partners in an open way. Unfortunately it's very hard to mange channel conflict when you know it's the basic things that make the difference. So at the high management level they set the direction. The direction was accepted by large channel partners but when it came to the nominated accounts they were taking direct and the rules of engagement were unclear with channel partners.

The act of HP selling direct to end-users was communicated to HP distributor partners. However, the implementation was poorly executed which saw the HP sales reps selling beyond the nominated accounts they were supposed to service. They started to target additional end-user accounts of their indirect distributors which created channel conflict. The result was that distributors were powerless to complain to HP about their direct selling activity. More importantly, HP's direct sales representatives were incentivised in securing direct corporate business at the expense of channel partners which contributed to conflict.

Conflicts related to distributor partners failing to achieve their financial targets and being terminated by vendors. Temporary conflicts related to cutting back rebates, product quality issues and credit term issues. The result was that conflicts were increasing due to vendors adopting more complex multi channel distribution models and the poor execution and coordination was resulting in higher incidences of channel conflict with partners.

In examining conflicts in Phase 4 a number of examples will illustrate the nature and severity of conflicts. An industry expert expressed his understanding of conflicts in the Australian IT Channel. He was of the opinion that

> Conflicts occur when relationships are tactical not strategic. An example of tactical relationships is when the larger strategic partner sends out a message that the channel partner needs to achieve $500m to achieve their quarterly rebate target. The channel partner will skew efforts to achieve the larger vendors request but damages his relationships with other smaller tactical vendors who have a similar campaign running with you has now been impacted by you directing your efforts to satisfy the needs of the larger strategic partner. Lesson: Tactical relationships are a bad place to be because you are at the ebb and flow of strategic relationships, they destroy trust.

Again, this illustrated the size of vendor and the strategic importance of the vendor to the channel partner. The larger and more influential the vendor is to the distributor, the more focus they achieve on directing the channel members effort and resources to achieving the vendor's goals.

Another example of conflict in the channel was in July 2003 with Apple and its associate reseller partners. Apple's sales in Australia can be defined in three broad categories: the online Apple Store, the various Apple Centre retail stores, and the 'associate reseller' channel. The conflict was about the announcement of the G5 Apple PC which saw associate resellers offering pre-orders for the G5 at cost price. The reaction from Apple Centre Director Ben Morgan was as follows: 'It is very disappointing that within 24 hours of such a major announcement, associate resellers were advertising that customers could pre-order at cost price. Why would you do that unless you are trying to buy customers?' This tension and conflict would further affirm Apple's drive to a direct model of engagement where they would have a firmer control over the brand, price and distribution coverage and wind back the associate reseller partners. Also, what this demonstrates again is the complexity and high level of coordination skills required by Apple to manage a multi channel strategy.

What becomes apparent in the Australian IT channel in Phase 3 and 4 are higher incidences of conflict as the channel network and social mechanisms became more complex and relationships more strategic. Vendors that failed to communicate clearly what their channel intent is and what their rules of engagement are to channel partners will run into difficulties and continuing conflicts. The danger of appointing inexperienced channel managers who might flip healthy functioning partner relationships into unhealthy ones remains a very contentious issue amongst distributor partners in the channel.

The influence drivers resulted in more collaborative channel partner relationships as a result of channel consolidation. However, channel conflict intensified as vendors developed multi-channel models and failed to communicate clearly their channel strategy to distributor partners.

Commercial Conditions

The commercial drivers in Phase 4 were further developing. With the IT industry maturing vendors were developing more structured and consistent channel and partnering strategies. With increasing consolidation this resulted in partners being more closely aligned with their vendors. The remaining partners that survived the vendor consolidation process understood clearly what the vendor's expectations and goals were.

What consolidation in the channel meant was increased professionalism by channel members. The following comments by industry expert states an optimistic tone about channel partners:

> Channel partners no longer survive just by bringing stock in one door, answering a few phone calls and then shipping it out again. In addition to improved technology expertise, channel players now need to demonstrate solid business acumen, intimate customer management skills and a spirit of innovation to survive.

This narrative helps explain that during the early evolution of the Australian IT channel vendors would sign up as many partners as they could in Phases 1 and 2. However, as the channel developed during Phase 4 and consolidation took hold the end result was a specialised pool of channel partners who were professional and innovative and had superior customer service skills.

Vendor planning in Phase 4 was becoming important. IDL's Marketing Director, Carolyn Henley whose company delivers partner marketing programs for vendors made the following comment about the industry:

> There is a drive away from direct to channel business models as people are more and more realising the importance of partners. Vendors in the IT industry, having gone through the downturn, can't afford to have a large number of full-time staff and are realising the advantage of utilising a channel for reach into the market and providing unique skill sets.

Vendors were now utilizing formal channel planning workshops to improve their channel partnering. By 2006 vendors were conducting advanced workshops that focused on effective partner selection and recruitment. There was a more disciplined, rigorous and documented partner evaluation and screening process that was aiming to predict future revenue success for all new and existing vendor partnerships. The commercial partnerships would be evaluated and adjusted annually by vendors and their channel partners.

Discussion

The use of history in examining the evolution of a channel of distribution over time involved moving forward and backward over time to examine how events in the past have shaped the evolvement of the Australian IT Channel.

Such narrative methods are very much aligned with IMP approaches to research. Surface phenomena such as relationships and networks are explained in terms of their development over time through the ongoing deeper patterns of actions and interactions taking place among the organisations involved.

The structural conditions highlighted in Phase 4 identify the incidence and frequency of market, product, influence and commercial structural conditions in the environment that have shaped the channel. These structural conditions[20] which are external factors interact with dyadic relationships between vendors and wholesalers to create emergent outcomes. The emergent outcomes from Phase 4 drawn from the narrative analysis are as follows:

Firstly, relationships between vendors and distributors develop over time from purely transactional relationships to levels of higher collaboration between channel partners.

Secondly, channels evolve and change over time from single tier to more complex multi channel distribution models over time. The Australian IT channel developed from specialist resellers to a more complex channel embracing wholesalers, distributors, VARs (Value Added Resellers), Telco's, retail, superstores and e-commerce platforms. This has resulted in margin decline, increased competition and channel shift in these new markets to the detriment of the traditional channel members.

Thirdly, the more complex and saturated the channel and routes to market are, the higher the propensity for channel conflict between vendors and distributor partners. The research identified that channel conflict intensified in Phase 4 and it is important that partners understand how to manage conflict by ensuring frequent and close communication ties.

Fourthly, conflict can be temporary or permanent in nature. The frequency of conflict in Phase 4 was caused by more complex channel design and poor channel coordination by vendors.

Fifthly, mergers and acquisitions among vendors and distributors have been numerous and have resulted in increased channel consolidation and the emergence of global partners in the Australian IT channel. This reflects in relationships being highly collaborative with a shared destiny approach to achieving outcomes.

Lastly, partner planning was becoming more important as vendors and their partners tried to achieve closer alignment.

Conclusion

The research conducted would be of interest to marketing practioners because it demonstrates how narrative event analysis can be applied to understanding how key structural conditions shape an industry and its channels of distribution over time. In particular it highlights how conflicts intensify as a channel moves from a single tier model to multiple tier models. The importance of mapping and managing conflict to ensure smooth channel coordination would be of high interest to vendor channel managers.

The contribution to method based on the adaption of Franzosi's approach[21] to narrative event analysis is a major contribution of this research. The ability to code data, document and analyse archival required the development of a software application. The mapping events to develop a conceptual picture of 'what went on' when analysing the evolution and development of business networks such as channel networks was another major contribution of this research.

The narrative event method could equally be applied to other industries and channel networks to better understand how industries and channels evolve over time.

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Endnotes

* This conference paper (full version) has been double-blind assessed by two referees.

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