

# The Governance of Distributor in Different Supply Chains

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**Abstract**—The importance of governance is discussed in this paper at first, and the phenomenon of distributors in different supply chains is analyzed. Some frangible factors are found in supply chain, and then we discuss how to improve the robustness of the distribution channel. The relationship between the factors of distributors and the robustness of distribution channel is analyzed. The aim is to improve the robustness of supply chain and make the distribution channels operate efficiently.

**Key words**—Distribution Channel; Governance; Supply Chain

## I. INTRODUCTION

With the development of information technology and internationalization, all enterprises have been involved into the supply chain competition. In this circumstance, some enterprises can gain the outstanding achievement, some of them lose in the competition. In automobile industry, the one who controls the distribution channels will gain more market share. Conflict in the channel can be lowed down with the governance of automobile distribution channel. With the governance, products can be delivered perfectly to customers. The satisfaction and the market share will be enhanced. Therefore, channel governance is the issue deserved to be researched.

Up to now, the field of business relationship management is rather fragmented. Empirical studies draw from a wide range of perspectives, such as transactions cost economics (e.g., Klein, Frazier & Roth, 1990), marketing channels (e.g., Stern & El-Ansary, 1996), and business networks (e.g., Anderson, Hakansson, & Johanson, 1994; Powell, 1990). Although there is a wide range of perspectives to relationship management, it is surprising to find few large-scale surveys that test the widely espoused assumptions regarding the influence of determinants of a business relationship on relational governance (Dyer & Singh, 1998). A business relationship can be defined as the exchange of property rights between two firms, which contains elements of the transaction, dyadic, and the business environment. Previous research on business relationship has addressed several determinants of relational governance. Examples are trust (Anderson & Narus, 1990; Zaheer &

Venkatraman, 1995), transaction-specific investments (TSIs) (Klein et al., 1990), and networks (Dyer, 1996). The objective of this paper is to propose an integrated framework for relationship management that attempts to elucidate the relation between the determinants at the transaction level, the dyadic level, and the business environment level and relational governance. This integrated framework also attempts to elucidate the choice of relational governance opposed to a transactional orientation and its influence on performance. The empirical setting for the present study is the business relationships between suppliers and merchant/distributors in the Dutch potted plant and flower industry. This is an interesting empirical setting because it provides insight in how firms manage focal business relationships in an industry where an increasing number of firms are replacing market governance (e.g., auction clock3 transactions) by relational governance (Kalenzi, 2000; Deneux & Luten, 2001).

Distributors in the supply chain play the role which linked the whole chain, and the distributors distribute the products from the manufacture field to the consumption field. Take the specialization distributor in the supply chain as the example, they should face uncertain environment, specially the change of customer demand and manufacturers demand through their own ability or resources outside. According to the competition strategy to determine the difference between perfect condition and the reality, based on the resources and the full utilization of related theory. The distributors make the strategy, making effort to construct the competitive advantage on each level. In the end, the whole chain has powerful competition advantage.

At present, most of distributors sell many brands, namely one distributor faces many manufacturers. Under this situation, the distributors are in the different manufacturers' supply chain. Sometimes the chain needs to be coordinated. How to make the coordination strategy, how to assign the profit, what factors are needed to consider by the distributor in the brand choice, who pays the cost to carry on some marketing strategies. Relation coordination in governance of distributors in different supply chains appears especially important. Because the distributors are in the core status of different supply chains, it's likely to cause the disintegration of supply chain network.

## II. CHANNEL GOVERNANCE OF SUPPLY CHAIN

The core of governance is how to coordinate. The supply chain is a coordination mechanism between the market and the hybrid. It's also a kind of "the half combine organization".

Although it can avoid the limitations of the market and hybrid governance, it still has some bugs including: the profit brought by cooperation is uncertain; the financial information can't be shared with; the assigning principle and the calculation method are very complex.

How can the channel conflict be solved? This is the difficulty of governance. The definition of governance conformity is proposed by Stoker and Gerry (1,998) in the governance theory research, and a theory frame is constructed in five aspects to understand the concept of governance<sup>[6]</sup>. To be used in the supply chain channel governance, this frame should include:

(1) Governance involves a complex deploy including the government or the non-governance system and actors. In the supply chain environment, the structure of governance changes from original "the longitudinal integration" to enterprise dynamic alliance. Therefore, the concept of governance emphasizes that manufacturer is not a sole authority core; especially the correlation benefit must be concerned in order to melt the role conflict.

(2) Governance realizes that in the solution of dispute, boundary and responsibility are fuzzy. Governance not only realizes that the environment is becoming more complex, but also reminds us to notice the authority shift. After boundary ability sharing, the fairness of excess profit share affects sharing. As a result, governance emphasizes division between the boundaries, and also pays attention to the fairness of benefit redistribution.

(3) The meaning of the governance needs confirmation of the authority dependence relations among each pitch point in the chain. The result of exchange and sharing is not only determined by each enterprise's resources, but also depends on the rules. The government is one kind of interaction process, also is the resources redistribution process.

(4) Governance means the network is independent autonomously. In the self-control network, the organization resources, technology and the goal will be connected based on certain mechanism by the actors. After such alliance established, enterprises will initiatively fulfill the contract in the chain, and achieve the situation that enterprises restrict each other.

(5) Governance essentially requests to be able to build a coordination frame, melt the benefit conflict among the channels and establish corresponding strategies.

### III. THE MAIN INFLUENCE FACTOR OF DISTRIBUTION CHANNEL ROBUSTNESS

The distribution channel robustness is created by all enterprises in the supply chain, the distributor as the corn in the supply chain network is the key to enhance the robustness. The main factors to enhance the robustness of distribution channel in the supply chain are showed as following.

#### *3.1 The relational coordination between distributors and manufacturers*

Because of one distributor faces many manufacturer, each manufacturer has different characteristics. In order to attain strategy balance, the coordination is needed in the process. How to arrange sales among different brands during the sales

process, for example each brand must hold certain inventory, each brand has its own exhibition situation. Who decides the shop design? Who pays the repair cost and so on?

If a manufacturer and one distributor involves in the supply chain, its cost shares as well as the benefit division only needs both sides to coordinate, or one side can solve. But this situation of distributor in different supply chains brings out the network coordinated, strengthening the complexity and the difficulty of coordination.

Because of the "the economic man" supposition principle, under this situation of many manufacturers and one distributor, it's possible that the manufacture will not take responsibility. The manufactory will not pay the cost which in the distribution channel. The manufacturers hope the distributor can only sell their own products. The distributor has to find a coordination strategy, and to keep balance among each manufacturers' benefit, and work out the reasonable shares about the cost in the channel as well as the related expense.

Relational coordination is hard to be calculated. Different relational coordination strategies are carried on different enterprises. If the enterprise thinks much of the relational coordination, the channel robustness will be stronger.

#### *3.2 The promotion ability and the post-sale serviceability of the distributors*

The distributor is in different distribution channels, and is the medium to deliver the products for the manufacturers. The distributors must have the ability of terminal sale to finish the distribution process. The manufacture's promotion ability is weak, and then it needs the formidable promotion ability of distributors. But the manufacturer's promotion ability is strong, and the promotion is designed by the manufacturers, then the plan is executed by the distributor. For example P&G Company's product promotion is designed by itself. The post-sale service ability is also important. Whether the post-sale service ability is strong or weak will affect the product price and the market expansion directly. The distributor's promotion ability and the post-sale service ability can decide terminal customer's satisfaction directly. The degree of customer satisfaction can enhance the robustness of supply chain, therefore the promotion ability and the post-sale serviceability of the distributor is positive correlation with the distribution channel robustness of the supply chain.

#### *3.3 The market scope of distributor*

The manufacturers all hope the distributors focus on the goal market which they want, finally convince the consumer to purchase their products. The enterprises choose the distributors to setup sale network, and create the goal market. The end-user or the consumers can gain the products nearby and conveniently. The management scope of the distributor represents the channel width. The wider scope can guarantee to sell more goods. The distributor who has a big market scope should have the power to control the channel. The manufacturer is willing to cooperate with the powerful distributor to realize the product sale. But if the distributor's strength is too high, and cause the manufacturer's power

reduce. It will appear that the distributor eliminates manufacturer's products.

### 3.4 Information sharing degree

One of supply chain's competitive advantages is achieving the fast response market through information sharing between enterprises. Therefore information sharing of distributors can guarantee the stability of distribution channel. Enterprise information level is weigh by distributor's information assembly degree, information technology personnel quantity, the information processing speed and the information sharing degree. The high distributor's information sharing level can carry on coordination well. However the information is symmetrical completely in the supply chain, the whole efficiency will be reduced. The moderate information sharing and can enhance the distribution channel's efficiency. Namely with the information sharing degree's enhancement, the robustness of distribution channel will be enhanced gradually. The moderate information sharing degree may cause the channel robustness to achieve the best level, if this optimum value is surpassed, further enhances of the information sharing degree, the distribution channel's robustness will start to reduce.

### 3.5 The credit level of distributor

The good credit status is the key to maintain the management stabilization and development. The credit status also decides the distributor's payment ability and the payment speed, and it is important attribute of the partnership maintenance. The good credit distributor may guarantee the fund chain's stability in the distribution channel. Obviously distributor's credit level may enhance the distribution channel's robustness.

According to the above analysis, the distribution channel's robustness is related mainly with the relations coordination, distributor's promotion ability and post-sale service ability, distributor's market scope, information sharing degree and distributor credit level. But these factors are difficult to be quantification. Each industry and the different enterprises differ from each factor's weight. The general relationship can be established. The supposition is as follows:

$y$  denotes the robustness of the distribution channel in the supply chain.  $x_1$  denotes the relation coordination of distributor and manufacturers.  $x_2$  denotes the promotion ability and the post-sale serviceability of the distributors.  $x_3$  denotes the market scope of distributor.  $x_4$  denotes information sharing degree.  $x_5$  denotes the credit level of distributor.  $y$  is related with  $x_1, x_2, x_3, x_4, x_5$ , the general relationship is  $y = f(x_1, x_2, x_3, x_4, x_5)$ .

## IV. THE CORRELATION BETWEEN THE DISTRIBUTOR ROBUSTNESS AND FIVE FACTORS

According to the analysis of each factor's relation and the distributor's robustness, we may portray the correlation between each factor and the robustness of distribution channel,

when this relationship is used in certain enterprise, the weight may be evaluated according to enterprise's special details, and then the function is given, and the optimization is gained further. The analysis of correlation between each factor and the robustness is showed as following, indicating through the graph:

### 4.1 The correlation between distributor and many manufacturers' relational coordination and distribution channel robustness

If there's no relational coordination, the distribution channel has low robustness at first. With the implementation relation coordination, the robustness starts to rise. At the beginning, the degree of coordination isn't higher, the rise tendency is quite slow. When the coordination is carried on in the entire supply chain network, then the robustness will be promoted quickly. The utilization of coordination has certain applicable scope, but it cannot solve all vulnerable problems in the supply chain, therefore the promotion of distribution channel's robustness has certain limitation. In the end, the function will tend to be steady gradually, and showed as Figure 1.

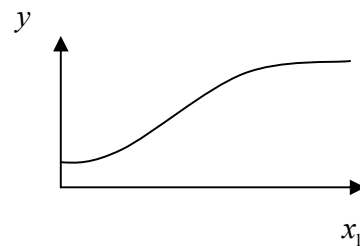


Fig. 1 Correlation between Distributor and Many Manufacturers' Relational Coordination and Distribution Channel Robustness

### 4.2 The correlation between the distributor's promotion ability and post-sale service ability and distribution channel robustness

Distributor's promotion ability and the post-sale ability may affect the relationship of distributor and the clients, and enhances the customer satisfaction. Now the customer variety demand is stressed and the consumers are taken as the sales guidance, customer satisfaction is the efficient path to realize the overall benefit maximization of the supply chain, therefore they're positive correlation. After enhancement of distributor's promotion ability and post-sale service ability, the product sale can rise quickly. The consumption level has certain degree of saturation, when ability is promoted to some extent, the sales volume will tend to be steady. There's the similar tendency with the distribution channel robustness, showed as following in Figure 2.

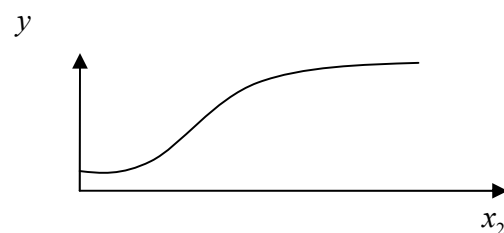


Fig. 2 Correlation between the Distributor's Promotion Ability and Post-sale Service Ability and Distribution Channel Robustness

4.3 The correlation between distributor's market scope and distribution channel robustness

Whether the products can be bought is decided by the distributor's market scope. Customers hope to purchase the product conveniently. If the market scope is widened, product distribution can be smoother. Regarding the manufacturer, the distributor expands the market scope may cause the distribution channel of products to expand, completing the product sales process. The manufacturer may complete the sales, and the distributor may realize the profit, then both sides may obtain the benefit, realizing the maximization of overall benefit in the supply chain. If the distributor's market scope was oversized, the supply chain's core status would be occupied by the distributor, then the distributor will control the entire distribution channel, and restrict the manufacturers. In this situation, channel's robustness will be destroyed, showed as Figure3.

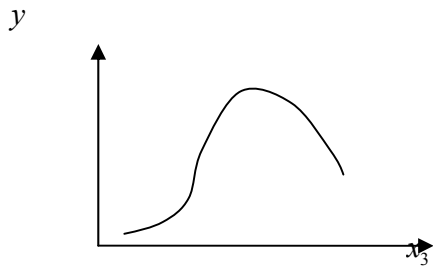


Fig. 3 Correlation between Distributor's Market Scope and Distribution Channel Robustness

4.4 The correlation between information sharing degree and distribution channel robustness

Information's sharing may realize the information symmetry, and it can solve enterprise's contradiction and the conflict in an effective way. For example, the manufacturers and the distributor carries on the information sharing to reduce the inventory cost, and realize the enhancement of reaction speed in supply chain and so on. The distributors and customers may save transaction cost in certain extent by information sharing. The distributor may also grasp consumer's purchase behavior, thus carry on the product promotion of target-oriented and realize the profit. But information sharing degree is excessively high may not promote supply chain's overall efficiency, does not good for some reasonable competitions. The suitable conflict will do some good to the distribution channel. Therefore the information sharing degree's enhancement will improve the distribution channel robustness rapidly, when the sharing degree achieves the most superior situation, the distribution channel's robustness will achieve the maximization. But the further enhancement of the information sharing degree will bring some adverse effect, and the robustness starts to reduce, showed as Figure 4

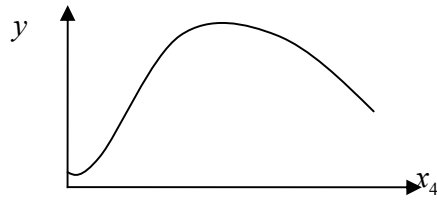


Fig. 4 Correlation between Information Sharing Degree and Distribution Channel Robustness

4.5 The correlation between distributor's credit level and distribution channel robustness.

The distributor credit level's enhancement can guarantee that the fund chain of distribution channel operates smoothly, and it can also avoid the fund chain broken. The fund chain keeps the distribution channel robustness in certain extent. They're positive correlation. Besides the fund circulation, there're other factors affect the distribution channel robustness. After the credit level arrives at the certain extent, the influence function will tend to be stable, showed as Figure5.

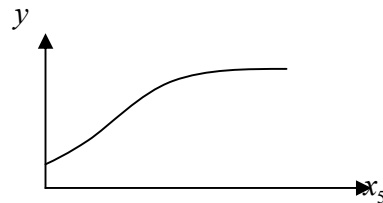


Fig. 5 Correlation between Distributor's Credit Level and Distribution Channel Robustness

V. CASE STUDY

Gome Co., Ltd. is one of operating different types of home appliances based appliance retail chain enterprises nationwide. Gome Co., Ltd. Established in January 1, 1987. At present, Gome has developed into the country's largest distributor of home appliances. It has more than 90 large-scale Shopping Mall, more than 5,000 employees, annual sales capacity of more than 100 billion RMB. It's Changhong, TCL, Konka, Xiahua, Hisense, and Toshiba, Sony, Panasonic, LG, Philips, Sharp, Sanyo, and many other manufacturers' largest distributors in China. Gome entered into the national information industry Centre and the State Statistical Bureau in 1998. Gome's color television sets, air-conditioners, videos, and many other categories of the annual sales statistics are highest in the top of the same industry. At the same time, Gome also established a contingent of high-quality service and improved after-sales service system. Gome Beijing Consumer Association company was awarded the "trust-service units" title in 1999. In 2001, the State Economic and Trade Commission announced the list of top 100 commercial chain

shops, Gome was in the first six-entered. In addition, the Gome is awarded by China Consumer Association as "integrity units."

September 24, 2007, Dell and Gome signed a strategic cooperation agreement in Beijing hotel. Dell will formally enter the computer distribution market.

In the global PC market, during the second quarter, Dell's market share was 15.5%, and 18.3 % behind HP in second place. This is the largest action of Michael - Dell since he re-charged. He wants to recapture the market in China. Because the traditional commercial customer growth is slowing down, individual consumers and the need of the rapid growth of SMEs are growing up rapidly, but direct sales to these customers has little benefit, particularly in China.

According to executive vice president Gome Group Wang Junzhou, Gome about 50 major cities stores began to sell Dell products in the next two or three months after National Day. The scope will be expanded to 700 stores, and Gome will do promotion activities. Gome is currently China's only authorized distribution channel.

Dell wants to use the market scope and the promotion ability and the post-sale ability of Gome to expand the sale volume of PC. During the distribution process, they share some information, in order to deliver the products which wanted by consumers.

Gome is the represent of the distributor in different supply chains, it agents many brands of the applicants. When Dell wants to use the distribution network of Gome, they need to negotiate about the profit sharing, the incentive policy and so on. If the relational coordination can't work well, the chain will part.

Distributor governance is very important in China, the case means that the powerful distributor can help the manufacture to expand the sale volume, and the manufacture must use the distributor's network. Two sides must come to agreement on profit, cost, training and so on. Distributor governance can lead the whole interest of the supply chain to maximization.

## VI. CONCLUSIONS

This paper focuses on channel governance. The current distributors are in different supply chains. They distribute the products for different manufacturers. The main goal in the supply chain is to maximize the overall interests of the chain. Distributors are at the core of the node enterprises across variety of supply chains. It is necessary for the cross-chain of distributors to governance. Cross-chain governance is more complex than the traditional distribution. One distributor faces many manufacturers, and they are more likely to produce contradictions and conflicts. There will be more complex relationship for coordination, resulting vulnerability factors. Channels governance is extra important, and the coordination is more complicated. Relations coordination is the most crucial factor in distribution channel governance, and distributors and manufacturers are needed to negotiate to build a collaborative governance program, and then implement the program into the entire distribution channels.

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