Distribution channels
for
Internet Telephony

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Distributionskanaler för Internettelefoni

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Overview

There are a great number of models and theories described by authors like Kotler & Armstrong (1996) and Hutt & Speh (1989) about distribution channels. However the models and theories are quite abstract and not branch specific.

The size of the Internet is growing in an incredible speed and new possibilities with the Internet are being invented every day. The new technologies make it possible to use the Internet in many different businesses (Statskontoret, 1997). One such business is the telecommunication business and the technique of Internet telephony.

With these both statement above I ask myself: *How can Internet telephony be distributed?*

The question is if existing distribution channels on the market are suitable for the Internet telephony products, and what channels must telecommunication companies use to be competitive on the new combined tele- and datacommunication market.

The purpose of this research is to contribute to an increasing knowledge in how Internet telephony can be distributed. Further the purpose is to identify and evaluate different options of distribution and find important factors that affect the choice and management of the distribution channel.

Because of a lack of information in literature describing distribution channels for Internet telephony products, I decided to do a qualitative study in order to get a hold of relevant information. Since I wanted to study a such new and specific area as distribution channels for Internet telephony products and as I wanted to have the possibility to come back with supplementary questions, I chose a case study with complementary interviews as my method.

This research has shown that there are a number of options to distribute Internet telephony products. There are also a number of intermediaries which are relatively new on the market and are not described in detail in any literature. New kinds of value- added resellers and system integrators with good competence are quite common on the tele- and datacommunication market today. They do not only resell products but also add value in form of hardware, software or service. When doing a choice of distribution channel both manufacturers and channel members want to have a close long term relationship. This can be done with common objectives and strategies or with partnerships in different forms. In evaluating a choice of distribution channel, criterias like cost, control and adaptivity, should be taken in concern. A multichannel or horizontal distribution approach is also quite common on the tele- and datacommunication market. Manufacturers need to use different channels to reach different customer segments. To manage a good relationship in a channel the manufacturer have to motivate, handle conflicts and support the channel members.

Sammanfattning

Det finns ett stort antal modeller och teorier beskrivna av författare som Kotler & Armstrong (1996) och Hutt & Speh (1989) om distributionskanaler. Däremot är modellerna och teorierna ganska översiktliga och inte branschspecifika.

Internet växer med en otrolig hastighet och nya möjligheter med Internet uppfinns varje dag. Nya tekniker gör det möjligt att använda Internet i många olika affärsområden (Statskontoret, 1997). En sådant område är telekommunikations branschen och tekniken av Internettelefoni.

Med dessa två uttalande ovan frågar jag mig själv: *Hur kan Internettelefoni distribueras?*

Frågan är om existerande distributionskanaler på marknaden passar för Internettelefoni produkter, och vilka kanaler måste telekommunikations företag använda för att kunna konkurrera på den nya kombinerade tele- och datakommunikations marknaden.

Syftet med uppsatsen är att bidra till en ökad kunskap om hur Internettelefoni kan distribueras. Vidare så är också syftet att identifiera och utvärdera olika möjliga distributionsval och finna viktiga faktorer som påverkar valet och underhållet av dessa distributionskanaler.

På grund av bristfällig information i litteraturen som beskriver distributionskanaler för Internettelefoni, bestämde jag mig för att göra en kvalitativ studie för att komma åt relevant information. Då jag ville studera ett sådant nytt och specifikt område som distributionskanaler för Internettelefoni, och eftersom jag ville ha möjligheten att återkomma med kompletterande frågor, såg jag en fallstudie som lämplig metod.

Denna uppsats har visat att det finns många möjliga distributionskanaler för Internettelefoni produkter. Det finns också ett antal olika mellanhänder på marknaden som är relativt nya och inte beskrivna i tidigare litteratur. Nya sorters av värde-adderande återförsäljare och systemintegratörer med god kompetens är vanliga på dagens tele- och datakommunikations marknad. Dessa återförsäljer inte bara produkterna utan tillför också värde i form av hårdvara, mjukvara och service. När tillverkare och återförsäljare gör ett val av distributionskanaler baserar de ofta detta val på möjligheten till ett långsiktigt samarbete. Detta kan uppfyllas med gemensamma mål och strategier eller med partnerskap i olika former. När man utvärderar olika val av kanaler bör man titta på kostnader, kontroll och flexibilitet. Det är vanligt att man använder sig av en flerkanal, eller horisontell, struktur på sitt distributions nätverk på tele- och datakommunikations marknaden. Tillverkare måste använda olika kanaler för att nå olika kundsegment på marknaden. För att kunna hålla uppe en god relation i en distributionskanal måste också en tillverkare motivera och hjälpa sina kanalmedlemmar samt kontrollera konflikter i distributionskanalen.

Preface

This research is a final year project at University of Skövde, Sweden. The research is the result of 20 weeks studying, 20 university points, and is the last unit in the program of Business Information Systems. This paper is made by Magnus Andersson and all information included is truthful.

The process of concluding this research project has been very interesting and challenging. I sincerely feel that I have developed myself in many ways. This personal development has not been managed alone, on contrary I have been privileged to work with many people that have encouraged me and made the completion of the study possible.

First of all I want to thank Ericsson Internet Group for supporting me in the research, a special thanks goes to Peter Lindholm who provided me with the case for the research. I also want to thank Katharina Elger, Monika Mattson, Christina Olsson, Robert Nedjeral and all other employees at Ericsson Internet Group whom I have had many interesting discussions with. A thanks also goes to all the people who I have interviewed outside Ericsson.

I also want to thank Catherine Lillo and Maria Christoferson at University of Skövde who has been a valuable source of inspiration, always finding time to discuss problems in the research project and encouraging me to keep up the pace important for effective research.

Magnus Andersson

Stockholm, Sweden 18 June 1998

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1. Introduction

The size of Internet is growing in an incredible speed and new possibilities with the Internet are being invented every day. The new technologies make it possible to use the Internet in many different businesses (Statskontoret, 1997). One such business is the telecommunication business and the technique of Internet Telephony.

LM Ericsson have in their 2005 vision stated that they see a convergence towards the information communication industry. Telecommuniation, computer and media industry is converging into an infocommunication industry. Telecommunication has been Ericsson's main business but now they have to change their way of doing business to cope with computers as well as media industry factors (Telefonaktiebolaget LM Ericsson, 1996) Telecommunication and datacommunication are coming closer together.

Telecommunication companies are used to work with customers and market segments that exist in the telecommunication environment. Characteristics of the new information communication market will also include factors from the computer and media industry which might be quite different from what the telecommunication companies are used to.

One area that might be affected of this convergence is the marketing and distribution area. Can telecommunication companies use their old distribution systems distribution and what new factors are the computer and media industry contributing with?

The lack of competence and understanding of the computer business is a fact that many telecommunication companies face today (Lindholm, 1998).

1.1 Background

How to distribute your products has always been an important part of marketing, and "How will we get our products most effectively available for use" (Stern & El-Ansary, 1977:4) is a question which many telecommunication companies ask themselves today.

Telecommunication companies are often use to handle few, but large deals, which might take 1 1/2 year to settle. The computer and media industry is known for having short product lifecycles whereby demands are posed upon manufacturers to have very short time to market in order to be competitive and survive (Lindholm, 1998). How is the telecommunication able to adopt to this convergence? Can they use the same traditional distribution systems or do they have to change?

On a market where the competition increasing, this issue will of course affect the success of the companies. In businesses where the technology changes very fast and

the amount of customers are increasing at a high speed, the distribution issue is coming to its edge (Statskontoret, 1997). One such business is the Internet business.

The World Wide Web users are calculated to increase from 50 million to 130 million, from Dec 1997 to Dec 2000 (IDC, 1997). This explains the big interest of the business. The development of the technology also creates new possibilities to use the net. Voice over IP (Internet Protocol) is one new feature, which enable transporting of voice over Internet.

This technique has increased the competition on the telecommunication market, as the quality of Internet telephony is nearly the same as the ordinary telephone network. Except competition it has also increased the communication between people as you now can transport voice as well as text over the Internet.

The Internet telephony market today is quite small, a survey made by International Data Corporation (IDC) in 1997 indicates that 20% of US corporations Internet traffic is voice communication. In Europe the same figure is 11% for large companies. IDC also state that in 1995 the estimated number of Internet telephony users were 500 000 and in 1999 they predict that 16 million people will use Internet telephony (Winther, 1996). The figure below shows the growth of Internet telephony.
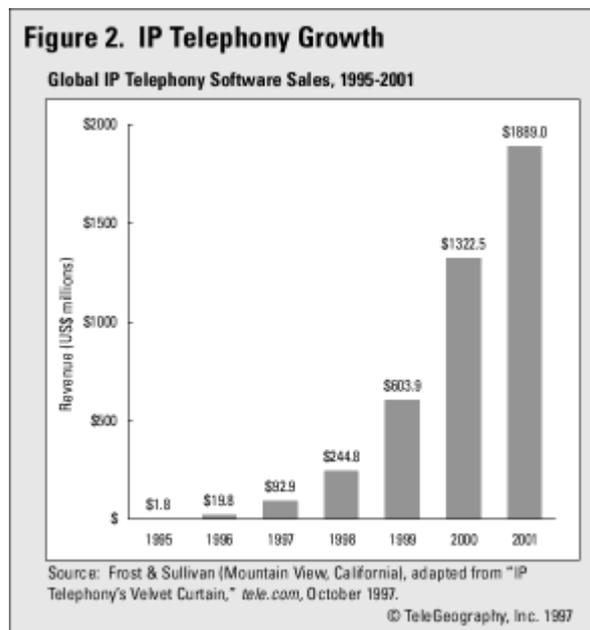
Figure 1: Global sales growth for Internet telephony in US dollars 1995-2000 (Ericsson Business Information Centre, 1998).

The conclusion is that many companies will enter the Internet telephony market and try to make money. The Internet telephony will also have an enormous affect on the telecommunication business.

Traditional distribution systems through direct or indirect distribution channels might not be enough to succeed on this market. The idea of partnerships and optional channel members, such as system integrators, might be wise to consider when a company is choosing the right channel to distribute their goods. The new channel members which have occurred on the market might give a company the competitive advantage needed to stay or become successful on this new market.

This is why it is very interesting to do a research on distribution channels for Internet telephony products.

1.1.1 Prior research

Extensive research about distribution channels has been undertaken by many marketing researchers (Gattorna, 1978). However the research about distribution channels on the computer market is not so extensive, since the market is relatively young.

Research in distribution channels in perspective of relationships has been done by Rosenbröijer (1994) and in a network perspective by Hultén (1989). Frazier (1992) has also published a collection of researches which look into relationships between channel members. Kotler & Armstrong (1996), who have published texts in the marketing area, also describe distribution channels as an important part of marketing.

This research is about business to business distribution and the authors above have written some about this topic, but Webster (1984) has gone into this area more in depth. Mahin (1991) and Hutt & Speh (1989) also describe the distribution channels from a business to business marketing perspective.

A couple of years ago where was a trend towards indirect distribution channels but Amico (1997) at IDC (International Data Corporation) states that they believe that the direct distribution channels are now getting more popular again, especially on the computer market. Moore (1995) also describe strategic partnerships as an important factor to successfully distribute high technology goods.

1.2 Research problem

As there is a lack of earlier research on distribution channels towards the Internet market, and the fact that Internet telephony products are relatively new, combining telecommunication and datacommunication business, makes it very interesting to study how manufacturers can distribute these products.

The research problem in this paper can be stated as:

How can Internet telephony be distributed?

   - What channels and channel members are available?

   - What are the advantages and disadvantages with the different options of available channels?

   - What factors are important in the choice and management of distribution channel?

The question is if existing distribution channels on the market are suitable for the Internet telephony products, and what channels must telecommunication companies use to be competitive on this new combined tele- and datacommunication market.

1.3 Purpose

The purpose with this research is to provide more knowledge in how Internet telephony can be distributed, as earlier researchers, such as Armstrong & Kotler (1996) or Webster (1984), only describe business to business distribution from a general perspective.

Further the purpose is to identify and evaluate different options of distribution and find important factors that affect the choice and management of the distribution channel. The purpose is also, with help from empirical data, to try to increase the understanding of how manufacturers and channel members are acting in practice.

This paper can be useful for everyone involved in the high technology market, as well as for students and researchers.

1.4 Delimitations

To be able to provide a useful contribution from this research some delimitations had to be made. In this research I am looking at distribution channels, but I will not look into the physical transportation or the storage of the goods. In the research I use the term distribution channel as equal for marketing channel, since distribution channel is the most common term used in the literature. Kotler & Armstrong (1996) use the term marketing channel, but others like West (1989), Gattorna (1990), Mahin (1991), and Fraizer (1992) use the term distribution channel for the same issues.

As the study has been undertaken during 20 weeks the amount of research of course also had to be limited. As the Internet telephony is a business area, which includes many different products, I have limited the research to only one product, the Phone Doubler Quick Call, by Ericsson Internet Group. The reason is that different channels might be appropriate for different products. I have also chosen to only look into one market, Sweden, as it is easier to collect information with a market close to my own location. The target customers are enterprises, large as well as small, so the research is about business to business distribution and is not looking into distribution towards end-consumers. As the advantages and disadvantages with different channels can be viewed from different angles I have chosen to look on the problem from a manufacturers point of view.

Except using the case for the research I have chosen to conduct seven complementary interviews. I have interviewed a competitor, Lucent Technologies, and another Ericsson unit, Ericsson Datacom Networks. I have also chosen to interview some intermediaries, a distributor/VAR, AU-System Communication, a system integrator, Logica Svenska AB, a web consultant, Spray Networks and a Internet service provider, Tele2. The reason why these companies have been chosen for the interviews is because they are located close to my own location, they are doing business in the tele- and datacommunication area and they are representative for each particular category. I have also conducted an interview with a potential customer, Skandia. The company has been chosen because of the close location, but also because Skandia is an insurance and bank company, which represent a business which use both telephony and Internet extensively when conducting their business.

1.5 The structure and approach of the study

This study follows a fairly traditional research structure and steps proposed in the unit outline at University of Skövde. The research is based from the time frame of the unit and devided into four parts and six chapters (see Figure 2).

Process	Part	Chapters
Clarifying of the problem Choice of research method	**I** Introduction Background Problem description Methodology	**1, 2**
Collecting theoretical and empirical data	**II** Frame of reference Case study and interviews	**3, 4**
Analysing the data	**III** Analysis	**5**
Presentation of result	**IV** Conclusions Contributions Suggestion of further research	**6**

Figure 2: Research process, parts and chapters

In a research the first step is to find and clarify what the actual problem is. A problem in scientific meaning does not have to be anything problematic or complex. It could be an area that you want to get more knowledge in, in which the area has been formulate so clear that it can direct you to the choice of method. Afterwards the research should tell you if got the answer or not. The clarification of the problem directs the researcher to the choice of theoretical approach, material and methods (Wallén, 1996).

Once the problem is stated and the research method is set, the process to find theoretical and empirical data starts. The theoretical information is to be found in literature, articles, databases and on the World Wide Web.

There is much literature in the distribution area, but distribution of new high-technology products do not always fit into the old models and theories, so except studying texts, I interviewed lots of people who have great knowledge in the area (see interviews and verbal references in the references).

In the Analysis part I compared the theories with the empirical data and tried to find answers to my problems stated in the chapter *1.2 Research Problems*.

In the last part I presented the results and tried to evaluate if I have solved the problems. In this last chapter I also presented some guidelines and a model for

distributing Internet telephony products. I also presented some ideas of further research in the area.

2. Methodology

This chapter is presenting some methods and clarifying factors in the methodology that are essential to consider when you carry out a research. Several methods are presented and discussed and I also present and motivate my choice of approach for this research.

2.1 Qualitative or Quantitative research

A qualitative research is good to use when you collect, analyse and interpret data which can not be expressed in figures. The researcher is not interested in generalising the problem, but instead interested of getting deeper understanding in the problem area (Lekvall & Wahlbin, 1993). In qualitative studies the researcher often have close relation to the investigation object. Qualitative studies are also proper when you want to do an explorative research. One disadvantages with this kind of method is that it can be hard to ensure good reliability and validity.

In quantitative research projects the result is often shown with figures, often in diagrams and tables. The purpose is often to generalise. This can be done when you have studied a selected group of the whole target population. If you are doing a quantitative research it is important to be objective so you can provide a result with high validity (Rosengren & Arvidsson , 1992).

2.2 Available research methods

A research can be carried out in many ways and the research process can be adjusted to suit the problem that the researcher state (Patel & Tebelius, 1987). This means that there are many different ways of carrying out a research.

Some methods that can be used for a research are listed below:

- Case study
- Survey
- Literature review

The methods are described below and comments are being made on how they can be used in this research.

2.2.1 Case study

Case studies are useful in exploratory studies, where the researcher has such a good contact with the case that he/she can get back if he/she have some complementary questions. With this method you do a detailed research on one or several cases. The disadvantage is that, as you only conduct a research on some objects, it is hard to tell if these objects are representative for a specific problem area. Instead the purpose of a case study is to investigate specific questions in an organisation, such as choice of distribution channels. Typical for a case study is that you do not always know in advance what is important to investigate or not. The problem therefore might change during the study. A case study can be used both for exploratory and descriptively investigations. The case study method is very good to use if the researcher only want to study one process in an organisation during a relatively short time (Lekvall & Wahlbin, 1993).

With a case method it will be quite easy to get information as the company where you do the case study probably is interested in a good outcome. One great advantage with the case method is that you will be able to apply the problem in a realistic environment and get useful feedback. A case at a company will enable me to get a deeper view and understanding of the problematic situations. Of course it is also good to have some support from a company to be able to perform the study well. A case study at company can of course also be complemented with interviews from their potential partners, competitors and customers to provide a complete picture of the problem. The company can also help to arrange the interviews which might be hard without this contact.

2.2.2 Survey

A survey is often based on hypothesis from the existing theories. The interesting issues here are to find out if the chosen objects are representative for the whole population. The result is presented in tables and diagrams where it is clearly shown what separates the different objects (Lekvall & Wahlbin, 1993). With this method I have to ask each object the same questions. This might be quite hard as I want to interview different members in the distribution channel who do business in different ways.

2.2.3 Literature review

Another method is to do a literature review. As the products are new and the Internet telephony business is quite young, it can be difficult to find appropriate literature in the area.

The purpose of this method is to first understand the problem and then look for more knowledge in literature. This information can be found in specialist literature at the libraries, in databases and on the World Wide Web. I probably have to study how the distribution problem has been solved in general or studying other products and markets. After studying all necessary literature the intention is to apply my new

knowledges, in the Internet telephony business, and find a solution to the stated problem.

2.3 The choice of research method

Using a survey as method as a research method is in my point of view not appropriate as I want to achieve deeper knowledge in the problem area and not only compare a hypothesis with reality. As the Internet telephony business is new it can also be hard to find the amount of objects that is necessary to be able to provide a valid result. Literature review might also be hard to use since the amount of literature is quite limited. The problem area is also so specific that a literature method will be nearly impossible to use.

My conclusion is that the case study is the best method to find out how distribution channels for the Internet telephony segment can be handled, as this a quite new and specific problem area. With a case study I can get a deep and overall picture of the problem area. I also think it is important to interview different channel members to get different views and angles of the problem. As the business is relatively new it could also be interesting to interview competitors or similar enterprises to get an view of how they are distributing their goods. With a case study I can get back with complementary questions which might be useful if new issues appear.

2.4 Data collection

This chapter defines data that the researcher might collect and also present some methods that can be used for the collection.

2.4.1 Primary data

Primary data is defined as information that is new and not available through earlier studies. Primary data can be collected by interviews, surveys or observations. The disadvantages with primary data is that it often take long time to collect the information and therefore the cost per data is quite high (Dahmström, 1991). In my research the primary data will be collected through interviews with distribution channel members and other manufacturers.

2.4.2 Secondary data

Secondary data is information that already exist, for example in literature, journals or databases. This information can be found at institutions, organisations and on the Internet. The disadvantage with this kind of data is that it is not always up to date (Dahmström, 1991). In my case it can also be hard to find secondary data as the problem area is quite new and specific. The general theories for distribution channels that I can find in literature for my research is an example of secondary data.

2.4.3 Interview methods

There are a few different interviewing methods:
- Interviewing the object orally by visiting the interviewing object
- Telephone interviews
- Written interview through a questionnaire.

The advantage with a oral interview is that the object, the person, can ask questions back to the interviewer if he/she does not understand the questions or want to add information. The disadvantage with this method is that the person who is being interviewed can be influenced by the interviewer. This method can of course also be time consuming. The disadvantage with questionnaire is that the object can misunderstand the questions and might not have the possibility to add other information that could be useful for the research. In my research I will use oral interviews. By visiting the objects I can sit down in a relaxed environment, ask and discuss the topic and get a deep understanding of their opinions. If I have any complementary questions I will use telephone interviews.

2.4.3.1 The choice of interview objects and questions

As a distribution channel exist of many members, it might be wise to interview all members and get everyone's view of the problem. A distribution chain must work all the way from the manufacturer to the customer, through all the intermediaries. It can therefore be interesting to interview both the manufacturer, the intermediaries and the customer. A manufacturer might have a different view of the problem than an intermediary etc. A manufacturer might be interested in how intermediaries and customers think in order to design and manage the distribution channel in a proper way. Channel members close to the customers in the distribution channel might also have a better knowledge about the customer needs.

Except interviewing the manufacturer and potential intermediaries, it might also be interesting to interview a competitor to find out how he/she has solved the problem. As the case in the research is at Ericsson Internet Group, it can also be interesting to find out how other Ericsson units ,which are targeting the same segment of customers with similar products, look at the problem.

With help from the theoretical references I can find potential intermediaries for the tele- and datacommunication market. They are, Distributors, VARs and System Integrators. Since Web Consultants and Internet Service Providers distribute other Internet products, they can also be potential intermediaries. All these can be interesting to interview to get their view of the problem and find out if they are suitable intermediaries for the Phone Doubler Quick Call and Ericsson Internet Group.

Since the members in the channel probably conduct their businesses differently, different questions might have to be asked to each object. I have created a base of a few questions (see appendix 1) which will be used and altered to suit every interview. To this base of questions, I can also add questions which might appear during the interview. I have based the questions from information in the frame of reference.

2.5 Reliability and validity

The aim with a research is that the results should be as valid and reliable as possible. In both a survey and a case method reliability and validity is important. The requirement of reliability and validity depends on the purpose of the research and what kind of questions you want to answer (Holme & Solvang, 1986).

The reliability is a measurement on how stable and reliable a research is. In other words, if the result, the researcher present, will be the same if the same research is done a second time, the research is reliable. This is very important in quantitative studies. In a qualitative research the reliability is depending of how thoroughly the research is carried out (Holme & Solvang, 1986). To ensure reliability in this research, the people I interview will get the chance to read through and correct the interview documentation, so they may not have given any wrong or misleading information. I will also use a tape recorder when I conducting the interviews so I will not misunderstand or miss out on any important information.

The validity is defined by how well the measuring instrument can measure what is intended to measure. This is controlled by internal and external validity. Internal validity describes in what extent the measured result give a picture of the reality (Rosengren & Arvidsson, 1992). In the research this has been ensured by that the results has been collected from more than one channel member. To ensure the internal validity some brief telephone interviews also will be conducted with similar objects in the same category. By doing this I can be sure that the answers in the interviews give a picture of the reality. The external validity describes how well the result can be applied in other situations (Rosengren & Arvidsson, 1992). In this research it is of course the intention that we result should be applicable on other situations but as I have delimited this research to one product, which has certain specifications, the external validity can be questioned.

3. Frame of Reference

This chapter presents the literature in the distribution area from a general perspective. Important concepts and theories as well as definition of terms used in the research are presented. The information in this chapter has been used as a support when collecting the empirical information, and also as a complement to the empirical information in the analysis chapter.

3.1 Distribution Channels

The definition of a distribution channel is:

"A set of interdependent organisations involved in the process of making a product or service available for use or consumption by the consumer or business user" (Kotler & Armstrong, 1996:389).

In other words a distribution channel is relationships that linking resources supplier, producer and the final customer together. The members which are included in this relationship and how they interact is going to be presented in this chapter.

Kotler & Armstrong (1996) state that the choice of marketing channels are among the most important decisions a management face. In the literature a distribution channel is often also called a marketing channel. As mentioned earlier, in this research I use the term distribution channel as equal for marketing channel.

A common failure today is that companies often pay to little attention to their distribution channels. Companies have refused to change their way of distribution and other competitors have taken over the market (Kotler & Armstrong, 1996).

Companies must look over their channels and be willing to change strategy as the market often change over the time. New technology, changes in the population age structure and social trends change the market needs so the distribution culture must adopt to this change (West, 1989). In the computer industry, especially, history shows that the distribution strategies also change at each stage of the product lifecycle. It is important to understand that designing and managing a distribution channel is an ongoing task (Paley, 1994).

The question for the management in manufacturing companies is which channel is the most appropriate in both short and long term. Should they use a direct or a indirect distribution channel, or a combination of them both.

Before we start to look at the different options of distribution channels I want to point out some criterias which are special in distributing goods to the business market.

3.1.1 The Business to Business distribution

There are some differences between business to business distribution and business to consumer distribution. The nature of the customer effect the choice of distribution channel. Some issues which are special for business customers are mentioned by Webster (1984) in Industrial Marketing Strategy and by Kotler & Armstrong (1996) in Principles of Marketing:

Market and distribution:
- Business markets contain fewer but larger buyers than consumer market.
- Business customers are more geographically concentrated.
- Business markets have higher sales potential per account than consumer market (20% of customers equal to 80% of sales).
- Business buyer demand is derived from end consumer demand.
- The demand in business markets is not affected as much in the short run by price changes.
- In business to business distribution, manufacture-direct-to-user channels is much more common than in distribution of consumer products.
- Technical products which are common in business to business distribution requires more technical expertise and therefore demand investments in training and support.
- Business buyers often buy from manufacturers who also buy from them.
- Business buyers sometimes lease the equipment rather than buying it.

Business customer characteristics and purchasing behaviour
- Business buyers usually face more complex buying decisions.
- The business buying process is more formalised.
- In business buying buyers and sellers work more closely together and build a close long-run relationships.
- The decision making process in business purchasing often involves many people and take longer time than a consumer decision making process.

Because of the difference in purchasing behaviour compare to consumers, businesses need another approach of distribution. It is important to realise that some business products have more similarities with consumer products than business products, and therefore the consumer distribution channels might be a better option (Webster, 1984).

Kotler & Armstrong (1996) do not mention the different segments of business customers. There could be small, medium or large business customers who are buying from different channel members depending of their nature of business and organisation. (Gattorna 1990).

3.1.1.1 Direct distribution channel

A direct distribution channel is quite common in business to business distribution. This is a distribution where no intermediaries are used and the manufacturer dealing directly with the end-customer. A direct distribution channel is often used in business to business distribution because of the nature of the selling situation (Hutt & Speh, 1989). Industrial goods often require extensive consultative selling and competence, which often only the manufacturer can provide (Mahin, 1991). Hutt and Speh (1989:382) states that a direct distribution approach is viable when:

1. "The customers are large and well defined"
2. "The customers insist on direct sales"
3. "Sales involve extensive negotiation with upper management"
4. "Control of the selling job is necessary to insure proper implementation of the total product package and to guarantee a quick response to market conditions"

3.1.1.2 Indirect distribution channel

A indirect distribution channel is defined by that it uses one or more types of intermediaries. The intermediaries are used because of their greater efficiency in making goods available to target markets. Through their contacts, experience, specialisation and scale of operation they can offer more than the manufacturer can achieve by its own (Kotler & Armstrong, 1996). If a intermediary should be used it is important to evaluate the costs and benefits involved (Gattorna, 1990).

To use an intermediary can be devided into advantages and disadvantages:

Advantages**:**
- The intermediary can help the manufacturer to widen its market coverage (West, 1989)
- By using an intermediary the paperwork will be reduced for the manufacturer, one customer instead of dozens (West, 1989)
- The credit risk will be reduced for the manufacturer as of the same reason as above, one customer instead of dozens (West, 1989)
- Bundled purchase behaviour, that is, the buyer tend to purchase a number of items, often different brands, in one transaction (Corey, Cespedes and Rangan, 1989)
- Intermediaries can offer knowledge about markets and customer needs that a manufacturer might not have (Gattorna, 1990)
- Reduce the costs, because the manufacturer do not have to establish a sales force by its own (Kotler & Armstrong, 1996)

Disadvantages:

- The manufacturer lose control and might get inadequate feedback, the information from the end-user is filtered through intermediaries who might have different perspective on the market (Gattorna, 1990)
- The manufacturer have the inability of responding quick to special demands and changes on the market (Gattorna, 1990)
- The intermediaries think of its own profitability and can therefore might price the products which can damage the suppliers position on the market (West 1989)
- Intermediaries often handle a wide range of products and might chose to put their effort into other products than the one from the particular manufacturer (Kotler & Armstrong, 1996).
- An intermediary often put the effort in selling products where a demand exist on the market and are not willing to try new unknown products (West, 1989).
- There is always a competition between the manufacturers in convincing the intermediary to sell their products (West, 1989).
- The commitment for the manufacturer by contracts with intermediaries decrease the ability to adopt to market changes (Kotler & Armstrong, 1996).

Gattorna (1990) explains that the disadvantages with intermediaries can often be overcome with a strong and effective management by the manufacturer. Reporting and monitoring systems, combined with an good attitude between the parts in a relationship increase the chance to success with an indirect distribution.

3.1.1.3 Indirect versus direct channel

To reach a decision in using direct or indirect distribution a model by West (1994) can be used. See Figure 3 below. The model present some key factors that a manufacturer should consider before he/she make a choice of using direct or indirect distribution. The model is divided in high or low appearance of these factors and from these it is stated if direct or indirect distribution is most suitable.

Factor	*High*	*Low*
Geographical concentration	Direct	Indirect
Number of buyers	Indirect	Direct
Complexity of product	Direct	Indirect
Unit price	Direct	Indirect
Standardization	Indirect	Direct
Service requirements	Direct	Indirect
Price negotiation	Direct	Indirect
Sales information	Direct	Indirect
Frequency of purchase	Indirect	Direct
Perishability	Direct	Indirect

Figure 3: Direct versus indirect distribution - some decision making criterias
(West, 1994:31)

Some other issues which affect the choice of direct or indirect distribution is of course the quality and availability of indirect channel members. In the computer industry for example, the reason why direct sales is so common is because categories like VARs (Value-Added Resellers) doing a bad job of adding value and/or cutting prices (Schrage, 1998).

3.1.2 The distribution channel model

There are some different channels to chose between when a manufacturer wants to distribute its products. Many authors, such as Mahin (1991), Hutt & Speh (1989) and Webster (1984) describe the different channels in similar models. Kotler & Armstrong (1996) have created the model below, Figure 4, which include both channels to consumers as well as industrial/business customers.
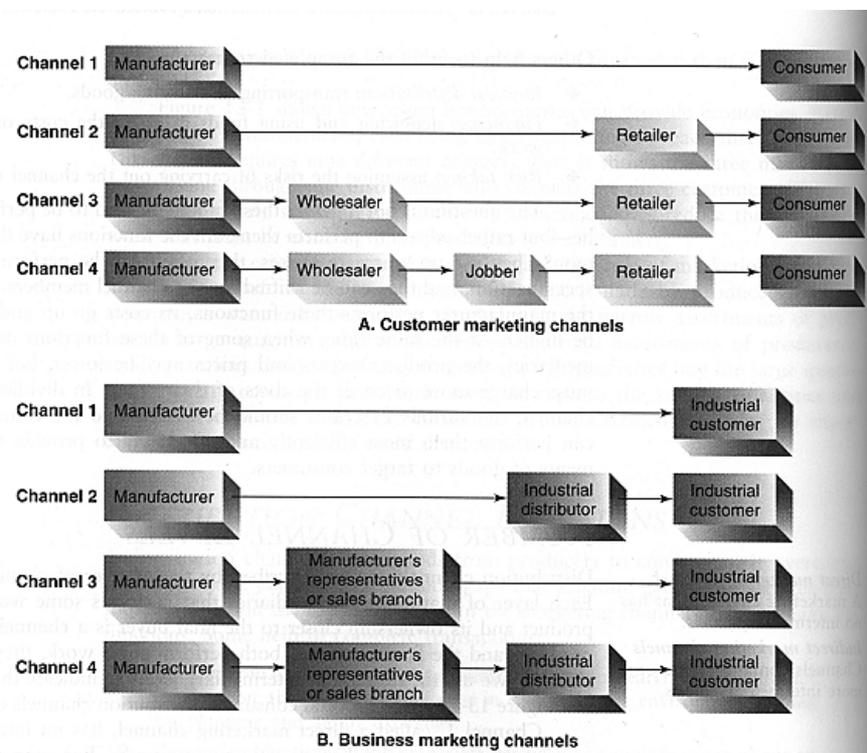
Figure 4: Consumer and Business marketing channels
(Kotler & Armstrong, 1996:392)

In this research I will only study the model B in Figure 4, the business marketing channels, but it is also interesting to briefly look at the consumer marketing channels to be aware of the difference between distributing goods to consumers and businesses. As discussed in earlier chapters some business products also might be better distributed with consumer marketing channels. Some business customers

might buy goods from retailers which in the model above is included in the consumer marketing channel.

Direct distribution exists in channel 1 above in business marketing channels (Kotler & Armstrong, 1996). Channel 3 in business marketing channels is in my opinion both a direct and indirect channel. This because a sales branch is defined as a part of the manufacturer organisation, they are employed by, and sell only for, one specific manufacturer. The manufacturer representative though is not employed of one specific company and can represent more than one manufacturer. Often have the sales branch and manufacturer representative the same tasks (Hutt & Speh, 1989).

Indirect distribution in the business marketing model exists in channel 2 and channel 4 where intermediaries are used to reach the business customers
(Kotler & Armstrong, 1996).

The distribution model above is quite abstract. The intermediaries can for example take many different shapes in different branches. In the coming chapter the different channel-members used on the tele- and datacommunication market will be described and defined.

3.1.2.1 The definition of the distribution channel members

It is important to have a clear understanding of the types of distribution channel members to be able to effectively design and manage a business distribution channel (Hutt & Speh, 1989). Therefore I will define the channel members and explain their purposes in the distribution channel.

Manufacturer
The manufacturer is defined as a producer of goods. A manufacturer buys material from suppliers and manufacture a finished product. (Kotler & Armstrong, 1996).

OEM
An OEM, Original Equipment Manufacturer, private labels a vendor's product and resells it as its own product. This typically requires a label or nameplate change to match the reseller's other products. Software and operator's manual changes may be required to display the OEM's name (Mazzaferro, 1994:29). For example, Intel Corporation produces the microprocessors that constitute the heart of IBM's personal computers. In purchasing these microprocessors, IBM would be classified as an OEM (Hutt & Speh, 1989).

Business customer
The difference between a business customer and a consumer is that an enterprise purchase a product to use it to conduct its businesses. The business customer use the products or services to produce other goods or services that are, in turn, sold to the business or consumer market (Hutt & Speh, 1989).

Manufacturer's Sales branch

The manufacturer's sales branch is a distribution channel which is owned and controlled by the manufacturer. A sales branch can sell directly to the business customer or can be included in an indirect distribution channel and sell to intermediaries. Large manufacturers often use a sales branch to reach out to local regions throughout the world. With a sales branch it is easier for the manufacturer to get a close relationship with intermediaries or customers in a local region (Hutt & Speh, 1989).

Manufacturer's representative
A manufacturer's representative, or an manufacturer's agent which is a synonymous term, is an independent businessman who has a contractual agreement to sell the manufacturer's products in a specified region. The manufacturer's representative often handle products from related but non-competing manufacturers (Webster, 1984).

Manufacturer's representative is used in regions where a manufacturer does not have a sales branch. Often a manufacturer use representatives in small markets where it is no need for a sales branch. In new markets it is also common to use a representative before the manufacturer can establish a sales branch by its own. Manufacturer's representative are often also used by small and medium size manufacturers who not have the capital or need for a sales branch (Hutt & Speh, 1989).

A manufacturers representative usually do not take legal title to the product and is often paid on commission basis. Representatives tend to have ongoing long-term relationships with their principals, in contrast with brokers and sales agents whose dealings often are short-term and opportunistic (Webster, 1984).

Distributor
The distributor, called an industrial distributor in business to business distribution, is defined as, "a full-service intermediary that takes title to the product sold, maintains inventories, and provides credit, delivery, wide product assortment, technical assistance, and at times some assembly and manufacturing" (Mahin, 1991:389).

Another definition of distributors is, "Distributors typically stock a manufacturer's product and resell it to end users. They also typically provide some level of customer support and service" (Mazzaferro, 1994:29).

The distributors are the most important group of intermediaries and the most common one as well. Distributors are generally small independent businesses serving narrow geographic markets (Hutt & Speh, 1989).

The distributors are classified in terms of *ownership*, *types of product lines handled*, *breadth of product lines carried* and *market served* (Mahin, 1991).

VAR
Mazzaferro (1994:29) defines a VAR, Value-Added Reseller, as:

"A VAR provides enhanced products offerings by adding value to a vendor's product. This may be accomplished through the use of hardware, software or service."

In other words a VAR is a reseller who not only sell the product, but also provide some additional value, for example service like installation and support.

Calderbank (1997) states that it is quite common that telecommunication distributors using computer VARs to get Internet telephony products to the end customers. Sometimes VARs are handling small companies IT departments so this channel member might be an advantage in reaching that particular business customer segment. Computer VARs are interested in selling telecommunication products as well.

SI
The SI, System Integrator, is another type of intermediary who is defined as:
"A SI usually provides a large turnkey system to an end user that includes multiple vendor's products. SIs are especially geared to work with government." Mazzaferro (1994:29).

In other words a SI is a intermediary who integrate different products and deliver a complete system. They are focusing on the total solutions instead of a single product.

Retailer
A retailer is an intermediary who often is close to the customer in the channel chain and appears in Kotler & Armstrong's(1996) consumer marketing channel model. Retailing involves all activities in selling goods or services directly to final consumers for their personal, nonbusiness use. Retailers are therefore businesses whose sales come primarily from retailing (Kotler & Armstrong, 1996). A retailer often wants to use a distributor as an extension of its own inventory ("Serving the Educated Consumer: Kenfil Distribution", 1991).

Other intermediaries
Some other intermediaries that are mentioned in literature as other distribution channel members are *Brokers, Jobbers* and *Commission merchants.* Brokers can represent either a buyer or a seller and is a middleman that assumes no title risks, do not store the product and is not looked up as a permanent representative. The Jobbers is a middleman who buys from producers and resells to other business customers. In contrast to the brokers, the jobbers take title and assume ownership risks for the goods they sell but do not perform any warehousing functions. Commission merchants acts like an agent that usually exercises physical control over and negotiates the sale of goods. The commission merchant does not take title risks. Commission merchants often deal with raw materials (Mahin, 1991).

Resellers is another term that should be mentioned and defined as we are discussing distribution channel members. Mahin (1991) states that a reseller is all intermediaries which take title to the goods they resell, intermediaries which buys from one member

in the channel and sell to another. Therefore a reseller can be a distributor as well as a retailer.

3.2 The distribution channel structures

The distribution channels chain can take different shapes. The objectives with the distribution and the choice of relationship are some factors which decide the channel structure. However, the channel systems do not stand still, new types of intermediaries surface, and whole new channel systems evolve (Kotler & Armstrong, 1996).

Kotler & Armstrong (1996) describe the three major options of distribution channel systems as:

- Vertical distribution system
- Horizontal distribution system
- Hybrid or a multichannel distribution system

3.2.1 Vertical distribution system

Vertical distribution system, is the oldest and the traditional way of distributing products. It is built up like a hierarchy, the manufacturer is on the top and the end customer in the bottom. Between these two there can be distributors or other intermediaries. The intermediaries can be owned by the manufacturer or be independent channel members.
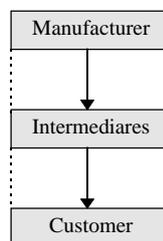
Figure 5: Vertical distribution channel system (Kotler & Armstrong, 1996)

This model is recognised by that each member in the channel work more or less by themselves with their own specific objectives. In later years though the members of this channel often co-operate more and more. This to avoid channel conflict and get a greater understanding of the end consumer need. (Kotler & Armstrong, 1996).

3.2.2 Horizontal distribution system

Horizontal distribution system is a type of channel structure in which the members co-operate on the same levels to get the best result to the customer.
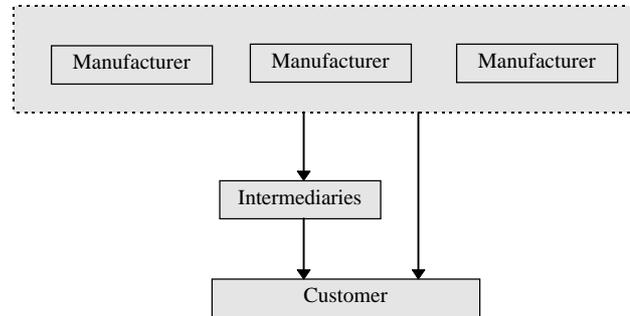
Figure 6: Horizontal distribution channel system (Kotler & Armstrong, 1996)

It is a channel arrangement in which two or more companies at one level join together. They combine their capital, production capabilities and marketing resources to accomplish more than one of them could do by themselves. A partnership is common in this type of distribution system. One example of two companies who used this system is Coca-Cola and Nestlé. Coca-Cola provided a well established experience in marketing and distribution beverages and Nestlé provided two established brands, Nescafé and Nestea. The number of such horizontal marketing systems has increased dramatically in the recent years (Kotler & Armstrong, 1996).

3.2.3 Hybrid distribution system

Hybrid or a multichannel distribution system is probably the most common option for large companies today. A company set up two or more channels to reach one or more customer segments.
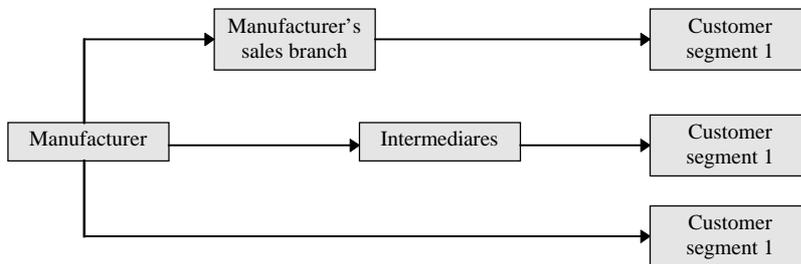
Figure 7: Hybrid distribution channel system (Kotler & Armstrong, 1996)

A manufacturer might sell to different types or sized business customers which might need different distribution approaches. Because the strong competition on the market

today it is necessary for manufacturers to try to reach the customers from different angles. One problem which can appear in this type of channel system is that conflicts occur between the members in the system. Another reason for using a multichannel approach is to be able to use other channels and not loose customer contact through critical stages, such as quick market changes during the product lifecycle. To complement and to be able to tailor channels for customer needs is the main purposes of this distribution system (Kotler & Armstrong , 1996).

3.3 Distribution channel design

As we have seen in the earlier chapters there are many alternatives for the manufacturer in the choice of distribution channels. The manufacturer struggles between what is ideal and what is practical. Therefore it is important that the channel design is purposeful. Authors like Kotler & Armstrong (1996), Mahin (1991) and Hutt & Speh (1989) suggest five steps to follow when designing a distribution channel system:

1. Define Channel Objectives
2. Clarify Channel Constraints
3. Define Channel Tasks
4. Evaluate Channel Alternatives
5. Channel Selection

In this chapter I am going to present these five steps.

3.3.1 Channel Objectives

The channel objectives often reflect the marketing goals in a manufacturer's business plan. It is important that the channel structure is compatible with other marketing strategy elements. Profit considerations and asset utilisation should be reflected in the channel objectives. The quality of the selling job also has to be evaluated (Hutt & Speh, 1989). A channel objective can be to "consultatively sell a technically complex product" (Mahin, 1991:407).

3.3.2 Channel Constraints

The business channel design is affected by many external market and internal company constraints. Some of them are (Hutt & Speh, 1989):

- *Availability of good intermediaries*
  Intermediaries might be occupied with competitors products. Some intermediaries are not always interested in new products. Some intermediaries might not have the capital to invest in required inventories, warehousing or repair facilities. In general

intermediaries differ in abilities to handle promotion, customer contact, storage and credit.

- *Traditional channel patterns*
  Established patterns of distribution are difficult to violate. Large customers might demand direct sales.
- *Product characteristic*
  Technical complexity dictates direct distribution. Perishable products require more direct distribution because of less handling. Bulky products requires channels with minimise shipping distance and the amount of handling.
- *Company financial resources*
  Capital requirements might force the manufacturer to use indirect channels.
- *Competitive strategy*
  Direct selling from competitors might force all firms to sell direct.
- *Geographic dispersion of customers*
  A widely dispersed market with small customers often requires low-cost representation by intermediaries.

Another constraint in designing a channel can be environmental factors, such as economic conditions or legal constraints (Kotler & Armstrong, 1996).

3.3.3 Channel tasks

To be able to design a distribution channel you must also define the tasks of the channel, specify the distribution functions, or state what "work" which has to be done.

Mahin (1991:408) states four areas of distribution work:

- *Sales negotiation*
  Negotiating products spec, prices, terms and conditions with key customers and prospects.
- *Physical distribution*
  Providing inventory ability, storage and transportation services.
- *Financing*
  Offering customers various types of financing plans including leasing programs.
- *After-sales services*:
  Providing installation work, equipment repair, parts sales, and the administration of manufacturer's warranty program.

The distribution work can of course differ from product to product and from business to business, but the general distribution work is described above.

3.3.4 Evaluate Channel Alternatives

To be able to select distribution channel, you must first evaluate the different channel alternatives. To evaluate you are using your earlier stated objectives and constraints as a base for the evaluation (Hutt & Speh, 1989).

In the evaluation Hutt & Speh (1989) suggest that the manufacturer should look into:

- The number of levels to include in the channel, the length of the channel (i.e. the degree of directness).
- The types of intermediaries to use (i.e. distributors, VARs, System integrators).
- The number of intermediaries at each level of the channel.
- The number of channels to employ (i.e. multichannel approach).

The number of levels in a channel is influenced by the availability of capable intermediaries, market factors and customer characteristics. Channel length increase with the greater availability of effective intermediaries and also with the number of customers. It decrease when the purchase has become more significant, when customer potential increases, and when the market concentration increases (Hutt & Speh, 1989). Long channels often are referred as indirect channels and short channels as direct channels (Mahin, 1991).

The type and number of intermediaries are selected on the basis of the tasks they perform. Sometimes it is necessary to use more than one type of intermediary to reach different market segments. For large account the manufacturer might use his own salesforce, distributors for small repeat orders, and system integrators and VARs for medium sized customers. The number of intermediaries to use often depend of the geographic dispersion of the customers. The amount of customers and the service needed for supporting the sales also often affect the number of intermediaries to use (Hutt & Speh, 1989).

Before selecting the intermediaries, the manufacturer should also evaluate the channel member's *years in business*, *other lines carried*, *growth and profit record*, *co-operativeness*, *reputation*, *size and quality of the sales force* and *future growth potential* (Kotler & Armstrong, 1996).

The number of channels to employ is often referring to if it is a good idea to use a single channel or a multichannel, hybrid, approach (Hutt & Speh, 1989).

When evaluating the alternatives Kotler & Armstrong (1996) also recommend the manufacturer to consider these three criterias:

- Cost criteria
- Control criteria
- Adaptive criteria

The cost criteria is important as it directly affect the profit of the channel option. Figure 8 show how the cost for the manufacturer can increase with the level of sales

in using a direct or an indirect distribution channel. If a manufacturer want to sell the product direct with its own salesforce the investment is quite high at the start as you have to train staff and establish a sale force for the particular market. If you use a indirect channel option the intermediary often have the knowledge about the customers and the market, but high level sales will later result in higher costs in terms of higher commissions. The manufacturer's own salespeople mostly have lower commissions. The scenario is quite interesting because it shows that it could be useful to change channels during the product lifecycle. When the manufacturer has reached the break-even point of the level of sales it might be a good idea to consider other channel options (Kotler & Armstrong, 1996).
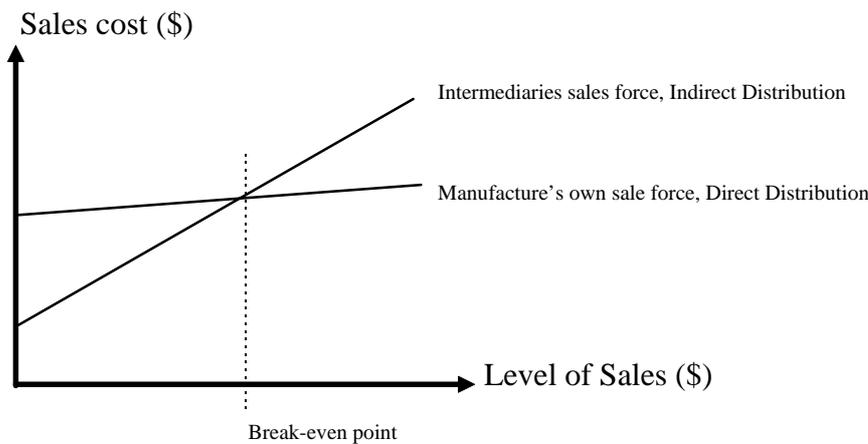
Figure 8: The cost of a manufacturer's sales force versus a intermediary's sales force (Kotler & Armstrong, 1996)

The Control criteria should be considered because when using intermediaries the manufacturer lose the control and much of the contact with the end customer. An intermediary might sell the product as how it suits in their total portfolio, but where might be a greater potential in other segments which the intermediary chose not to sell to. The feedback for product improvements might not reach the manufacturer and the risk that the intermediary give wrong information is great. The control and risk factor have to be evaluated before a channel decision can be made and compared to the potential sales in the different options (Kotler & Armstrong, 1996).

Adaptive criteria is the manufacturer's commitment towards its intermediaries. The channel might be bound with agreements and contracts. This can be an advantage if the distributor has high sales, a great market control and if new competitive products soon are reaching the market. It can also be a disadvantage as a long-term commitment with an intermediary might affect the flexibility to adopt to market changes (Kotler & Armstrong, 1996).

When the manufacturer has considered and evaluated all channel alternatives, the selection of channel members can start.

3.3.5 Channel Selection

The selection might be seen as the hardest step in the designing process but the options should be quite limited if all the steps above has been handled thoroughly (Hutt & Speh, 1989).

The channel selection is a summarise of all the steps described above. Stern & Sturdivant (1987) suggest 8 steps in the procedure for selecting distribution channels:

1. Determine customer requirements
2. Evaluate potential intermediaries
3. Analyse costs
4. Specify constraints, company long-term objectives
5. Compare options
6. Review constraints with help from experts - consultants, lawyers or accountants
7. Evaluate caps between existing, ideal and feasible channel system
8. Implementation

In this procedure we can see that the step 4, constraints and objectives is later in the procedure than Hutt & Speh (1989) suggested earlier in this chapter. The designing of distribution channels is not decided with a step by step procedure, but more a process where the steps are integrated and overlap each other. A distribution channel is also dynamic and should be changed as the market changes (Hutt & Speh, 1989).

As mentioned earlier the segment changes during the product lifecycle, which of course also make the selection of distribution channel harder. An appropriate channel at one stage might be totally inappropriate at another stage. The selection of distribution is an long-term decision. It will commit the manufacturer to a long-term business relationship with selected channel members. Therefore it is important to analyse where in the product lifecycle the particular product is at the moment and try to predict the future so the decisions of distribution channels can be made in a long term perspective (Mahin, 1991).

Product life cycle model
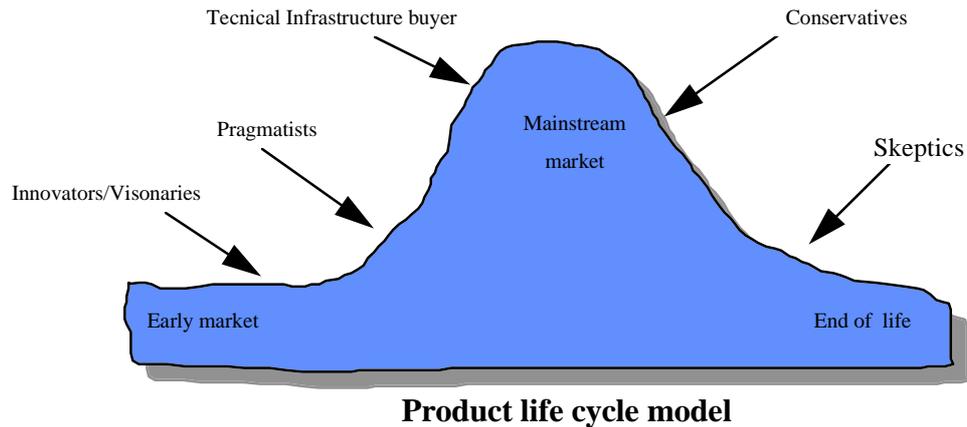
Figure 9: The product lifecycle and the changes of target customers (Moore, 1995)

As shown in the figure the amount of sales and the market segments change during the lifecycle.

The selection step might be seen as the last step in designing a distribution channel. This is correct, but is also a start of a new process, the management of the distribution channels. The design decisions has been made at a single point with data from a particular moment and this data will change over the time, therefore the management process of distribution channels is as important as the designing process. The selection of a distribution channel is a on-going process (Hutt & Speh, 1989).

In the coming chapter I will discuss how to manage the distribution channels.

3.4 Channel management

Once the particular channel structure is chosen and the selection of participating channel members has been done, the process of making the channels work as planned must be performed. To motivate, control and evaluate distribution channels is crucial for the success of the manufacturer's business. The relationships between the channel members have to be close so a common force can get the products to the customer in the most competitive way (Kotler & Armstrong, 1996).

3.4.1 Motivating channel members

A manufacturer must find the right way of continuously motivating its intermediaries.
Kotler & Armstrong (1996:407) states that a manufacturer "must not only sell *through* the intermediaries, but *to* them".

There are two ways of motivating intermediaries and get their co-operation. Through positive motivators as higher margins, special deals, premiums, co-operative advertising/promotion allowances, commissions and sales contests. Other manufacturers use negative motivators such as threats of reducing margins, to slow down delivery or to end relationships. Non of the negative motivators are to recommend and they often occur in situations where the manufacturer have not done a good job in the designing process (Kotler & Armstrong, 1996).

Many manufacturers today are also using well organised reselling programs to motivate their intermediaries. A program is a way of organising the relationship between the channel members and create a close co-operation (Dunlap, 1994). Some manufacturers use the term partnership to define the program.

3.4.1.1 Partnership

"Channel member motivation begins with the understanding that the channel relationship is a partnership" (Hutt & Speh, 1989:403). To create a partnership with intermediaries is one way to motivate and get a closer relationship in the channel (Kotler & Armstrong, 1996).

Partnerships is often based on a written agreement but can also be a trusting relationship. A manufacturer can improve the communication in a partnership through recognition programs, product training and consultation with the salesmen as well as informing of plans, explicitly detailing objectives and providing positive feedback (Hutt & Speh, 1989).

Distribution channels have been viewed as closed systems, but they can also be viewed as open systems where there is a shared responsibility for making the products available to customers, understanding the characteristics of the market, and providing an appropriate level of service. In a partnership this will be much easier (Gattorna, 1990). In the high tech business partnership is a way to ensure rapid development of new technology markets (Moore, 1995). Paley (1994) for example, thinks that manufacturers should partnering with its intermediaries to learn about their problems and create joint marketing plans.

Many companies in the high-tech industry today are partnering with everyone. Especially in the arena of the digital convergence with computer, telephony, broadcast and entertainment. Companies jump into partnerships because of the fear of being left out. If companies do not have a clear purpose with a partnership the relationship can deteriorate the business instead of improving it (Moore, 1995).

When to partner is a question that many companies ask themselves today. Often it is a good idea to partner at an early stage of the product lifecycle, to be able to share development costs and to get the product out on the market (Moore, 1995).

Companies today can partner on a single revenue opportunity, partner for a potential revenue stream or partner to capture market leadership. Of these three, strategic partnership is common to capture a market leadership (Moore, 1995).

Strategic partnerships is quite common in the high tech business today. Moore (1995:165) states that "a partnership is only strategic when it is focused on the whole product necessary to win you the number one position in a target market.". A strategic partnership is a close relationship with long-term objectives.

3.4.1.1.1 Bundling

Bundling is one way to distribute your products in a partnership.

"Bundling is selling separable products or services to buyers only as one package, or bundle" (Porter, 1985:425).

Bundling can provide the competitive advantage that a company need to get the product out on the market. Porter (1985) states some advantages with bundling which are:

- *Lower costs* through sharing of expenses. For example shipping, promoting, administration and service costs.
- *Increases differentiation*. Bundling may allow a firm to differentiate itself from competitors by selling the product as a whole package.
- *A more clear and obvious message* to the customer. The advantages with the product can get more clear as the customer get everything in one package and do not have to think of which other parts to buy. A one-stop buying.
- *Enhanced opportunity for price discrimination*. Bundling may increase the total profit where different buyers have different price sensitivities for the individual parts of the bundle.

There are of course some risks with bundling as well. If the customers needs vary in a segment and not everyone is interested of paying the price for the package a firm might only reach one part of the segment. If the buyer can assemble the bundle by itself, there might be a risk that he/she buy the parts separately. A bundling strategy is also vulnerable if a specialist that focus on one part in the bundle can achieve low costs or differentiation in producing them. The specialist can then focus on selling just that part (Porter, 1985).

Bundling can be one option in a partnership but it is important to understand that the appropriateness of bundling often changes as an industry evolves, because the industry structural change alters advantages of bundling or the risks (Porter, 1985).

3.4.2 Channel conflict

Conflict in distribution is quite common in distribution channels, especially if a manufacturer use a multichannel approach. Conflict in a channel behaviour is most often a result of goal differences. The parties often forget their common goals of customer service (Gattorna, 1990).

Conflicts can be good in a channel to create competition, without conflicts a channel may become passive and noninnovative. Often conflicts in a channel damage the channel's success because the lack of good management. Managers often do not recognise the conflict situation until it is too late to respond to the causes. The control of conflicts is an important part of the distribution (Kotler & Armstrong, 1996).

Some common conflict situations in a distribution channel are:

- *Manufacturers dealing directly with large accounts*. Sometimes manufacturers deal directly with customers instead of using its intermediaries. The intermediaries then feel cheated (Mahin, 1991)
- *Degree of effort.* Intermediaries often sell other products and not spend as much effort on selling the particular manufacturer products as he/she wants. The intermediaries think of their own profit and customer needs (Mahin, 1991).
- *Overlapping territories.* The intermediary might have to compete with other intermediaries that sell the same product in the same area (Hutt & Speh, 1989).
- *Compensation.* The commission rates are often critical conflict areas. Compensation must be fair and reflect the nature of tasks performed (Hutt & Speh, 1989).

There are some approaches to reduce conflicts. A *channelwide committee* can periodically evaluate emerging problems. By *joint goalsetting* with the channel members the risks of negative conflicts can be reduced. A distribution executive position in the manufacturer's organisation can co-ordinate all internal and external issues in the channel (Hutt & Speh, 1989).

3.4.3 Evaluating channel members performance

The manufacturer have to regularly check each channel member's performance to be able to keep up high sales and be prepared for changes on the market (Kotler & Armstrong , 1996).

Kotler & Armstrong (1996) also suggest that a manufacturer can check the performance against standards such as *sales quotas, average inventory levels*, *customer delivery time*, *treatment of damaged and lost goods*, *co-operation in company promotion and training programs*, and *service to the customers*.

A manufacturer must periodically check on the intermediaries and give positive feedback to them who are performing well. To them who are not, the manufacturer have to support and try to help the intermediary or, as a last resort, replace him/her. It is also important that the manufacturer treat its intermediaries with sensitivity so

he/she not risk losing their support or losing them totally (Kotler & Armstrong, 1996).

4. Case study and interviews

In this chapter I present the case in the research and the information collected from interviews. The purpose is to provide information from companies acting out in the business today and get their opinion about the problem area. The issues discussed in this chapter are the same which are presented in the frame of references and should hopefully complement, support or contradict the theories.

As a distribution channel success depends on all channel members performance I have chosen to, except from interviewing the case company, another unit at the case company, a competitor and a customer, also interviewed different potential intermediaries on different levels (Kotler & Armstrong, 1996).

4.1 Case: Ericsson Internet Group

Ericsson is a world-leading supplier of equipment for telecommunications systems and related terminals. The Company have around 100 000 employees and produces advanced systems and products for wired and mobile telecommunications in both public and private networks, for delivery to customers in more than 130 countries (Telefonaktiebolaget LM Ericsson, 1998).

Ericsson consists of three business units, Mobile Systems, Infocom Systems, Mobile Phones and Terminals. Ericsson Internet Group is a program belonging to the Switching organisation in the business unit Infocom Systems.

The Ericsson Internet Group have around 200 employees and is based in Stockholm, Sweden. Their mission is to establish Ericsson as a leading vendor of IP(Internet Protocol)-related products and services in the areas where telecommunication meets data communication. Their mission is also to use Ericsson's strong position in the telecommunication area and focus on public operators. One company in the Internet Group is the IP Telephony company (Ericsson Internet Group, 1998).

4.1.1 The Phone Doubler Quick Call

One product in the IP Telephony company's product portfolio is the Phone Doubler Quick Call. The product is an electronic-commerce solution that allows call centre capabilities over the Internet. Quick Call calls, toll-free calls, can be initiated from a web page by clicking on the mouse. A person surfing the Internet can by clicking on an icon on the website be connected to a companies call centre and communicate through microphone/head speakers on the PC with the website owner at the same time as continuing surfing on the Internet.

Click and Dial
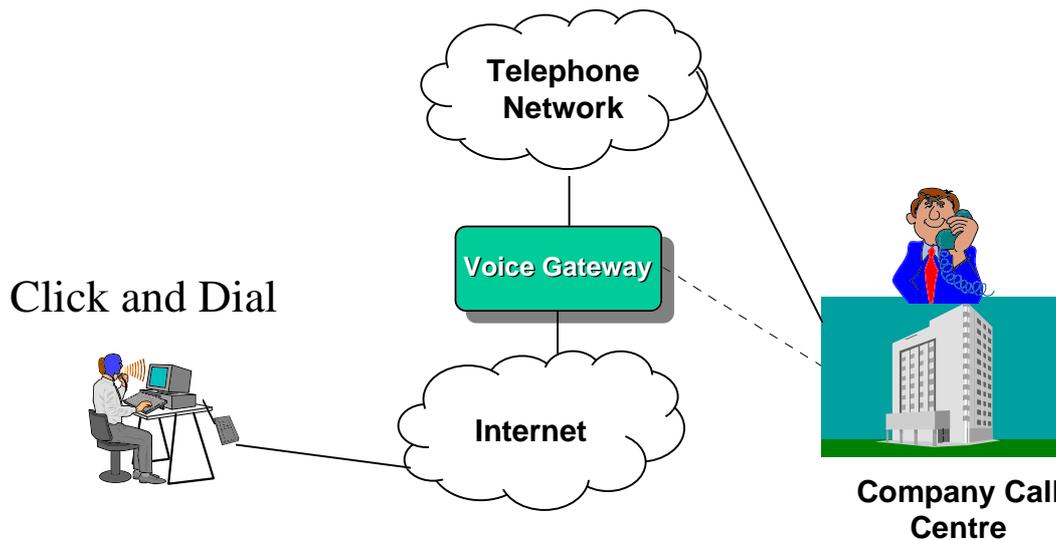
Figure 10: Internet Telephony, Phone Doubler Quick Call concept (Nedjeral, 1998)

The "surfer" just download a software free of charge, to use this feature. The website owner buys the product from the Internet Group. The product consists of both some computer hardware as well as software. The target customers for Ericsson are enterprises which have websites and want to provide a free-call function through their website. By this medium they can keep a good contact with their customers. The product need some professional installation, but can be installed relatively quick. The product is based on the same platform as other Internet telephony products in the portfolio which through a gateway and a gatekeeper transforms ordinary telephone signals to Internet protocol signals in both directions. This technique combines the telecommunication with the data communication. (Telefonaktiebolaget LM Ericsson, 1998 IP telephony).

4.1.2 Current channels used for other Internet Telephony products.

As mentioned in the introduction and background of this paper, Ericsson are used to distribute traditional telecommunication products. The distribution of Internet Telephony products might need a different approach, as the products are both telecommunication products as well as datacommunication products.

The Ericsson Internet Group is included in the Switching organisation which target customers are public operators, not enterprise customers. Other Ericsson units distribute products to enterprises, but the products are not similar to the Phone Doubler Quick Call. The issue within Ericsson is how to target the new market consisting of both telecommunication and datacommunication.

The Phone Doubler Quick Call is still in a very early stage of the product lifecycle, so up to this date the Ericsson Internet Group only use direct distribution channels to distribute their Internet Telephony products. The products are mostly sold to Internet

Service Providers (ISPs), which mainly are old telecommunication operators which today both act as telecommunication operators and as ISPs. This distribution is a quite logic event as the Switching organisation, which Ericsson Internet Group belongs to, are doing business with telecommunication operators in other products areas.

The Internet Group are of course looking for other ways to distribute their Internet Telephony products and specially the Phone Doubler Quick Call. One option is to investigate if distribution channels at other Ericsson units can be used. Another option is to look for external indirect distribution channels. The indirect options can be VARs, Distributors, System Integrators or Web Consultants (Lindholm, 1998).

The target customers, enterprises, vary in size and business. Small and medium sized companies might not afford the investments and might want to rent the Phone Doubler Quick Call service from someone else. Still another way to distribute the Phone Doubler Quick Call can then be if Ericsson Internet Group sell the product to an ISP and then the ISP lease the service to the small and medium sized companies (Nedjeral, 1998).

4.2 Other Ericsson unit

The information in this chapter is summarised from an interview with Mats Nordin, Business & Sales Manager, at Ericsson Business Networks AB, Datacom Networks and IP Services.

Datacom Networks and IP Services is a unit in Ericsson Infocom Systems. They sell network solutions to private companies, telecom operators, Internet service providers, government departments, and educational institutes. A network solution is a combination of network products and network services.

Their mission is to create business value for organisations operating Wide Area Data Transport networks with special focus on Internet Service Providers (ISPs) by competing as a broad System Integrator, and in addition, competing with product leadership in niche areas.

4.2.1 Distribution channel structure, models and members

Ericsson Datacom Networks & IP Services (DNIP) are mostly using a direct distribution channel, but if the competence is low at Ericsson's local company in the particular country, they use a distributor to distribute their goods (see Figure 11).
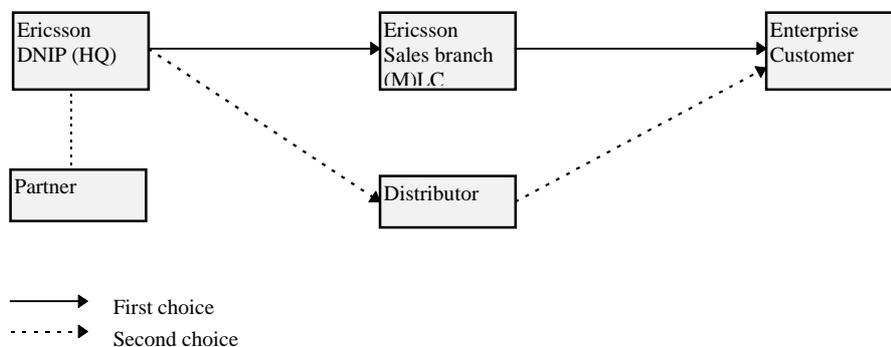
Figure 11: Ericsson DNIP Distribution channel structure (Nordin, 1998)

The distributor is often a reseller who both sell products, and acts like a system integrator. System integrators alone are hard to get reselling contracts with as they want to be independent and chose the right product for each occasion. A distributor alone who only deliver a product is not possible as the product is very complex and need a professional installation.

Ericsson also have a partnership with some companies. The partners are companies which can provide products which can complement Ericsson's portfolio. Ericsson do

not have the time to develop all products by themselves but have a good customer base and distribution network which can be complemented by a partnership. Ericsson DNIP also use their partners technical knowledge and support in pre-sale and after-sale. In the development of new products they also provide with customer knowledge.

DNIP often deliver large systems which take an average of six months to deliver, so it is necessary to have good customer contact to be able to deliver a good system. Therefore the distribution channel have to be quite short.

The channel environment the recent years tend to be more and more build on partnerships. Many companies are also merging very much today.

Mats Nordin believes that Ericsson Internet Group must get an awareness on the market about the Phone Doubler Quick Call, so people know that the product exists. Distribute free samples good be a good idea. Mats also thinks that the Internet Group must try to use their existing customers, the telecommunication operators, and through them distribute the product.

4.2.2 Channel choice and selection

Competence is very important for DNIP, every channel member must have good competence in the data communication area and be able to give the customer the service he/she needs. Ericsson DNIP wants to distribute as much as possible by themselves to be able to have control and get quick feedback from the market. In markets where language problem exists, it might also be easier to establish a sales branch.

As the market change all the time it is also important to have a wide competence to be able to keep the customer contact and up hold a good relationship.

Ericsson first distribute products through their own sales branch, but if that is not possible they use a distributor in the datacommunication area who distribute complementing products. Sometimes it is hard to find the right distributors as they might be occupied with competitors products or do not want to take on new products because they might confuse their existing customers.

The channel members tasks is to handle as much as possible by their own. Pre-sales, sales, installation and support.

When Ericsson DNIP chose channel they follow Ericsson's general policies and ethics.

They do not have any special method as every situation is quite different. They do not design channels by there own but only use established channels.

When choosing a distribution channel it is also important to find a reference before you chose the particular channel.

4.2.3 Channel management

Ericsson DNIP aiming at long term relationships with their customers and work close with the customer to provide whatever they want in the data networks and IP area. Ericsson DNIP tries to build up as much competence as possible at each channel member level.

Ericsson DNIP also work with partnerships and have today around 10-15 partners, but many of them are only resellers and no real partnership exists. The term partnership is a misused word. Therefore Ericsson DNIP today are trying to define and tell all their partners, sales branches and customers who the real partners are and what the partnership means. Strategic partnership is a word companies use today because the partnership term has been misused. In a real partnership you have common objectives and interests.

It is often hard in the beginning of a partnership as you might talk different "languages", and have different objectives. It is also important that everyone in the organisation understand the partnerships, so no bottle necks appear.

Mats Nordin do not believe at the moment that Phone Doubler Quick Call can be bundled with any other Ericsson products, not on the data networks side anyway. He mention that the product might can be bundled with Ericsson's call centre solutions. He thinks bundling is a good concept, but that you have to be careful as wrong bundling might lead to a decreased sales instead of an increasing sales. Sometimes the term bundling is also misused, the products might be sold as package, but they do not work alone, and that is not bundling.

Ericsson DNIP evaluate its channel members by looking at sales statistics. They also look at how long time the deals take, how effective the channel member is, how long time it takes before Ericsson get their money. Sometimes though it is hard to look at statistics as legal constraints and business cultures also effect the sales.

In motivating the distribution channel members it is important to educate, arrange seminars and kick-offs. To have a good relationship in a channel is also important and to have contacts at many levels, both technical and economical. To have product portfolio and not only one product also make the distribution easier.

4.3 Competitor

To get an idea of how other companies are distributing Internet telephony I decided to interview a competitor. It is interesting to see how they look at the problem and get an idea of what channels they are using.

Lucent Technologies is one of Ericsson's competitors which are distributing Internet Telephony products and in Sweden they are represented by Lucent Technologies Sweden AB, Global Commercial Markets.

The information is this chapter comes from an interview with John Carlsson, the Account Executive at Lucent Technologies, Sweden AB.

Lucent Technologies is a tele- and data communication company with around 125 000 employees in 90 countries. In Sweden they are focusing on local area networks (LANs) and targeting enterprises. The division is a world-wide leader in development and manufacturing of structured cabling systems and wireless LANs. Lucent Technologies Bell labs has been developing products since 1925 and are establishing around three new trademarks every day.

In Sweden Lucent Technologies have around 40 employees targeting the Nordic market. 10 of them are focusing on the datacommunication market. One person also work in Finland serving the Baltic area. In Sweden, Lucent Technologies main competitors are Ericsson, Alcatel, AMP and BICC.

4.3.1 Distribution channel structure, models and members

As Lucent Technologies only have 40 employees in Sweden they are using indirect channels to distribute their products. Lucent also use their intermediaries to store their products as they do not have any warehousing facilities by their own. The manufacturing of the products is done in USA, Ireland, Holland and some in Asia. Lucent Technologies use VARs, VADs and SIs to distribute their products in Sweden (see Figure 12).
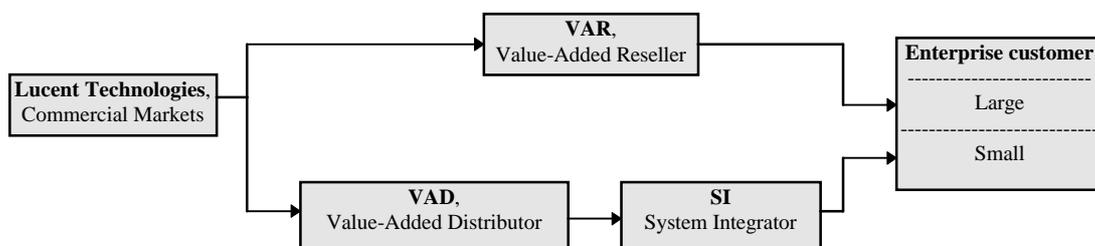

Figure 12: Lucent Technologies distribution channels in Sweden (Carlsson, 1998)

The VAR, Value-Added-Reseller, channel are Lucent using to distribute products towards large enterprises, such as banks. Lucent's VARs are often large telecommunication operators, such as Telia or Telenordia, but also companies like WM-Data. The VARs are also storing Lucent's products.

The VADs, Value-Added Distributors, and SIs, System Integrators, are distributing the products to small companies. In this case the VADs are storing the products and the SI are doing the installation. In this channel SIs, are often small SIs with maybe only 10 employees. These small SIs often manage the whole IT function at small companies so they are a good channel to reach this segment. The VAD never sell directly to the customers.

The value-add in this case is that the channel members not only sell the product but also refine it. They handle pre-sales and education etc. VAR is a term which became popular a couple of years ago, but VAD is a relatively new term. The term SI has been around for a while and today small SIs are often being taken over by larger SIs.

In the Northern, Lucent have around 25 large partners, and they are using the same channel structure all over Europe. Lucent's main VAD is Anixter, a VAD that they are working together with all over Europe.

Lucent are not working like other companies, such as Cisco, using their own sales force to sell in the products to their customers and then using their intermediaries to settle the deal.

John Carlsson believes that because of the convergence between data and telecommunication many new competitors will enter this market. He also believes that more foreign companies are trying to enter the Northern market.

4.3.2 Channel choice and selection

Lucent want to establish a long term relationships with its channel members, so before selecting an intermediary they are doing an evaluation. It is very important that the intermediaries have a stable economy and that they have capacity of distributing our products. They also must have the storage capacity for our products. It is also important that they have the required competence of selling Lucent's products.

4.3.3 Channel management

Lucent are arranging activities together with its channel members to maintain a good relationship. They are arranging seminar days, courses and visits at Lucent's factories. At the factory in Ireland Lucent have a customer centre where VARs, VADs and SIs can bring their customers. Lucent support its intermediaries when they have customer meetings with their presence. Lucent's parent company also have

direct contact with Lucent's largest VARs and VADs, such as Anixter, but very often the Swedish local company handling their own business.

Lucent do not have many conflicts in the distribution channel. Some conflicts are though good to encourage the channel members.

Lucent is working with partnership but they point out that for them partnership is not only someone you sell to, a partnership is when you have common objectives and work closely together. You might arrange seminars or expo:s together. Lucent largest VAD, Anixter, is a partner to Lucent. To be a partner that company must focusing on Lucent products. Partnership is good as it often is supporting a long term co-operation. In a partnership it is also easier to predict future trends, and as a manufacturer you get closer to the end customer and can easier understand the market needs. The dangerous thing with partnership is that you might rely to much on your partners view and maybe get the wrong view of the reality.

To evaluate the channel members in the distribution channel, Lucent are looking at sales statistics. They also look at the members business plan to get an idea of how the channel members are going to achieve their objectives.

4.4 Potential Business Customer

To be able to find a suitable distribution channel for Internet telephony it is of course interesting to get an opinion from the business customer, who he/she prefer to buy the goods from (Lindholm, 1998).

Therefore I have interviewed Sonny Norström at Skandia, which is an international corporation engaged in insurance and financial services, with a home market in the Nordic countries. The company markets a wide range of products in the direct insurance and reinsurance segments, as well as in the savings segment - for individuals, businesses and the public sector.

Sonny Norström is working at the internal IT company, Skandia BMS, with Internet issues. Skandia BMS is working with business development with IT as a focus and are the link between IT and the business.

All information in this chapter comes from the interview with Sonny Norström.

Sonny Norström states that 95% of the customer contacts in the bank and insurance business are being applied via telephone. Therefore he thinks that a product such as Phone Doubler Quick Call would be very interesting for this type of business. In businesses where people need help with analysis, or need an advice, a product like this would be useful. Microsoft Netmeeting is a similar product which is useful for this kind of functions as well. Today Skandia use the World Wide Web very much, especially for the young people segment, as they like to use Internet to conduct their business. In other segment it can be harder to create a usage of a product like Phone Doubler as people's behaviour can be hard to change.

4.4.1 Distribution channel structure, models and members

Skandia are purchasing most of their software and hardware by their own, often direct from the manufacturer. Skandia have a department which only task is to handle purchasing. As Skandia often make large purchases they like to buy direct from the manufacturer. They also have the competence to do these purchases which a small company might not have. Small companies might need to get help from SIs to make their purchases.

Another purchasing method of IT products which Skandia use is their Cyber pavilion. They have a lab in which they invite manufacturer to test their products and tailor them for Skandia's needs. Like an innovation workshop, the manufacturer and Skandia can exchange ideas and together develop the product. Telia and Microsoft are companies which are using this channel today, to sell products to Skandia.

4.4.2 Channel choice and selection

Except purchasing most products direct from manufacturers Skandia also work a lot with partners, consultants. Skandia are using consultants for computer missions, such as programming, but also for management consulting. When Skandia select a consulting firm they make phone calls to find out which ones that are available. To choose firm Skandia look at their consultant profile and check what competence they have in the area. They then try to find some references from earlier mission the consultant firm have done and also listen to the reputation on the market. At last Skandia interview the consultant in the same way as when they are employing new employees.

4.5 Potential intermediaries

On the market it exists a wide variation of intermediaries and many conducting their businesses in different ways. As mentioned earlier it is interesting to get the opinion of different channel members, to be able get an idea how each of them are working, and to find a suitable channel for Internet telephony (Lindholm, 1998).

In this chapter interviews with a distributor/VAR, a System Integrator, a Web Consultant and an Internet Service Provider are presented.

4.5.1 Distributor/VAR

As Ericsson Internet Group just recently signed an agreement with AU-System Communication to distribute Ericsson's Phone Doubler products I found it very interesting to interview them about the problem for the research.

The information in this chapter comes from an interview with Pär Ohrberg at AU-System Communication.

AU-System is a software company, specialising in tele- and datacommunication, offering qualified know-how and best-of-breed products.

AU-System is developing turn-key solutions for telecom operators, business firms and public services, in the fields of electronic shopping, data security and mobile communications, as well as being a distributor for Eicon, FORE Systems, Philips and other manufacturers.

AU-System is an independent company owned by Ericsson and Telia. AU-System was founded in 1974, and has presently 340 employees. They have offices in Dallas, London, Hong Kong and in Sweden.

AU-System Communication, which I have interviewed, is the part of AU-System which is the distributor and the general agency for market leading suppliers and manufacturers of tele- and data communication products. AU-System do not distribute any other Ericsson products than Phone Doublern up to this date.

4.5.1.1 Distribution channel structure, models and members

AU-System Communication is a VAD, Value-Added Distributor. AU-System Networks, an other part of AU-System, is an SI, System Integrator. AU-System also include one part which only develop and sell products. AU-System Communication's most important part is to be an general agency for manufacturer which do not have own sales branches in Sweden. AU-System Communication distribution network can be describe as in Figure 13.

```
                                            ┌──────────┐
                                            │   SI     │──────────────────────┐
                                            │   VAR    │                      │
┌───┐              ┌──────────┐  ┌──────────┴──────────┘                      │ ┌───┐
│ M │              │   VAD    │──┤                                            │ │ E │
│ A │              │(AU-System C.)│                                          │ │ N │
│ N │─────────────▶│          │  │    ┌───────────┐      ┌───────────┐       └▶│ T │
│ U │              └──────────┘  └───▶│Distributor│─────▶│  Retailer │────────▶│ E │
│ F │                                 └───────────┘      └───────────┘         │ R │
```

Normal channel ⟶
Occasional channel - - -▶
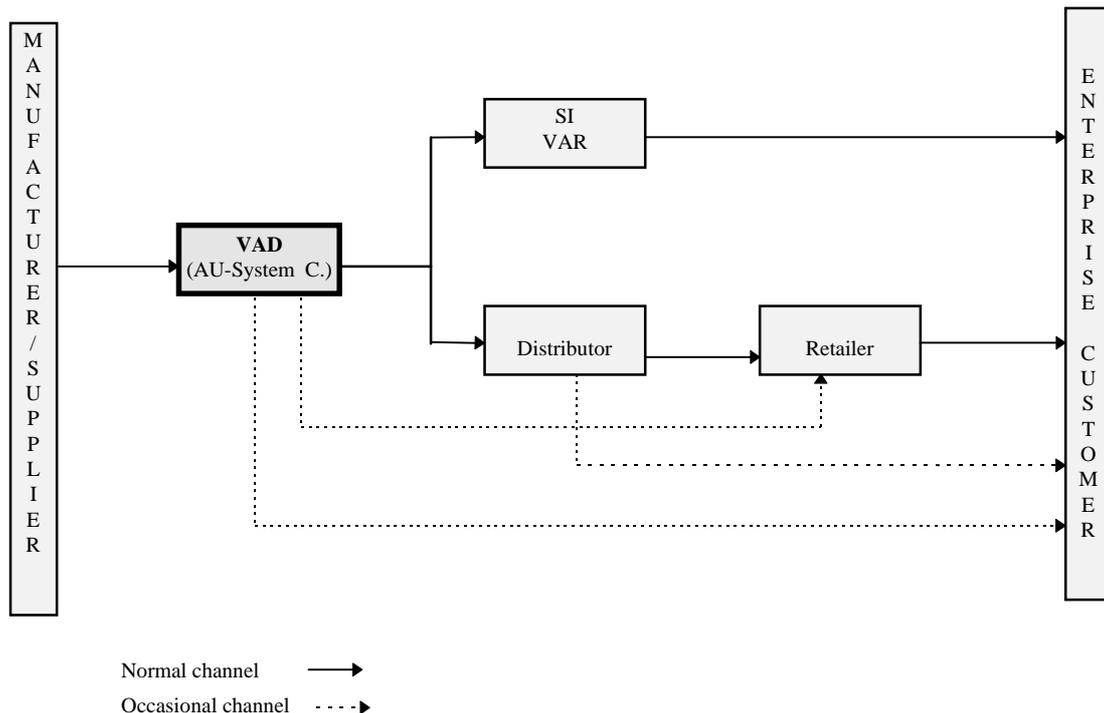
Manufacturer/Supplier or OEM: *i.e. Ericsson*
VAD, Value-Added Distributor: *AU-System Communication*
VAR, Value-Added Reseller: *i.e. Owell(owned by WM-Data) and IMS*
SI, System Integrator: *i.e. WM-Data and Alfaskop*
Distributor: *i.e. Schribona and Computer 2000*
Retailer: *i.e. Office*

Figure 13: AU-System Communication distribution channels (Ohrberg, 1998)

In the figure above VAR and SI is in the same box because the difference between the two is quite small. They both adding value to the product but the SI add more value, by large amount of service. The VAR put more effort on the product. If you further compare a VAR with a retailer, the retailer normally not adding any value to the product. There do exist Value-Added Retailers as well, but they are not so common. The retailer is also often confused with the term reseller, but a retailer is more an outlet. Reseller is more a general term for someone who is reselling, it could be a distributor or a retailer. To define a distributor you can say that a distributor is an intermediary which always have a channel member between itself and the end customer. The advantage with a distributor is that they sell other complementing products, which attract customers. For example if customers want to buy a printer they might also buy a modem or a monitor at the same time.

In Figure 13 the occasional channel show that sometimes AU-System or channel members skip on or more intermediaries. This does not happen often but the reason why it happens is because the particular channel member buy a very large quantity or have a special relationships with the particular seller.

47

AU System Communication have not started to sell Internet telephony products yet, but believes the best channel will be through SIs, which have the customer base as well as the competence. In a later stage in the product lifecycle when the product is a commodity product other channels can be of interest. Many channel members today are doing many different tasks, both system integration as well as product distribution. Except distributing Ericsson's Internet telephony products, AU-System also have consultants working at Ericsson and participating in the development of GSM products. They also sell products to Ericsson, such as ISDN products and modems.

AU-System believes that the channel environment has changed, everyone want to sell IT products, for example Audio/video retailers. AU-System also believes that the channel change is going back to its earlier structure in a near future. AU-System does not see direct distribution through the World Wide Web as a threat. They believe that customers will always want to see the product in the reality, the retailer will always have its role. Today AU-System is distributing more to the consumer market than before, often when the product mature, the target market sometimes change from the business market to the consumer market.

4.5.1.2 Channel choice and selection

In the design, choice and selection of distribution channels it is important to think of long term relationships as a criteria. It is important to set common goals with the channel members and to state mutual commitments. With the Phone Double it would probably be a good idea to place the product with SIs and then they can establish a distribution channel structure with distributors or agents. Pär Ohrberg at AU-System do not believe in placing the product with mass distributors.

Other important issues in the choice of distribution channel is to find out what channel members you take in. What reputation, competence and what strategies they have is important to find out when a selection is being made.

4.5.1.3 Channel management

AU-System believes that follow-ups are important in a channel relationship. Every channel member have to follow up other members work. Long term relationships in the distribution channel is very important and to up hold this relationships is the challenge. The contribution that AU-System provides is that they allocate staff for certain products. They also conduct courses for their channel members to motivate and support them.
AU-System believes that it takes around nine months to establish a product on the market and get a volume sale. That is the time it takes to establish the distribution channel. If the product get obsolete during this time, you must take in other products or get an upgrade of existing products to maintain the distribution channel.

In the evaluation of the distribution channels it is important to see where in the product lifecycle the product is at the moment, maybe the market is not mature enough and that is why the product does not sell. Internet telephony might be such a product, where the market is not mature enough. When we are starting to distribute a product we believe that we will sell the product at least four years.

AU-System are evaluating its channels through monthly and yearly sales statistics. They also conduct quality follow-ups to measure the effectiveness of the distribution channel.

4.5.2 System Integrator

Logica Svenska AB is a leading computer consultancy company. They specialise in the development of IT solutions focused on improving communication between organisations, their customers, and their employees - making communication more efficient and profitable. They are a subsidiary of Logica plc, one of the world's leading international computer consultancy companies with offices in 20 countries around the world.

In Sweden, they have 90 employees and are Logica plc's skills centre for Computer Telephony Integration (CTI).

The information in this chapter is based from an Interview with Per Abelson, Key Account Manager - Ericsson, Logica Svenska AB.

4.5.2.1 Distribution channel structure, models and members

Logica is a traditional SI, System Integrator, but it is a little harder than so to define a company's business. The consultant business can be classified as in Figure 14.
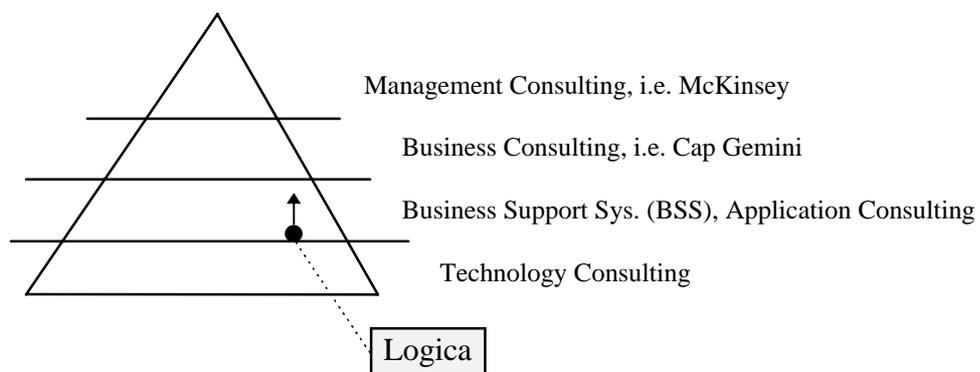

Figure 14: Classification of consulting firms in the business pyramid (Abelson, 1998)

Many consulting firms today are trying to get higher up in the pyramid or trying to cover more areas in the pyramid, to be able to deliver total solutions. Logica are today working very much with system integration and applications, but are trying to get into business consulting area as well.

Logica are distributing their solutions to the business customer with the help of partners. The partners provide with a standard application which Logica integrate and tailor for the business customer. Maybe Ericsson could be a such partner and Phone Doubler Quick Call a such standard application. See Figure 15 below.
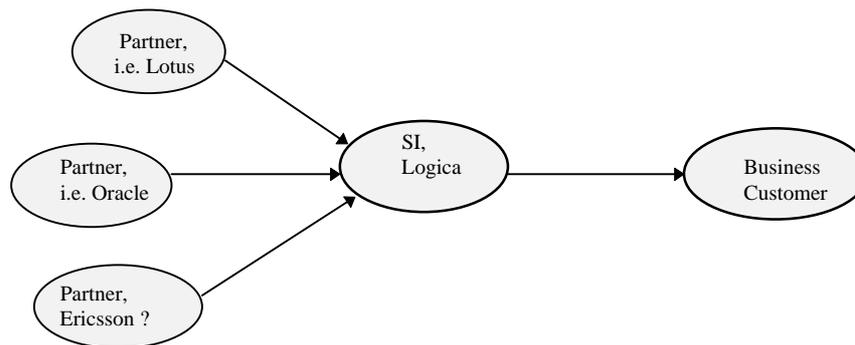
Figure 15: Logica's distribution channel structure (Abelson, 1998)

The idea with a SI, or a consultant, is to be independent, so you can use the best product in every mission. Therefore Logica have many partners and use the one that suit the particular case. Logica get partners through, with for example Oracle, by building up competence within in Logica on the partner's products.

Logica also get customers who contact the partner and the partner direct the customers to Logica. Today though, many partners have consultants by their own, so the direction of customers is not so common as before.

A SI is making a profit on the services, not on the products. A SI does not want to distribute a product if the product not include much service. The installation, training or support of the product must be quite extensive.

Today Logica Svenska AB have three account managers who only working with Ericsson and trying to build up a long term relationship. They have earlier made demonstration applications for Ericsson and they have also done some market research for Ericsson.

Per Abelson thinks that an ISP, Internet Service Provider, might be a possible distribution channel for the Phone Doubler, as Ericsson have contact with telecommunication operators today which often also are ISPs. ISPs also have contacts with business customers and know their needs.

If the Phone Doubler should be interesting for a SI to distribute, it must be much service around the product, such as installation or support. Adding value to the total solution is not enough.

4.5.2.2   Channel choice and selection

When Logica are distributing solutions to their customers they are trying to build up a long term relationship, partly because it is a long process making the customer trust a SI. Logica have devided their sales force into a vertical lines, different categories, such as Telecommunication, Finance, Energy and Utilities etc.

When Logica choosing partners to their projects they are very careful, as every additional product in a solution increase the risk of failure. The risk factor is very important when you are choosing channel members. Logica try to use as few different products as possible when they are working as a SI and make sure that a good support exists for each product. Sometimes the customer specifies that some products have to be included in the solution and then the SI have to listen to the customer and take in the proposed products.

Per Abelson thinks that before you choose a distribution channel, it is essential to have a clear product strategy. Many companies do not have that. You have to know what competence the product require, what sales force you need, what price, which image and what kind of installation the product need. It is also important to know what input the distribution should provide and what market segment to target.

4.5.2.3   Channel management

It is important to understand the channel members business to create a good relationship in a distribution channel. For a manufacturer it is important to make clear for the channel members which objectives and strategies the manufacturer have with the channel.

To motivate the channel members it is also important to be honest and be clear with what intention you have with the distribution channel. As a manufacturer you also have to tell your channel members which other channel members you are using and what your strategies are with them. It is also important to make clear which investments you do to make the distribution channel succeed.

Logica think that the channel environment for computer products have changed. In the past it was easier to develop and sell software products. Today the competition is much harder and the implementation environment much more complex. Therefore must the quality of the distribution channel be very good. You must have good competence in every level of the distribution channel.

To maintain a good relationship in the distribution channel a manufacturer should not try to push out the product. They should instead set up common objectives with their channel members. It is also important that a manufacturer have enough support for the sale and is honest about market forecasts. Dishonesty in a channel relationship always strike back on the sales.

Logica is working very much with partnership. A partnership is built on legibility, honesty and a long term co-operation. The term partnership is used very much on the market today. Some manufacturers have many, what they called partners, and when they need a product they ask their partners, who is cheapest? This is no partnership, partnership is a close long term relationship. Few companies today have a partner strategy. If you as a company can not answer the question below, it is no partnership, but instead only a normal reselling co-operation:

- What is a partner?
- What does the partnership mean?
- What is the objectives with the partner?
- Which is the ideal partner?

In a partnership it is very important that you have support within the organisation. It is important that the partnership objectives reaches all the way out to the person who talk with the customer. Very often partnerships fail because everyone in the organisation is not aware about the partnership and what it means. This is also a problem in an normal vertical distribution channel. If the salesman who have contact with the customer does not know about the partners products no sale of these products will be done. Some software companies are dependent on their partners success so in this case the software company must make sure that the partner knows everything about the products and the common strategies.

Many companies tries to bundle their products today, but this is very hard. Per Abelson thinks it is very complicated to bundle. A company must have a clear bundle strategy.

Everyone are beginners in a partnership and it take a while before you understand each other. A trend seams to be that everyone is partnering with everyone. There is a risk that the partnership term will loose its value.

4.5.3 Web consultant

Another new type of consultancy firms on the market which work a lot with Internet is the Web Consultancy firms. They concentrate on working with web sites on the Internet. One such firm in Stockholm, Sweden, is Spray Networks. They might be a potential distribution channel member for Phone Doubler Quick Call.

The information in this chapter has been collected from an interview with Monica Lingegårdh, Spray Networks.

Spray Network is today trying to be the leading interactive media consultancy and production company in Europe. They believe that interactive media will, and already is, changing our society and by that the life and opportunities of every company and organisation. Spray Network has the track record, the people, the methods and the network to be the interactive media partner in this challenging process.

Spray Network is currently operating in 5 countries, Sweden, USA, Norway, Finland and Germany. They have over 180 employees in Sweden and are rapidly expanding. Their aim is to provide their clients with a broad range of strategic interactive media services. In combining skills and knowledge about business development, technology, design and communication they are able to create outstanding solutions in co-operation with their clients that will leverage the performance of their business.

4.5.3.1 Distribution channel structure, models and members

The distribution model for Spray Networks is similar to any other consultancy firm and is similar to Figure 15 in *chapter 4.5.2.1* . Spray Networks distribute their services and products directly to the business customer, and use different partners to complete different solutions.

The business is relatively new so it is hard to define and categorise companies like Spray Networks. Web Consultant is the name that is used on the market. Spray Network is no normal Web Consultant, they do business development with help of Internet. They build websites, but they also build Intratnets and Extranets. Spray create business concepts with Internet and build it or someone else might build it. They do not maintain the websites, often the particular company employ someone to maintain the websites Spray have created.

The Web Consultants competitors are the large SIs or other consultancy firms, which often have a department which is working with Internet issues. In some areas Spray work together with these competitors as partners.

Today Spray are building an external website and an Intranet for Ericsson Multi Server Access. Monica Lingegård says that Spray could be a potential distribution channel for the Phone Doubler Quick Call product. Ericsson Internet Group can be one partner of Spray's many partners and the Phone Doubler Quick Call could be a product that could be a part of their total solutions.

Monica Lingegård thinks that Ericsson has to establish some kind reselling through distributors to distribute Phone Doubler Quick Call, and that is no partner concept. Monica also says that the distributor must have competence and therefore a telecommunication operator which both have competence as well as customer contact can be an alternative distribution channel. She also states that as these products are new for Ericsson they must establish a reselling network for these products with for example Telia as a solution partner.

4.5.3.2   Channel choice and selection

As Spray Networks often works in the end of the distribution channel and work similar to a System Integrator, SI, they do not design a distribution channel.

When they are choosing partners they build up competence at Spray Networks for that partners products and after that become a partner. They want to be independent so they use different partners products for every specific case. Today two of Spray's partners are Microsoft and Lotus.

4.5.3.3   Channel management

To motivate and manage the distribution channel for Phone Doubler Quick Call Monica Lingegårdh thinks that Ericsson must marketing and inform the channel members and business customers how the product can be used. It is also important that information about the product always is available so that the channel member never will be left out on information. This can be done with help with an Extranet which only can be accessed by certified resellers. An Extranet is websites which can be reached outside the manufacturer's own Intranet, but only by people with access.

Ericsson Internet Group must also arrange seminars and courses for their channel-members to motivate and support them in their businesses. It is important that the channel members feel comfortable in distributing the product, that they can trust Ericsson and the product. To motivate a channel member is very much about making sure that the product always comes on their mind when they are doing business. Another idea could be to build up a sort of community among channel members so they can exchange ideas and experiences.

Monica Lingegårdh also believes that, as Phone Doubler might be a low margin product, the salesmen might sell a large margin product instead, like a call centre solution, as they get more commission on a such product. This could be a problem with some channel members.

4.5.4 Internet Service Provider

Internet Service Provider today sell Internet access to business customers so maybe they can be a potential distribution channel for Internet telephony. An option of distributing the Phone Doubler Quick Call is if the ISP buy the product from Ericsson and then lease the service to the business customers.

Tele2 is a Swedish telecommunication company which businesses are telephony and data networks services. As many telecommunication companies today they act both as a telecommunication operator and an Internet Service Provider. Tele2 is a part of the Netcom Group which also doing business in Mobile telephony and Cabel-TV.

The information in this chapter comes from an interview with Daniel Kaplan, Account Manager Assistant at Tele2.

4.5.4.1 Distribution channel structure, models and members

Tele2 is divided into two customer segments, business customer and consumer customer. The business segment is then devided into three different segments.

- Small companies with 9 to 100 employees.
- Large companies, or companies with large businesses with Tele2
- Groups with really large businesses

For small companies and some of the large companies Tele2 use indirect channels but for groups, where Daniel Kaplan work, Tele2 use direct distribution through account managers. To business customers, Tele2 sell direct Internet access and direct telephony access. Except that they also sell data networks services, such as LAN (Local Area Networks) to LAN connections. Tele2 also offer service around the products, such as Web hotels. They offer customers to store their web sites on Tele2's server. The most large companies have their own server but small companies are often interested to use Web hotels. Tele2 do not build websites. Tele2 have partnerships in the areas of call centres and firewalls, but not in the area of websites.

Tele2 have also divided their segments into geographic areas, but some business segments still remain, such as bank and finance. The purpose in the Netcom Group is that all companies within the group should be able to sell all Netcom's communication products to all customers.

The market change all the time, new kind of partners, new distribution channels and new organisational structures are being developed. Special groups working only with special retailers and other groups which are organised after different products are being created. Bundling is also a quite new concept which is being used more and more. Another trend on the market is that all companies in a group try to more use each others competence, a kind of partnership within the organisation.

Daniel Kaplan believes that Tele2 would be interested in distributing or leasing a product like Phone Doubler Quick Call towards business customers.

4.5.4.2 Channel management

Daniel Kaplan states that, the larger a business customer is, the more relationship kind of distributing exist. It is important to serve and take care of the customer. The relationship depends partly on the chemistry between the contact persons on each side, but the relationship can also be effected by how the particular customer has been treated earlier. Bad treatment is something that is noticeable for a long time.

The competition on the Internet market get harder and harder so the motivating of channel members get more and more important. Many competitors are dumping the price on the products so it is hard to motivate the channel members. Internet have been a standard product so the competition is often circulating around the price. Another competitive tool today is that distribution channel members are trying to add value to their products, such as firewalls, free support call number or a quick installation.

Tele2 are always offering the whole product portfolio to their customers, so bundling can be quite common. Other channel members, such as distributors are also bundling Tele2's products with other products. Bundling can also be in form of services instead of products. Alfaskop are for example bundling their services with Tele2's services. Tele2 also offer bundled products together with their partners to be able to deliver total solutions.

5. Analysis

The theoretical and empirical information are compared and analysed is this chapter. I will here try to find answers to the questions stated in *chapter 1.2*. By analysing the theories and the empirical information some conclusions can hopefully be made on how Internet telephony can be distributed.

5.1 Distribution channels

By presenting the available distribution channels for Internet telephony and pointing out their pros and cons the choice for the Internet telephony will hopefully be easier. First I will present the available channels and try to define the channel members. After this I will try to find the advantages and disadvantages with the different options.

5.1.1 Available distribution channels and channel members

The theory describes general models of business to business distribution but it is hard to find models specified for particular branches. In the last years also new distribution channel members have showed up on the market and new structures of channels have appeared. The models in theories are often very abstract and do not describe the structures of indirect channels in detail.

In the theories vertical, horizontal and hybrid distribution channels are presented. The vertical distribution channel is not so common on the tele- and datacommunication market. The interviews in the research shows that many companies are today using a multi, hybrid, distribution channel structure. They are using different channels to reach different customer segments. The sometimes lack of channel members also make manufacturers use more than one channel to reach their target customers. The interviews also show that many companies using partnerships to be able to distribute their products effectively. Partnership can appear on different levels in the distribution channel, and partnership is a horizontal distribution structure. Companies today often use a combined multichannel and horizontal approach.

From the model in the theories together with the empirical information a summary model of distribution channels available on the Swedish tele- and datacommunication market can be created.
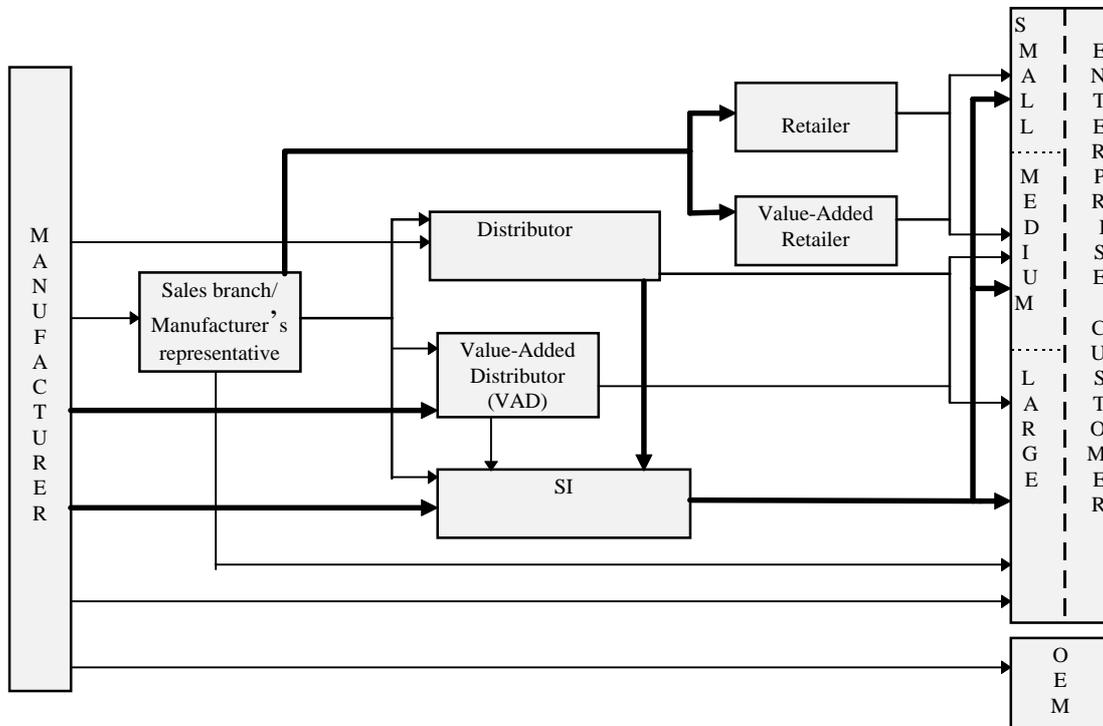
Figure 16: The distribution channel network

The different thickness of the lines in the figure do not have any particular meaning, except trying to separate the lines. In many texts authors do not separate the sizes of the business customers but the collected information from the interviews shows that the most companies today do separate the different business segments. Another interesting issue is that theories do not describe the interaction between the different intermediaries but after interviewing channel members the interaction can be shown in the Figure 16.

5.1.1.1 Definitions of distribution channel members

As the theories do not describe the new value-added intermediaries, I can with help from collected empirical information present the following definitions of intermediaries on the Swedish tele- and datacommunication market:

Value-Added Reseller, VAR

A VAR is a distribution channel member which reselling the product and adding some value as well. The VAR's main business is to resell a product, but by adding for example service in form of software or hardware, he/she become a VAR.

Distributor

A distributor is reselling products, buying from a manufacturer or a sales branch/representative, and selling to a retailer/value-added retailer or direct to the business customer. A distributor often store the product and take title to it.

Value-Added Distributor, VAD

A VAD is a quite new term, which is a kind of Value-Added Reseller. VAD is a distributor which not only resell the product but also adding value to it. The main business for the VAD is to distribute the product, but it also adding some value in form of service. A VAD can add training, competence, offering courses or some other expertise. An example of a VAD in Sweden is AU-System Communication.

System Integrator, SI

A SI's main business is to integrate computer systems. A SI want to be independent and not represent any particular products, but more using a wide range of products. A SI want to choose the best product for the each occasion. A SI often use many products and by integrate them they are providing a total solution. The SI's main business is the service and their aim is to use as few products as possible.

Retailer

A retailer is an intermediary which resell products. A retailer buy from a distributor/VAD or direct from a manufacturer is some cases. In the theories Kotler & Armstrong (1996) states that a retailer sell only to the end consumer, but today business customers also buy from retailers.

Value-Added Retailer, VAR

A Value-Added Retailer is also a quite new term and is a retailer which also adding value to the product. By not only reselling the product but also offering service, installation or support to the product, the normal retailer become a Value-Added Retailer. The main business for the VAR is to resell the product.

The definitions of different intermediaries are quite hard to decide as many firms do not know were they belong. They also tend to take on more than one term. A reseller is a core term which is used for everyone who buy a product and then sell it to someone else. Therefore a VAR, Value-Added Reseller, can be both a VAD, Value-Added Distributor or a VAR, Value-Added Retailer. The value-add term is quite new and some of the people interviewed believe that this term has been created to be more competitive on the market, to be able to add something more to the product. The abbreviation VAR is a little bit confusing, as it can mean both Value-Added Retailer as well as Value-Added Reseller. The later one is though the most common one used on the market.

The Web Consultant interviewed is hard to place and define, but I would suggest that a Web Consultant belong to the category SI, System Integrator. A Web Consultant work similar as an SI, like a consultant, but often delivering only Internet solutions. Internet solutions often though have to be integrated with other systems in an organisation. You can say that a Web Consultant is one type of SI.

The Internet Service Provider interviewed can be defined as a VAR or as a potential customer in this research. The Internet Service Provider are leasing other services, such as web hotels, and Daniel Kaplan at Tele2, states in the interview that they might be interested of leasing a service like Phone Doubler Quick Call. If they do not want to lease the product to business customers, they can resell the product instead as they resell other similar services and products.

5.1.2 Disadvantages and advantages with the options of available channels

In the theories I discuss the choice of direct and indirect distribution. The theories state that if a product is complex and need a consultative selling approach a direct channel is to prefer, but the empirical information shows that manufacturers use indirect channels as well. A direct approach can be good but it also demands that the manufacturer have the resources, such as staff, to manage this approach. Internet telephony can be seen as a complex product and have characteristics that suit a direct distribution approach, but if the manufacturer want to reach a volume sale an indirect channel might be a better option. New kind of indirect channels have also appeared the last years which can fulfil many of the requirements that only a direct channel could fulfil before.

The complexity of the Internet telephony products demands that the intermediaries have great competence in the technical area. This is probably why more intermediaries want to be a value added resellers, so they can also resell complex products and add the service needed to sell these products. As Internet telephony is not just a simple product but more a system with both hardware and software, the channel member have to be able to offer good competence in the area.

System integrators have the strength of providing great competence and can integrate Internet telephony with other products, such as call centre solutions. It can though be hard to get a distribution agreement with a SI, as they want to be independent. The SIs strength should not be overlooked, even if they want to be independent they must use some products in their integration. There must of course be lots of service around the product, such as installation or support, as the SIs are concentrating on making money on the service, not on the product. Many SIs have long term relationships with many business customers which is a big advantage.

As SIs not want to lock up with agreements, a Value-Added Reseller, VAR, might be an alternative, as they concentrate more on the product instead of the system integration. A VAR can offer the additional value which is needed to sell a complex product such Internet telephony.

We have two kinds of VARs, the Value-Added Distributor, VAD, and the Value-Added Retailer. As Value-Added Retailers are not mainly distributing to business customers, that channel might not be of interest, and to be able to get a good margin on the products and shorter channel might be to prefer. A VAD which sell directly to business customer might be a better option.

In discussing different intermediaries it is also important to be aware of the different sizes of the intermediaries, as this also decide the advantages and disadvantages of the channel member. A large SI might be a channel option to large, medium and a few small business customers. Small SIs often have a close relationship with small and medium business customers and have a better potential to reach this segment. Small SIs often run the whole IT business for small enterprises. Another difference is that small SIs do not often do business directly with a manufacturer, but more often with a distributor or a VAD.

To know which channel suits the Internet telephony products theories and mostly empirical information shows that different approaches is needed for different target customers. There are also some factors that have to be considered, when the choice is made, and when the channel have to be maintained.

5.2 Distribution channel choice and management

In this chapter I will analyse and try to find issues that affect the choice of distribution channel. I will also try to analyse how a manufacturer can manage its distribution channels.

5.2.1 The choice of distribution channels

Before a manufacturer can make a choice of distribution channels the theories suggest that some issues have to be considered. The objectives, constraints and channel tasks are important to state. The empirical information shows that manufacturers often do not realise that these factors are important. Manufacturers do not always have a clear product strategy. They do not know exactly which segment to target or what tasks the channel is going to have. A manufacturer must have a clear product strategy before a choice of distribution channels can be made.

Often the objectives, constraints and tasks are being thought of when the manufacturer is trying to evaluate and select the alternative channels. Also first at this stage, the structure of the channel is being decided. The constraints, such as availability of intermediaries, competitors distribution and product characteristics, affect the structure of the channel and should be considered at an earlier stage. As Ericsson have a wide customer base but not so much knowledge in the Internet business a combine multichannel or horizontal partnership structure might be to prefer. Today vertical structures are not so common, and if they exist the channel members often integrate very much with each other. It also seems like from an earlier direct channel approach it is easier to choose a horizontal or hybrid channel approach than change to a vertical channel approach. If a manufacturer use a multichannel or horizontal approach they can still use both direct and indirect distribution. The empirical information also show that as the market change very quick the manufacturer can be more flexible if he/she use a multichannel approach.

When a manufacturer have decided on the channel objectives, constraints, tasks and thinking of which structure to choose, he/she evaluate and select channel members. If the manufacturers do not find any proper intermediaries they tend to choose the direct channel alternative. When evaluating and selecting channel and channel members the theories suggest that a manufacturer should consider the following issues:

- Length of channel to gain the highest profit
- Which type of intermediary to use (VAR, SI, Distributor etc.)
- The number of intermediary to use at each level to reach all target customers
- The three criterias of cost, control and adaptivity

The empirical information also point our some important issues in the evaluation and selection process of distribution channels:

- The competence at the channel member to handle Internet telephony products
- Listen to references and reputation on the market
- The importance of a long term relationship
- If the channel member have a stable economy
- If the channel member have capacity to distribute, i.e. salesforce and storage.
- Have similar objectives and strategies as the manufacturer
- Prepared to take on commitments offered by the manufacturer
- Check the risk factor with each channel member

The theories are on a more abstract level and the empirical information provide more with selection criterias for each channel member. All issues above seems though important and some could probably be integrated with each other.

5.2.2 Channel management

When the choice is made for which distribution channel to use another channel issue begins. The theories state, and the empirical information support, that maintaining and managing a distribution channel is very important to succeed in long term. Most of the interviewed objects see a distribution channel co-operation as a long term relationship.

5.2.2.1 Channel motivation

The theories describe positive motivators such as higher margins, special deals, premiums, co-operative promotion programs, commissions and sales contest. The empirical information show that channel members also feel a great need for high involvement from the manufacturer. The manufacturer need to support with competence and try to build up the competence at every level in the distribution channel. Offering seminars, courses or visits at factories are important issues for the channel members. The manufacturer also have to follow up and try to improve the relationship in the channel. The manufacturer should not try push out the products.

This can damage the relationship. If a manufacturer have a complete product portfolio the channel member get motivated to distribute a product as they can more than one product in the same portfolio and therefore see a long term business opportunity.

The empirical information also describe that common objectives and strategies is important to create a good long term relationship. That everyone in the channel understand each other and are working in the same direction. To keep in contact in many different levels, in economical as well as in technical levels, in the organisation also improve the relationship in a distribution channel. The channel members also must be able to trust the manufacturer and feel comfortable in selling the product. The products must be reliable and there must exist support and service for after-sales situations. It is also important that the channel members always can get information from the manufacturer. One way to solve this problem is through an Extranet.

5.2.2.1.1 Partnership

In the theories it is suggested that one way to manage a close relationship in a distribution channel is through a partnership. To create a partnership in a early stage of the product lifecycle can reduce the costs for development and make it easier to get the product out on the market.

The theories also describe two ways of partnership, a written agreement or a trust relationship. The empirical information shows that the term partnership is quite confusing in many ways on today's market and starting to loose its value. For the interviewed objects partnership is a close long term relationship with common objectives. A partner is not someone you only are doing business with. Today many companies partnering with everyone but some also realise the importance of making clear what a partnership is. Partnership is very much about focusing.

In a partnership it is important that the person who talk to the customer understands that the partnership intentions so he/she can offering the best solution. The empirical information show, that missing out on informing everyone in the organisation is a common reason to why partnerships fail. Another risk with partnership is that you trust your partners view of the reality and maybe miss out of the real market needs. A company who enter a partnership should also be aware of that it can take a while before the partners understand each other and can work toward the same direction.

5.2.2.1.1.1 Bundling

The theories describe that bundling could be an option of providing a competitive edge and get a product out on the market. The empirical information support this theory but it also raise some concern about the concept. Channel members find the bundling concept very complex and think it should be handled carefully. Bundling can lower the cost of distribution and increase the differentiation, but it can also decrease the sales if it is done in the wrong moment. The person interviewed at

another Ericsson unit also believe that the Phone Doubler Quick Call can be bundled with other Ericsson products, such as call centre solutions.

5.2.2.2 Channel Conflict

During the time when you try to manage the distribution channel conflicts will appear. The theories state that conflicts are likely to appear if you use a multichannel approach. All empirical information which has been collected show that a multichannel approach is quite common, but the channel members do not feel that conflicts is a big problem. In the contrast the interviewed objects feels that some conflicts can be encouraging. The theories states that conflicts have to be managed and that they are likely to appear if manufacturers dealing directly with customers instead of using its intermediaries. Mostly the conflicts are handled quite well in a distribution channel but the issue should not be overlooked as too much conflict can damage the channel.

5.2.2.3 Channel evaluation

To continuously evaluating the distribution channel to make ensure high sales, and to get feedback and be prepared for market changes, is also an important part of managing a distribution channel. The theories states that sale quotas can be one way of evaluating the distribution channels. The empirical information supports the theories and most of the companies use sales statistics to evaluate the channel performance. The theories also point out customer delivery time as an important factor to measure. The empirical information also describe that it is important to look at the channel members business plan and see how they are going to achieve the goals they have set.

Statistics do not always tell the truth, legal, environmental or other constraints can affect the statistics and give the wrong impression. If a channel member do not perform well enough, the first thing to do is to try to support them in trying to perform better, and if that is not possible the channel member have to be replaced.

The empirical information shows that everyone thinks that the competition is getting harder so motivating and manage the distribution channel get more and more important to be able to succeed on the market.

6. Conclusion

This chapter will present the contribution of the research and present a proposed model of how Internet telephony can be distributed. In this chapter I will also propose some further studies which can be made in the distribution channel area.

6.1 Contributions

The purpose with this research is to provide more knowledge in how Internet telephony can be distributed.

Further the purpose is to identify and evaluate different options of distribution and find important factors that affect the choice and management of the distribution channel. The purpose is also, with help from empirical data, to try to increase the understanding of how manufacturers and channel members are acting in practice.

The theories in the distribution channel area are relatively old and on an abstract level, but with help from the empirical information in this research I have been able to identify available channels and channels members for Internet telephony products.

Complex products are recommended to be distributed through direct distribution in the theories but the research show that many indirect distribution channel members today have good competence. There also are many available intermediaries on the tele- and datacommunication market. Indirect channels are common on this market.

Different sizes of business customers need different distribution channel approaches and therefore a multichannel distribution approach can be an alternative for Internet telephony products. The research also show that partnership is quite popular and useful in distributing new products on a market, so partnership, which is a horizontal distribution approach, can be an option. A combined multichannel and horizontal approach is quite common on the tele- and datacommunication market today.

To reach each customer segment you also have to choose suitable channel members for that particular segment. The research shows that it is hard to identify and define channel members as they often try to take on many roles. Many channel members want to cover a wide area. As the distribution channel is dynamic it is hard to categories its members. The study also show that many channel members try to put on a value add role to be more competitive and be able to distribute more complex products. A reason for value adding is also to provide complete solutions and not only one single product.

When making a choice of which distribution channel to use the theories state some basic criterias, such as cost, control and adaptivity. The empirical information collected in this research also show that many channel members today are also very concern about the relationship in the channel. They want a close relationship with

great involvement and much support from the manufacturer. Long term relationship is what everyone want in a distribution channel, and this often decide the choice of channel.

Good management in a distribution channel is crucial to maintain a successful distribution. To motivate, improve and support the channel are important issues in the management of the distribution channel. Partnership is one way to support a close and good relationship in a channel, but the research show that many companies today think that the partnership term have lost its value. Today companies have to have clear partner strategies and inform everyone in the organisation what the strategy includes.

Internet telephony can be distributed through many different channels and the availability of channel members often decide the choice of distribution. On the Swedish market and for the Internet telephony product chosen for this research, a suggestion of distribution can be found in the next chapter.

6.1.1 Suggestion of distribution channels for Internet telephony

The research was made with Phone Doubler Quick Call as a sample product, provided by Ericsson Internet Group. In this chapter I present a suggestion of how the product can be distributed. By trying to categories the channel members and linking them together I found some advantages of the different options of distributing Internet telephony. One suggestion of how the Phone Doubler Quick Call product can be distributed is presented in Figure 17 and explained in the text below.
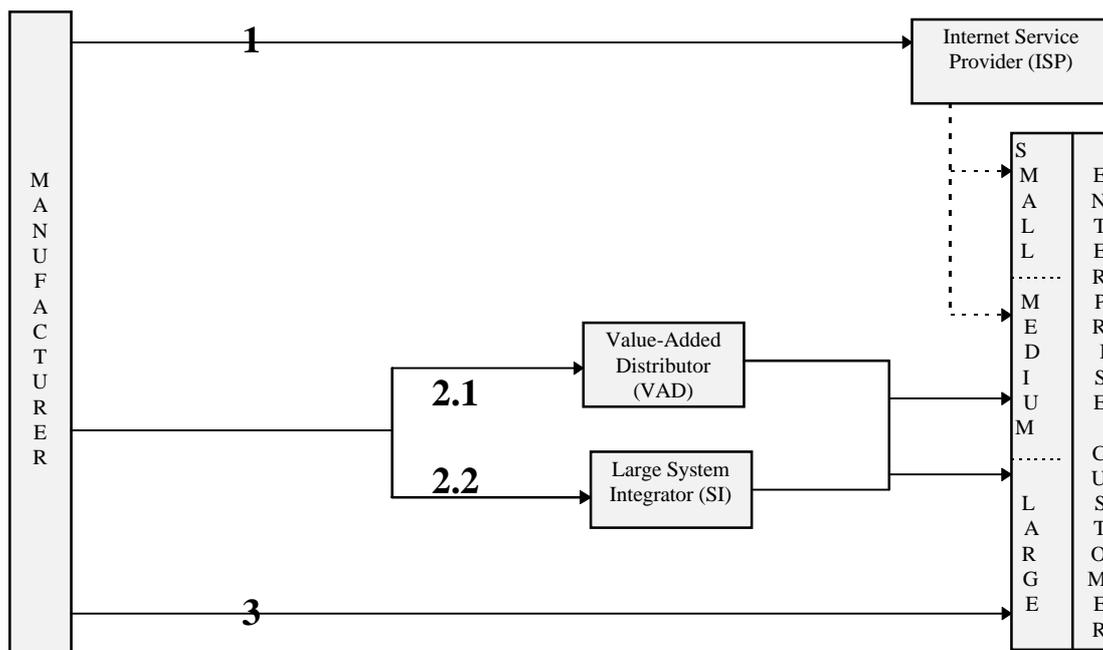
Figure 17: Suggestion of distribution channels for the Phone Doubler Quick Call

Channel 1. The Ericsson Internet Group have established contacts with telecommunication operators, which often act as Internet Service Providers (ISPs) as well. Therefore this channel can be an easy option. The ISP also have an interest of leasing the Phone Doubler Quick Call service to small and medium business customers and therefore they become a customer segment in Figure 17, instead of a intermediary.

Channel 2, is an indirect channel where Ericsson Internet Group can build up a close organised distribution program. A structured program consisting of seminars, information exchange and trust. In channel 2.1, they can use VADs, which resell the products towards medium and large business customers. The VAD should have great competence in the tele- datacommunication area and resell other complementing products. The VAD sell no competitive products and focus on Ericsson products. Channel 2.2, are SIs, which join an integration program with Ericsson Internet Group. The SIs do not always use Ericsson products in their solutions but their speciality is to integrate the product with total solutions, such as call centres. In the SI category one could concentrate on using Web Consultants as they mainly doing business in the Internet area, but other SIs are of course also useful. For this channel the business customer segment is medium and large businesses, which can afford a product like Phone Doubler Quick Call. To maintain a distribution program with VADs and SIs, Ericsson can develop their Intranet and create an Extranet for their channel members. With an Extranet information will always be available.

Channel 3, is based on direct distribution towards large business customers, such as enterprise groups which are represented world wide. If Ericsson Internet Group will be able to get in contact with global VADs or SIs, they can of course take over the role of the direct distribution channel.

The horizontal channel, partnership, is not included in Figure 17. Through a partnership it can be easier to reach all business customers segments, through for example the partners established distribution channel network. A partner can also provide with new competence which Ericsson Internet Group may not have today.

At this stage of the product lifecycle, my advice is to establish indirect distribution channels to get the product out on the market. Another reason for this suggestion is it can be hard to allocate enough resources alone to distribute the product.

6.2 Further research

The convergence of the telecommunication, computer and media industry is one example of when markets join together. Other markets will probably convergence and the approaches of distribution have to be tailored to the changes on the market. A continuously studying of distribution channels is to recommend.

This research is more detailed than many theories in the distribution channel area but it is still on a quite abstract level. If I had more time to spend on this research project I would like to investigate how the profit issue suits in the available distribution channels. In which channel option can the manufacturer make the highest profit? Another interesting issue is also to study how the logistic aspects affect the choice of the distribution channels, where to store the products.

As a close long term relationship is something that many channel members request and because the partnership issue is quite popular, I would also like to spend some more time on studying this issue more in depth.

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<u>Base Questions for interviews</u>

1. Which category of business do your company belong to?

2. What distribution channels do you use today?
  - Motivation for the choice
  - Advantages/Disadvantages which your current channels

3. What factors are important to think of when you are choosing distribution channels?

4. What kind of co-operation do your company have with Ericsson?

5. What is partnership, and do your company use this concept?

6. How do you think you can create or maintain a good relationship in a distribution channel?

7. What do you think about bundling and do your company use this concept?

8. How do you measure the effectiveness of the distribution channel?

9. Do you think that the distribution channel environment has changed the recent years?