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VERTICAL INTEGRATION AND PERFORMANCE
IN MARKETING CHANNELS

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A B S T R A C T

Since the late 1960's there has been an increasing tendency to analyse marketing channels as social systems rather than as economic systems. Despite this, the relationship between vertical integration and performance in marketing channels has continued to be analysed from an economic perspective. In this study, not only is a social systems approach adopted to examine the relationship between vertical integration and performance, but certain additional features are also included to refine this approach.

There are a variety of social systems, each with distinct characteristics. This study argues that the marketing channel can be interpreted as an Interorganisational Collectivity, a form of interorganisational system.

The model of vertical integration and performance that is proposed, and subsequently examined, is based on a combination of theoretical and empirical analysis. This work involved a series of in-depth interviews, reference to studies of interorganisational networks other than marketing channels, and a consideration of certain behavioural themes from the channels literature.

In addition to the social systems approach, this model differs from previous models in several other respects. These are the separation of vertical integration and co-ordination, the multi-dimensional view of channel performance and the introduction of channel atmosphere as a principal factor.

A detailed analysis of marketing channels in the egg industry is used to test the appropriateness of the model, and to identify some modifications to its operational elements. These modifications allow for further validation to take place. Although the empirical examination of the model was affected by a fundamental re-organisation within the industry during the course of the work, the results do serve to indicate the usefulness of the concept of channel atmosphere and the need to take account of the size of channel members whenever the relationship between vertical integration and performance is considered.

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In Loving Memory of

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'NICK' CHILDERLEY

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CHAPTER 1INTRODUCTION

Traditionally, goods and services have been distributed through marketing channels comprised of independently owned and managed businesses. In recent years, however, an increasing proportion of trade has passed through marketing channels which are vertically integrated*.

Several marketing scholars have considered this displacement of traditional marketing channels by vertically integrated marketing channels, and most ascribe it to the latter's greater efficiency. Some contributors, however, have then reversed the argument and pointed to the very growth of vertical integration in marketing channels as evidence of greater efficiency.

In the literature, the greater efficiency of vertically integrated marketing channels is normally attributed to economies being achieved through improved co-ordination, which the literature contends is a direct consequence of the centralised control associated with vertical integration. The economies most frequently listed as emanating from improved co-ordination are repositioning, scheduling, synchronisation, simplification, market access and scale economies.

The literature concerning the relationship between vertical integration, co-ordination and performance in marketing channels raises, but provides no convincing affirmative answers to, the following questions :

1. Is the gap between the exacting conceptualisations of vertically integrated channels and the identified forms of vertically integrated channels acceptable?

* This term is not restricted to integration by ownership but encompasses vertical integration by ownership, contract and power.

2. Is it justifiable to use structural ties between the levels of marketing channels as the operational measure of vertical integration in a marketing channel?
3. Is it valid to assume that centrally managed co-ordination means better co-ordination, without the benefit of extensive empirical validation?
4. Is efficiency sufficient as the sole measure of channel performance?
5. Is examining the relationship between vertical integration and performance in predominantly economic terms appropriate when the general trend in the channels literature is towards a social systems approach?

It is because of the shortcomings of the literature in these areas covered by the questions that a re-analysis of the whole relationship between vertical integration and performance in marketing channels, using a social systems approach, has been undertaken.

1.1 THE AIMS OF THE RESEARCH

The principal aim of the research is, therefore, to construct a model of the relationship between vertical integration and performance in marketing channels based on a social systems characterisation of the marketing channel. In accordance with this aim, a model is developed and then examined by using case studies of egg marketing channels. The proposed model differs markedly from previous explanations of the relationship between vertical integration and performance, not least in the way that the factors of vertical integration and channel performance are conceptualised.

The secondary aim of the research is to consider the usefulness of behavioural concepts when drawn together to address a specific channel problem. In this, the research is anticipated to have implications outside the area of the relationship between vertical integration and performance.

1.2 AN OUTLINE OF THE THESIS

In the next chapter, the reasons for the adoption of a social systems approach to the study of marketing channels are given. The two schools of thought concerning the application of a social systems perspective to channel analysis are then identified and compared. The first school of thought regards the channel as the organisation and channel members as organisational subunits. The second designates channel members as organisations and the channel as an interorganisational network. It is to this latter school of thought that this study adheres, arguing that the marketing channel is an 'Interorganisational Collectivity'.

Chapter 3 describes the relationship between vertical integration and performance in marketing channels as presented in the existing literature, and evaluates the content of this literature. The purpose of this chapter is to provide the background to the research.

In Chapter 4 the relationship between models and theories is clarified, and some basic considerations in evaluating models are advanced. This chapter is included in order to indicate the role that the model presented in Chapter 5 might be expected to fulfil.

The model of vertical integration and performance in marketing channels which has been developed is presented in Chapter 5. The model is mainly intuitive, although it is partially based on a series of interviews and draws on the results of studies in related fields. Detailed consideration is given to the factors that comprise the model as well as to the model itself.

The design of the empirical research which is used to examine the model is described in Chapter 6. This chapter also discusses the reasons for siting the empirical element of the study in the egg industry.

Chapter 7 contains analyses of five egg marketing channels in terms of vertical integration, co-ordination,

performance and channel atmosphere using, where possible, the measures advanced in Chapter 5. The analyses of these channels identify the difficulties of operationalising certain of the model concepts and indicate several modifications.

The main conclusions of the study are summarised in Chapter 8.

CHAPTER 2

MARKETING CHANNELS :

A SOCIAL SYSTEMS APPROACH

Early on in the research it was recognised that to treat marketing channels as purely economic systems was unnecessarily restrictive. A social systems approach to the analysis of the marketing channel was, therefore, taken.

In this chapter, the social systems approach to channel analysis is justified. The chapter then goes on to advance the case for characterising the marketing channel as an 'Interorganisational Collectivity', which is a particular type of open, interorganisational social system.

2.1 THE MARKETING CHANNEL - WHAT IS IT ?

There is little consensus on the precise meaning of terminology in the channels literature, a shortcoming which even extends to the basic term 'marketing channel'. Some writers do not even use the term marketing channel, instead they use one of the manifold alternatives such as 'distribution channel' or 'vertical marketing system'. Appendix A considers, at some length, the definitional issues and problems associated with the term 'marketing channel' - here it is sufficient to give the meaning applied in this and subsequent chapters.

"A marketing channel is a series of institutional units engaged in performing the functional activities required to move a product, and its title, from production to the final point of sale".

In this definition 'functional activities required' are those functions that facilitate, as well as those that actually effect, the distribution of products. Eight such functional flows are identified in Appendix A, they are :

- 1 Transfer of ownership and commercial risk
- 2 Physical distribution - transportation and storage

- 3 Negotiation of trading terms
- 4 Information transmission - up and down the channel
- 5 Promotion - including point-of-sale display
- 6 Pricing - including standard discounts
- 7 Commercial cycle - ordering/invoicing/payment/credit
- 8 Product creation - development of the product package.

2.2 JUSTIFICATION OF A SOCIAL SYSTEMS APPROACH

A social systems approach to the study of marketing channels is not an original proposition. The approach has been widely used since the late 1960's, when the first sustained interest was shown by American marketing scholars in the behavioural facets of marketing channels. Much of the early work on channel conflict, co-operation, roles, power and communications dates back to this era.

Implicit in the use of a social systems approach to marketing channel analysis is the acceptance of the premise that marketing channels are social systems. This itself contains the prerequisite condition that marketing channels are, in fact, systems.

A system is "any entity, conceptual or physical, which consists of interdependent parts" (1). More specifically it is "a set of objects with relationships between objects and their attributes (that) has properties, functions or purposes distinct from its constituent objects, relations and attributes*" (2).

The marketing channel is a system because it is comprised of a number of 'parts' in the form of channel members, and each channel member interacts with, and is dependent on, at least one other member. A food manufacturer, for example, relies on intermediaries, such as grocery wholesalers, symbol groups and multiples, to distribute its products. An intermediary is likewise dependent on producers/manufacturers for supplies. For a product to pass along a marketing channel there has to be an exchange of products for payment (or the promise of payment); this involves the interaction of channel members. Interaction is also inherent in the negotiation of trading terms, the transfer of ownership, promotion and the commercial cycle (ordering/invoicing/payment/credit).

Furthermore, the marketing channel has a purpose (the distribution of products), functions and a structure which differ from those of individual channel members.

Many of the marketing scholars who have accepted and used

* 'objects' are 'parts or components of the system'
 'relations' are what 'tie the system together'
 'attributes' are 'properties of the objects'.

the notion of the marketing channel as a system do not appear to understand the meaning of a systems approach; some seem to confuse it with a systematic, or methodical, approach (3). Amongst those who do appreciate the difference is Stern. He justifies the study of marketing channels as systems in the following manner.

"To fully understand the determinants of distribution channel behaviour, one should first attempt to define the myriad of relationships within such channels. When seeking to delineate only a few of these relationships, the analyst becomes immediately aware that each institution and agency in a channel is, at least partially, dependent upon other channel members in the achievement of the marketing task. The recognition of this inherent dependency leads to the conclusion that distribution channels are, in fact, systems and that the study of one component part of a channel without reference to its interdependency with other parts, provides, at best, an incomplete knowledge of the marketing process." (4)

A social system is "the system generated by any process of interaction, on the socio-cultural level, between two or more actors. The actor is either a concrete human individual (a person) or a collectivity of which a plurality of persons are members" (5). In other words, a social system is a system in which the interacting units are persons or collectivities of people - a requirement the marketing channel undoubtedly fulfils. All channel members are human groupings even though they range from firms employing thousands of people (collectivities) to individuals running their own businesses.

Traditionally, marketing channels have been analysed as economic systems, an approach which tends to focus attention on structure, costs, competition, pricing and returns. It is contended here that economic systems are subsets, albeit important subsets, of social systems.* It follows from this that economic systems may be used for analysis providing economic parameters do not restrict understanding - where they do, the social system itself must be used. In the case of marketing channels, economic analysis has often been found wanting. Sometimes this has been due to the over-simplification of the realities of the market place (8). In other instances it has been due to the restriction of the economic parameters put on the analysis of channel relationships and channel behaviour generally (9) - even though channel relationships have an economic *raison d'etre*. The reason for this is that, once

* This view is supported by Stern and Brown (6) and is based on an argument presented by Parsons and Smelser (7).

formed, a channel relationship is subject to social forces, hence its nature cannot be the result of economic considerations only. It is these deficiencies of economic analysis of the channel which largely account for the move to social systems analysis.

A final defence of adopting a social systems approach to channel analysis is its usefulness. This usefulness is demonstrated by the studies of co-operation, conflict, power, leadership, control and communications in marketing channels which, almost universally, use a social system approach (10). Indeed, it is unlikely that recent insights into these facets of channel behaviour would have been possible without a social system perspective.

2.3 THE MARKETING CHANNEL - AN INTERORGANISATIONAL COLLECTIVITY

Just as there are many types of system, so there are various types of social system. In this section it is argued that the marketing channel is an open, inter-organisational social system of a particular form which Van de Ven has termed the 'Interorganisational Collectivity'. To support this argument, each of the following propositions are discussed :

1. Marketing Channels are open systems.
2. Marketing Channels are interorganisational systems.
3. Marketing Channels are interorganisational collectivities.

2.3.1 Marketing Channels are Open Systems

The very purpose of a marketing channel, to distribute products, makes interaction with it's environment necessary. This means that marketing channels have the partially permeable boundaries which distinguish open systems from closed systems (11).

In addition, marketing channels have the nine 'common' features of open systems identified by Katz and Kahn. These are :

(i) Importation of energy

"Open systems import some form of energy from the external environment." (12) The marketing channel 'imports' products, personnel and information.

(ii) The through-put

"Open systems transform the energy available to them some work gets done in the system." (13) The marketing

channel undertakes all the activities necessary to distribute products; that is, to make products available to customers.

(iii) The output

"Open systems export some product into the environment."
(14) The marketing channel 'exports' goods and services to consumer and industrial markets.

(iv) Systems as cycles of events

"The pattern of activities of the energy exchange has a cyclic character. The product exported into the environment furnishes the source of energy for the repetition of the cycle of activities." (15) The marketing channel uses the financial returns from supplying markets with products to obtain more products for distribution.

(v) Negative entropy

"To survive, open systems must move to arrest the entropic process; they must acquire negative entropy. The entropic process is a universal law of nature in which all forms of organisation move toward dis-organisation or death The open system by importing more energy from its environment than it expends, can store more energy and acquire negative entropy." (16) Marketing channels, like other business organisations, use the surpluses made in good years to carry them through poor years. Not all marketing channels acquire negative entropy and survive - this is shown by the number of marketing channels which are dissolved every year.

(vi) Information input, negative feedback and the coding process

"Information feedback of a negative kind enables the system to correct its deviations from course If there is no corrective device to get the system back on its course it will expend too much energy or it will ingest too much energetic input and no longer continue as a system Not all energetic inputs are capable of being absorbed Systems can react only to those information signals to which they are attuned. The general term for the selective mechanism is coding." (17) The strongest negative feedback a marketing channel receives is lack of sales in the market place. Additional feedback regarding the market is sometimes

provided by formal surveys and customer comments. The government and watch-dog committees also provide, mostly negative, feedback - especially regarding restrictive trade practices.

(vii) The steady state and dynamic homeostasis

Open systems that survive "*tend to maintain steady states (or homeostasis) of many variables, keeping an orderly balance among subsystems which process matter, energy or information.*" (18) This observation is based on the principle that factors causing disruption in a system will be countered by forces which restore the system, as near as possible, to its previous state. Within marketing channels there is continual adjustment and readjustment to change. If one channel member believes its position to be threatened by the activities of another channel member it will attempt to counteract the offending activities in order to maintain the status quo. Similarly, if one marketing channel finds that its market position is being undermined by another marketing channel, it will attempt to redress the balance.

(viii) Differentiation

"*Open systems move in the direction of differentiation and elaboration to hierarchically structured and well differentiated systems.*" (19) As channels develop they become increasingly complex and, hence, require more specialists. In most established marketing channels participants perform specific roles and interact in an orderly, even standardised, fashion according to convention. Positions and duties are, in fact, ordered and relationships between members institutionalised.

(ix) Equifinality

"*According to this principle, a system can reach the same final state from differing initial conditions and by a variety of paths.*" (20) All marketing channels aim at serving their chosen markets profitably. However, the methods chosen to achieve this goal vary widely in terms of the organisational structure adopted and the marketing policies followed.

As already noted, the interplay of the marketing channel with its environment is a necessary condition of it being an open system. In this context, the environment becomes something of a residual concept which covers everything

outside the marketing channel itself. Obviously not all aspects of the environment will be of equal relevance and importance, and it is to distinguish that sector of the environment which is "potentially relevant to goal setting and goal attainment" (21), that Dill uses the term 'task environment'.

2.3.2. Marketing Channels are Interorganisational Systems

Before considering the idea of the marketing channel as an interorganisational system, it is first necessary to ask 'what is an organisation?'

Social scientists have discovered that legal boundaries are frequently inappropriate when analysing organisational behaviour and activity. The organisation, the theorists argue, is a behavioural entity - not a legal one. Weick suggests that the following ten characteristics provide an operational definition of an organisation (22) :

- 1 A co-operative relationship among its members.
- 2 Collective goal(s).
- 3 Differentiation of functions among its members.
- 4 A highly formalised unit with explicit rules and policies.
- 5 Structural complexity.
- 6 Interdependency among its members relative to task performance.
- 7 Communication among its members.
- 8 Criteria for evaluating the communication.
- 9 A stable and explicit hierarchical structure.
- 10 Integration through strictly defined subordination.

Two main differences are identified in the literature between an intraorganisational system, where the system is the organisation and the system elements organisational units, and an interorganisational system, where the system elements are the organisations and the system a supra-organisation.

The first difference concerns conflict. In inter-organisational analysis partial conflict between organisations is taken as given, but in intraorganisational analysis it is generally assumed that conflict, all conflict, is dysfunctional and can lead to "a breakdown in organisational structure" (23) unless controlled or, preferably, eradicated. The second difference is that interorganisational systems lack the strong central authority of an organisation; instead there tends to be unstructured authority.

The analysis of marketing channels as intraorganisational systems rather than interorganisational systems has been suggested and undertaken. In this approach the marketing channel becomes the organisation and the channel members the organisational sub-units (24). This means it is implicitly assumed that channel members operate under a well-defined, formal structure of authority and that conflict between channel members cannot be accommodated. The evidence does not support these assumptions. Firstly, in marketing channels there is no clearly defined, pre-ordained structure of authority among channel members; rather the position of each channel member in the hierarchy has to be bargained for. Secondly, conflict among channel members is inherent and methods of interaction have been developed to operate under conflict conditions.

The very nature of most marketing channels would appear, therefore, to correspond with that of an interorganisational system - the channel members being organisations. Exceptions are in the form of totally owner-integrated channels where all the activities required for the distribution of a product are undertaken by the one firm. Such channels are few in number - even in channels where a producer is supplying consumers direct, there tend to be two firms involved. The interorganisational characterisation of the marketing channel can, however, accommodate a totally integrated channel by viewing it as a special case, single member, interorganisational system. This allows intraorganisational analysis of the single firm channels (because analysis of the channel becomes analysis of the channel member, and as all channel members are considered to be organisations, the application of intraorganisational analysis follows automatically) whilst retaining the principle that marketing channels should be regarded and analysed as interorganisational systems.

It would be wrong to give the impression that all organisational structures fall neatly into one of the two categories, intraorganisational or interorganisational. It is, in fact, more accurate to think, as Litwak suggests, in terms of a continuum with systems that are clearly intraorganisational at one pole and systems that are obviously interorganisational at the opposite pole.



intraorganisational

interorganisational

Basically, a system may be positioned on the continuum according to the autonomy of its sub-systems.

"A small shoe factory by itself might fit on the intraorganisational pole of this continuum while General Electric with its multiple semi-independent divisions (radio, Locomotive, generators, electric light bulbs, etc) might be near the middle. Also near the middle would

be steel companies which are nominally separate organisations, but in many areas act like one organisation, e.g., selling prices and negotiations with labour unions. Typical of the interorganisational pole of the continuum would be a businessmen's association of shoe manufacturers. It is clearly a group of semi-autonomous organisations (i.e. co-operating in limited areas)." (25)

Applying the autonomy criterion, it appears that marketing channels will cluster around the interorganisational end of the continuum and channel members will group at the opposite, intraorganisational end. Somewhere in the middle of this continuum will fall the large, owner-integrated channels which have units that act, in many respects, as separate organisational units.

Whilst providing a much needed conceptual refinement for the classification of organisational systems, the continuum does not resolve the difficulty of determining the appropriate analytical approach (intraorganisational or interorganisational) for systems located around the middle of the continuum.

"The problem of describing what is unique about inter- and intra-organisational structures is a bit like trying to differentiate between day and night. It is clear at the extremes that there is a day and a night, and they are different. However, it is difficult to say at what point day becomes night." (26)

To summarise, it is argued that the general characterisation of marketing channels as interorganisational systems is valid, and more appropriate than an intra-organisational characterisation, for three reasons :

- 1 Relationships among channel members are typified by partial conflict - hence the concern of practitioners with managing conflict.
- 2 Channel member authority is determined by negotiation; it is not dictated by the position held in a formal, hierarchical structure of authority, although in some channels tradition may be an influencing factor.
- 3 Few marketing channels comprise one channel member and still fewer have a completely intraorganisational character. These exceptions can, in any case, be accommodated by an interorganisational framework for the study of marketing channels.

2.3.3 Marketing Channels are Interorganisational Collectivities

Most studies of interorganisational systems look at one specific organisation and examine the way in which it

interacts with the other organisations in its task environment. Evan terms the network of organisations with which a focal organisation interacts its 'organisation - set' (27). This approach, although useful for analysing the position of one particular channel member within a channel, is clearly inappropriate for studying the marketing channel as a whole.

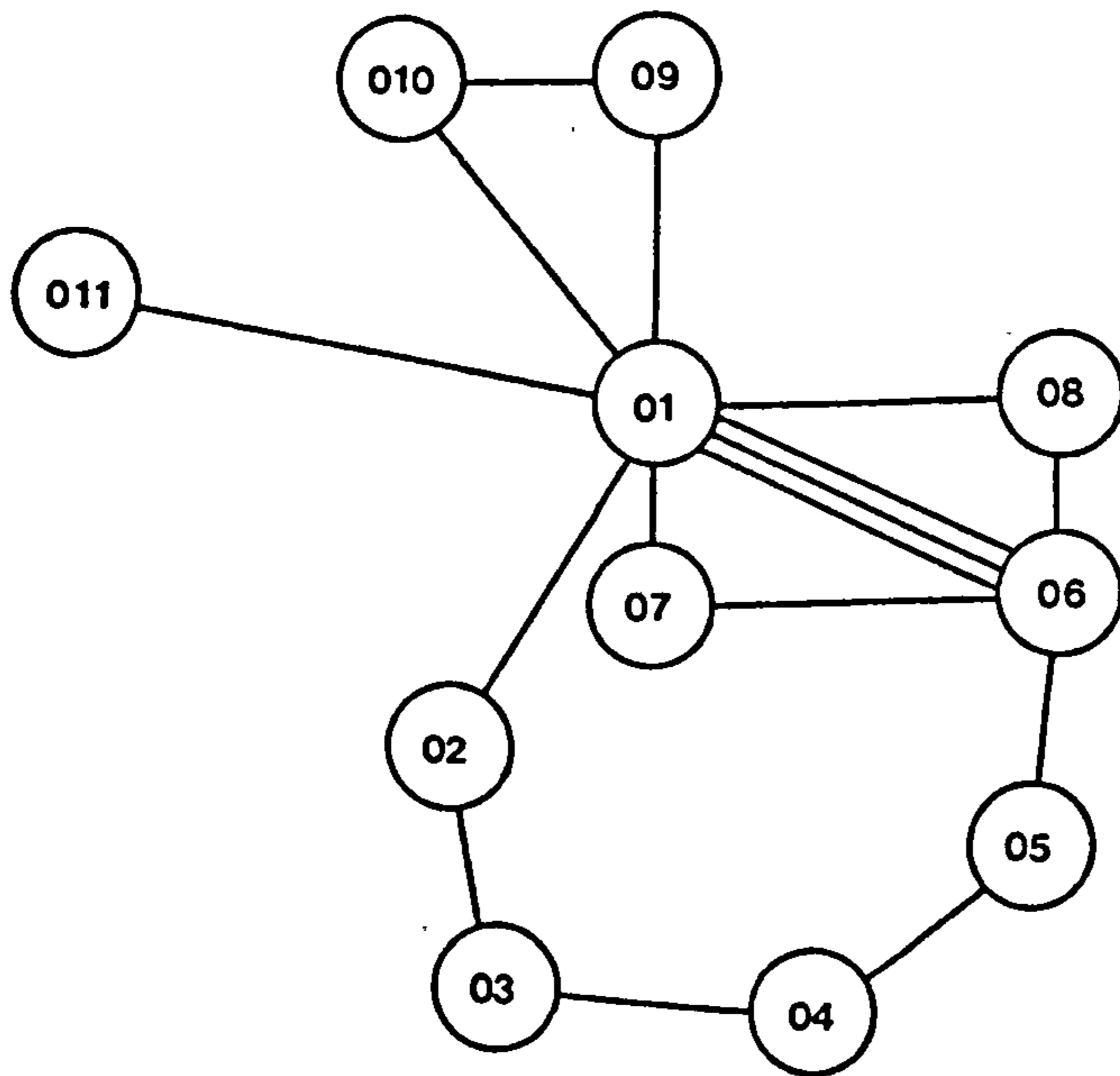
It would seem that the Interorganisational Collectivity (hereafter IC) is the interorganisational framework which best fits the marketing channel. Van de Ven et al describe the IC as follows :

" the primary participants in the collectivity are two or more organisations. These organisations join together as an action system to attain a specific objective by performing a set or series of goal-directed behavioural acts the actions of the organisations are interdependent and, over time, member organisations or representatives thereof take on specialised roles and develop behavioural expectations of each other regarding the rights and obligations of membership in the collectivity As a collectivity, this role structure is such that an IC can act as a unit and make decisions to attain the goals of the system. Generally, decisions are allowed to emerge out of the interaction among various role occupants Through such a process, the decisions made are binding for the collectivity as a whole. The IC decisions, however, may have unanticipated consequences for certain member organisations and may not result in the attainment of their suboptimised objectives The primary goals of the IC are such that no single organisation can achieve them individually Although the IC can act as a unit, it does not include all the actions necessary to its own existence." (28)

If, in the above passage, 'IC' and 'collectivity' were replaced by 'marketing channel', and 'organisation' by 'channel member', then it could be a description of a marketing channel. The marketing channel is usually comprised of two or more channel members which have joined together for the specific purpose of distributing a product. Channel members do have specialised roles and develop behavioural expectations of each other over the rights and obligations of belonging to the channel. Decisions tend to evolve from negotiations and in the guise of 'trade practices' and 'trading conditions' become binding for all channel members, sometimes with unforeseen consequences. Finally, the marketing channel can act as a unit, but often does not acknowledge this, and it is not self-sufficient as evidenced by the fact that it draws on the environment for resources and customers.

The concept of the interorganisational collectivity is probably best conveyed by a figurative representation such as appears in Diagram 2.1. This diagram, which shows a

DIAGRAM 2.1. : A FIGURATIVE REPRESENTATION OF INTERORGANISATIONAL COLLECTIVITIES



Source : Van de Ven, Emmett and Koeng : "Frameworks for Interorganisational Analysis".

Key :  organisations

 interdependent linkages

Explanation : There are five ICs shown on the above diagram:

IC1 : 01 and 011

IC2 : 01; 09 and 010

IC3 : 01; 06 and 08

IC4 : 01; 06 and 07

IC5 : 01; 02; 03; 04; 05 and 06

If 01 is the focal organisation, then its 'organisation - set' is :

02; 07; 06; 08; 09; 010 and 011.

simple environment comprising five ICs, provides the means to illustrate the difference between IC and an 'organisation set'. It should be noted that any organisation belonging to two or more ICs is assumed to have different motivations for membership in each IC and to perform a different role in each IC to which it belongs.

Designating the marketing channel as an IC does not involve making assumptions about the specific form or behaviour of the channel. Structural composition, communication patterns, methods of co-ordination, etcetera are all variable and the objects of investigation within the framework of the IC, not the subjects of restrictive assumptions. There are various types of IC in the same way as there are various types of system, social system and interorganisational system.

As a result of work into community organisations, Warren identified four types of IC* on the basis of the way in which member organisations interact in the process of making decisions. Community organisations are non-commercial, so the findings of this work cannot be assumed to be equally applicable to systems comprising business organisations, such as the marketing channel. However, Reve has examined Warren's typology in the context of distribution networks and concludes that the forms of IC contained in this typology are to be found in marketing channels (29).

The four types of IC identified by Warren are unitary, federative, coalitional and social choice (30).

(i) Unitary IC

The unitary IC has members that are deliberately organised to achieve common goals, with decision-making centralised at the top of a hierarchical structure. Unitary marketing channels are those fully integrated by ownership or by a particularly strong channel leader, such as Boots and Marks and Spencer.

(ii) Federative IC

In a federative collectivity, members have their own goals and can make local decisions - but decisions aimed at achieving system goals are made at the federative level. Co-operatives and franchise channels are marketing channel structures which are basically federative.

(iii) Coalitional IC

In coalitional networks, each organisation has its own goals but co-operates with others to

* Warren does not use the term 'interorganisational collectivity' preferring instead 'interorganisational field'.

attain common goals. Collaboration tends to be ad-hoc and informal. A marketing channel example would be a voluntary agreement which covers only certain activities such as pricing and advertising.

(iv) Social Choice IC

Social-choice ICs are exemplified by the autonomous behaviour of organisations. Goals are not necessarily shared, they may even be discordant, and interdependencies often go unrecognised. There is no conscious inter-organisational decision-making, but the very interaction of individual members results in 'decisions'. The 'traditional' marketing channel is usually typified as a social-choice network and McVey would argue that most, even all, channels fall into this last category (31).

Table 2.1 describes these four types of IC using the dimensions chosen by Warren to categorise decision-making.

Despite Warren's typology, the IC has been accused of being a framework for interorganisational analysis which assumes away the most problematic aspect of interorganisational networks - the degree of integration - by attributing a constant level of integration to the IC (32). This criticism is not accepted. Admittedly, Van de Ven does comment that ICs, as social systems, must solve the problem of integration to survive - but integration is defined as "*articulating together the actions of system members*" (33), and no assumption is made about the level or type of integration required to do this.

TABLE 2.1. : TYPOLOGY OF INTERORGANISATIONAL COLLECTIVITIES

DIMENSION	TYPE OF INTERORGANISATIONAL COLLECTIVITY (FIELD)				SOCIAL CHOICE
	UNITARY	FEDERATIVE	COALITIONAL		
Relation of units to an inclusive goal.	Units organised for achievement of inclusive goals.	Units with disparate goals with some formal organisation for inclusive goals.	Units with disparate goals, but informal collaboration for inclusive goals.		No inclusive goals.
Locus of inclusive decision-making	At top of inclusive structure	At top of inclusive structure subject to unit ratification	In interaction of units without a formal inclusive structure.		Within units
Locus of authority	At top of hierarchy of inclusive structure	Primarily at unit level	Exclusively at unit level		Exclusively at unit level
Structural provision for division of labour	Units structured for division of labour within inclusive organisation.	Units structured autonomously, may agree to a division of labour, which may affect their structure	Units structured autonomously, may agree to ad hoc division of labour without restructuring.		No formally structured division of labour within an inclusive context.
Commitment to a leadership sub-system	Norms of high commitment	Norms of moderate commitment.	Commitment only to unit leaders.		Commitment only to leaders.
Prescribed collectivity orientation of units.	High	Moderate	Minimal		Little or none

Source: Warren, Roland : "The Interorganisational Field as a Focus for Investigation" in ASQ, 12, 1967.

CHAPTER 3VERTICAL INTEGRATION AND PERFORMANCEIN MARKETING CHANNELS :THE LITERATURE

The aim of this chapter is to 'set the scene' for the present research by reviewing the contents of the existing literature on vertical integration and performance in marketing channels. This literature contains few major studies; the majority of contributions to the area take the form of articles, many of which have no empirical basis. Furthermore, there is very little published work from scholars outside America.

There is a lack of agreement on terminology in this branch of channel literature as there is in most of the literature on marketing channels. For clarity, in this review, the semantic issues are put to one side and a common set of terms are applied. This means that 'vertically integrated marketing channel' is the expression used to refer to what, in the literature, is variously termed a 'vertically co-ordinated marketing channel', a 'vertical marketing system' (VMS) and a 'centrally co-ordinated marketing channel'.

3.1 THE DEFINITION OF VERTICALLY INTEGRATED MARKETING CHANNELS

The belief that vertically integrated marketing channels are 'better' than conventional channels is evident throughout the literature. It is even manifest in the principal definitions and characterisations. Conventional marketing channels are typified as comprising autonomous, self-interested, decision-making units which are conservative in both outlook and activity, as in the following :

"Conventional channels are those fragmented networks in which loosely aligned and relatively autonomous manufacturers, wholesalers and retailers have customarily bargained aggressively with each other, established

trade relationships on an individual transaction basis, severed business relationships arbitrarily with impunity, and otherwise behaved independently". (1)

In contrast, vertically integrated marketing channels are seen as systems of channel participants that work together to improve the performance of the total channel, and perform administratively determined roles. Hence, definitions of these channels such as :

"..... professionally managed and centrally programmed networks, pre-engineered to achieve operating economies and maximum market impact. Stated alternatively, these vertical marketing systems are rationalised and capital intensive networks designed to achieve technological, managerial and promotional economies through the integration, co-ordination and synchronization of marketing flows from points of production to points of ultimate use". (2)

McCammon has tabulated what he considers to be the fundamental differences between conventional and integrated channels (see Table 3.1). The comparisons he draws in this table are in the same vein as the definitions; that is, they contain the implicit judgement that integrated channels are superior.

The definition and descriptions of conventional and vertically integrated marketing channels are based on 'ideals' (in the economic sense). Their aim is to illustrate the essential differences between the two types of system. It is recognised that in practice not all forms of vertically integrated channels will be as cohesive, nor conventional channels as fragmented, as the descriptions may suggest.

3.2 FORMS OF VERTICAL INTEGRATION

There are three types of vertically integrated marketing channels identified in the literature, they are :

1. Corporate Systems
2. Contractual Systems
3. Administered Systems

The use of the term 'systems' stems from vertically integrated marketing channels being referred to as 'vertical marketing systems' (VMS) in much of the literature.

TABLE 3. 1.: CHARACTERISTICS OF ALTERNATIVE MARKETING CHANNELS

Network Characteristic	Type of Network	
	Conventional Marketing Channel	Vertically Integrated Marketing System
Composition of network	Network composed of isolated and autonomous units, each of which performs a conventionally defined set of marketing functions. Coordination primarily achieved through bargaining and negotiation.	Network composed of inter-connected units, each of which performs an optimum combination of marketing functions. Coordination achieved through the use of detailed plans and comprehensive programs.
Economic capability of member units	Operating units frequently unable to achieve systemic economics.	Operating units <i>programmed</i> to achieve systemic economics.
Organizational stability	Open network with low index of member loyalty and relative ease of entry. Network therefore tends to be unstable.	Open network but entry rigorously controlled by the system's requirements and by market conditions. Membership loyalty assured through the use of ownership or contractual agreements. As a result, network tends to be relatively stable.
Number and composition of decision makers	Large number of strategies supported by a slightly larger number of operating executives.	Limited number of strategies supported by a <i>significantly</i> larger number of staff and operating executives.

/continued...

TABLE 3.1. continued

Network Characteristic	Type of Network	
	Conventional Marketing Channel	Vertically Integrated Marketing System
Analytical focus of strategic decision makers	Strategists preoccupied with cost, volume, and investment relationships at a <i>single</i> stage of the marketing process.	Strategists preoccupied with cost, volume, and investment relationships at <i>all</i> stages of the marketing process. Corresponding emphasis on the "total cost" concept accompanied by a continuous search for favourable economic trade-offs.
Underlying decision-making process	Heavy reliance on judgmental decisions made by generalists.	Heavy reliance of "scientific" decisions made by specialists or committees of specialists.
Institutional loyalties of decision makers	Decision makers emotionally committed to traditional forms of distribution.	Decision makers <i>analytically</i> committed, to marketing concept and viable institutions.

Source : McCammon Jr., Bert C : "Perspectives of Distribution Programming" in Bucklin (ed) Vertical Marketing Systems; 1970, and elsewhere.

3.2.1 Corporate Systems

Corporate systems are those with successive stages of production and distribution under single ownership; they are, in other words, marketing channels with participants tied by ownership. This may be achieved by acquisition, merger or by a channel member expanding into vertically adjacent functions. Corporate systems correspond to the traditional, economic usage of the term 'vertical integration'.

Forward integration, that is integration towards the market, is normally undertaken by manufacturers that wish to control their own distribution networks. In consumer goods markets, manufacturers usually integrate only wholesaling functions, but there are examples of completely integrated channels such as the British Shoe Corporation. In industrial markets, and especially where the product represents a high capital investment, it is more common for manufacturers to undertake all marketing and distribution functions associated with making a sale.

Backward integration occurs when intermediaries assume, by acquisition, merger or internal expansion, the functions of their suppliers, and sometimes their suppliers' suppliers. To many, this type of integration is synonymous with multiple retailers (such as J Sainsbury, W H Smith and British Home Stores) which have integrated wholesaling, and in some cases, manufacturing functions.

3.2.2 Contractual Systems

Of all forms of vertical integration, contractual systems seem to have enjoyed the fastest growth in recent years.

Contractual integration is where "various stages of production and distribution are independently owned, but the relationships between vertically adjacent firms are covered in a contractual arrangement." (2)

There are many different forms of contractual integration, but nearly all have been found to fit into one of the following categories :

(i) Wholesaler sponsored voluntary chains

These emerge when a wholesaler offers retailers goods and services at a much lower cost than the retailers could negotiate individually. In return, the retailers must join the wholesalers'

voluntary group and agree to adhere to certain rules and regulations. Today, the services offered by voluntary chains include consumer advertising and promotion, own label product ranges, help with store location and store layout problems, finance and accounting advice and training. This was not always so. In their early days the voluntary groups did not have the resources to offer more than special terms, delivery, credit and identity.

Examples of voluntary groups are Spar, Mace and Londis.

(ii) Retailer sponsored co-operatives and buying groups

These are also created with the intention of obtaining goods and services at much more favourable terms than the member retailers could negotiate individually. The difference between this and the previous category is that the impetus comes from the retailers themselves.

(iii) Franchising

This is a marketing system in which one company grants other, usually small, firms the right to do business in a particular way, for a given length of time, at a specified location.

" the parent company is termed the franchisor; the receiver of the privilege the franchisee and the right or privilege itself, the franchise. The privilege may be quite varied. It may be the right to sell the parent company's products, to use its name, to adopt its methods, and to copy its symbols, trademarks, or architecture, or the franchise may include all of these rights. The time period and the size of the area of business operations, which are specified, may also vary greatly. The rights that are granted and the duties and obligations of the respective parties, the franchisor and the franchisee, are usually, but not always, spelled out in a written contract." (4)

In return for conforming to the conditions laid down by the franchisor, the franchisee is provided with a range of services, both initially and throughout the term of the franchise relationship. Some services a franchisor may provide are (5) :

- Initially : market survey and site selection; facility design and layout; lease negotiation

advice; financing advice; operating manuals; management training and franchise employee training.

- Continuously : field supervision; merchandising and promotional materials; management and employee retraining; quality inspection; national advertising; centralised purchasing; market data and guidance; auditing and record keeping; management reports and group insurance plans.

Franchising has been a feature of trading in Britain for many years. The car industry, for example, has long established franchising arrangements covering the distribution of new cars. Recently, however, most franchises have been in the service industries, especially catering. The proliferation of fast food franchise operations, such as Kentucky Fried Chicken, is an example of this development.

3.2.3 Administered Systems

Vertical integration in administered systems derives from a channel member using its power to influence the activities of other channel members over which it has no institutional authority.

Although there are examples of administered channels being managed by retailers, such as Marks and Spencer, which controls suppliers by applying its economic muscle, most are managed by manufacturers, especially those with brand leaders. Indeed, *"manufacturing organisations have historically relied on administrative expertise to co-ordinate reseller marketing efforts. Suppliers with dominant brands have predictably experienced the least difficulty in securing strong trade support, but many manufacturers with 'fringe' items have been able to elicit reseller co-operation through the use of liberal distribution policies that take the form of attractive discounts (or discount substitutes) financial assistance, and various types of concessions that protect resellers from one or more of the risks of doing business."* (6)

The newest development in administered systems in America is the use of 'Programmed Merchandising Agreements' by manufacturers. Manufacturers develop a tailor-made merchandising plan for each outlet type handling their products, which is normally intended to last six months. Such plans have been termed 'joint ventures' between retailers and suppliers because of the joint programming. The comprehensiveness of these programmed merchandising agreements is illustrated by Table 3.2.

TABLE 3.2. : PROGRAMMED MERCHANDISING AGREEMENTS

Programmed Merchandising Agreements involve joint programming of the following :

1. Merchandising Goals
 - a. Planned sales
 - b. Planned initial markup percentage
 - c. Planned reductions, including planned markdowns, shortages and discounts
 - d. Planned gross margin
 - e. Planned expense ratio (optional)
 - f. Planned profit margin (optional)
2. Inventory Plan
 - a. Planned rate of inventory turnover
 - b. Planned merchandise assortments, including basic or model stock plans
 - c. Formalized "never out" lists
 - d. Desired mix of promotional versus regular merchandise
3. Merchandise Presentation Plan
 - a. Recommended store fixtures
 - b. Space allocation plan
 - c. Visual merchandising plan
 - d. Needed promotional materials, including point-of-purchase displays, consumer literature, and price signs.
4. Personal Selling Plan
 - a. Recommended sales presentations
 - b. Sales training plan
 - c. Special incentive arrangements, including "spiffs", salesmen's contests, and related activities.
5. Advertising and Sales Promotion Plan
 - a. Advertising and sales promotion budget
 - b. Media schedule
 - c. Copy themes for major campaigns and promotions
 - d. Special sales events
6. Responsibilities and Due Dates
 - a. Supplier's responsibilities in connection with the plan
 - b. Retailer's responsibilities in connection with the plan

Source : McCammon jr., Bert C : "Perspective of Distribution Programming" in Bucklin (ed) Vertical Marketing Systems;1970.

The differences between the three types of vertically integrated marketing channel, identified above, have been summarised by Kotler, thus :

"Whereas the corporate V.M.S. is characterised by common ownership, and the administered V.M.S. by economic power and assent, the contractual V.M.S. is characterised by contractual relations between parties." (7)

3.3 VERTICAL INTEGRATION AND PERFORMANCE

The general opinion expressed in the literature, an opinion which is supported by empirical studies*, is that vertically integrated marketing channels are more efficient than their conventional counterparts.

The greater efficiency of vertically integrated marketing channels is attributed to the economies which can be achieved through such channels being centrally managed. In other words, managed co-ordination is advanced as being more effective than price, or market co-ordination. Furthermore, it is suggested in the literature that the more formalised the vertical integration, the more efficient the marketing channel. This is argued on the grounds that formalised methods of vertical integration enable more centralisation, which means more 'managing' of channel activity which, in turn, means more economies.

The relationship between vertical integration and efficiency as presented in the literature, and summarised above, is illustrated in Diagram 3.1. Having established the overall nature of this relationship, it is now appropriate to examine it in greater depth.

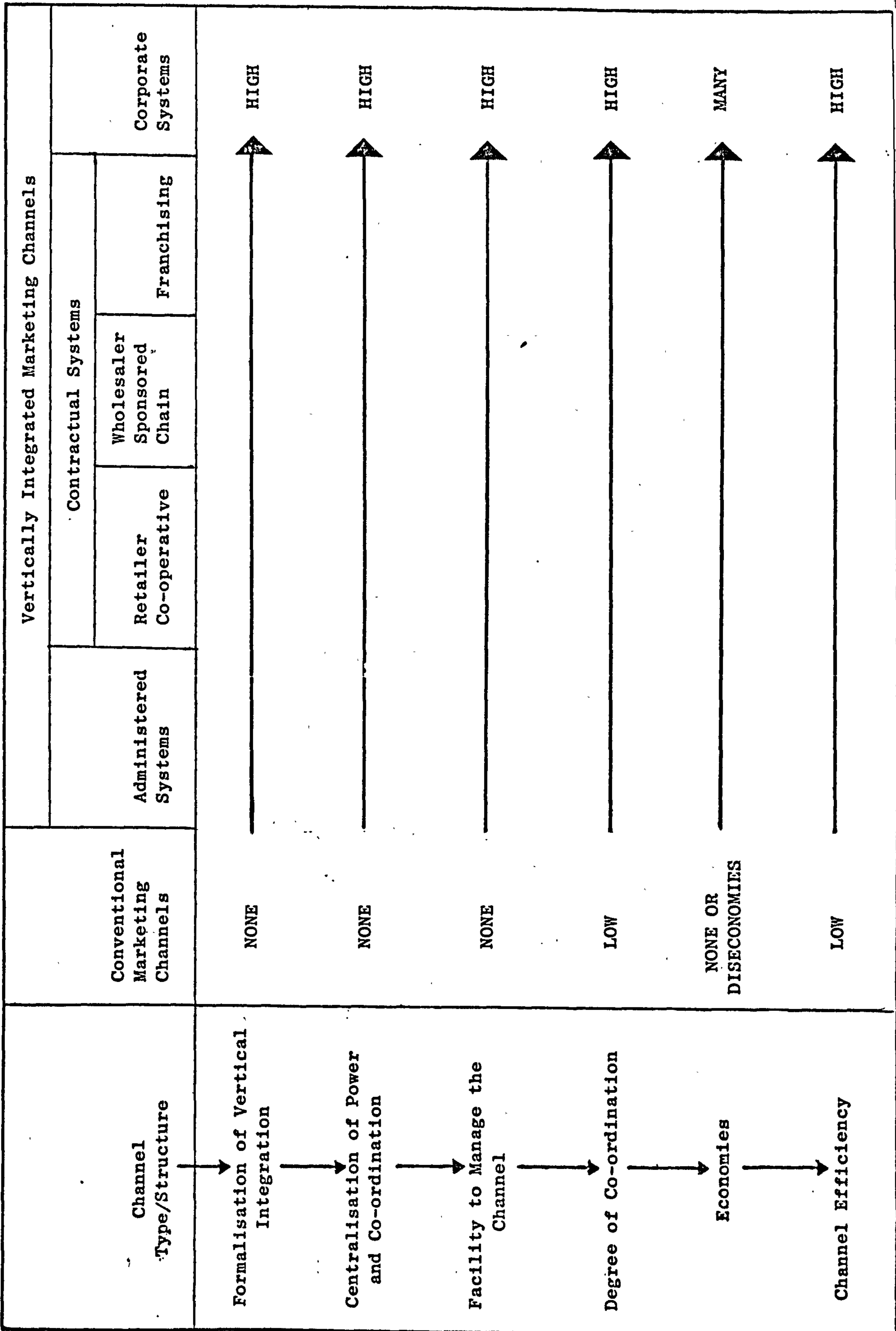
3.3.1 Diseconomies in Conventional Marketing Channels

In part, the greater efficiency of vertically integrated marketing channels is attributed to eliminating the diseconomies which are associated with conventional channels. The source of these diseconomies is, according to McCammon, the very organisational character of conventional channels (10).

The autonomy of channel members, for example, can lead to all manner of difficulties in co-ordinating both effort and functional activity. Activities can be easily duplicated and the flow of products through the channel may be inefficient because of inadequate scheduling.

* Mattsson (8) and Etgar (9) are two of several such studies.

DIAGRAM 3.1.1. : VERTICAL INTEGRATION AND CHANNEL EFFICIENCY AS DESCRIBED BY THE LITERATURE



The resistance to change in conventional channels is another source of diseconomies. In most conventional channels, members protect their historically defined roles so that functional activities are rarely moved from one channel position to another. This means that, not only do conventional channels forfeit the economies which would accrue from repositioning but they also tend to become 'out of date' and unsuited to changing market requirements.

The fragmented structure of conventional channels can also lead to poor communications and conflict, yet other sources of diseconomies.

3.3.2 Economies of Vertical Integration in Marketing Channels

Not all scholars to consider the relationship between vertical integration and performance have chosen to do so in terms of economies. Some, such as Etgar, have preferred to consider the "cost reducing potential of centralised co-ordination" (11). Far from being contradictory, these two approaches are complementary. By combining them in this section it has been possible to indicate which economies are linked to which cost savings (and vice-versa) in the literature*.

(1) Repositioning economies

Repositioning economies are the advantages and cost savings which result from the ability of vertically integrated marketing channels to shift activities from one level to another - providing, of course, that the functions are moved to more, and not less, advantageous positions in the channel.

Being able to shift functions means that, when necessary, the marketing channel can reallocate its functions to respond appropriately to change. Change can take many forms. It can be a technological innovation which will increase the efficiency of the marketing channel substantially, if the necessary functional re-alignments are made to accommodate it. Alternatively, change can be an increase in oil prices which alters the cost structure of the product to an extent that requires readjustment of functional allocations.

* The opinions expressed in the rest of this section are those of the literature. They are not, necessarily, shared by the author.

"Functional shiftability" (12) also means that the appropriate functional adjustments can be made whenever the central co-ordinator discovers either a functional anomaly or a more efficient functional allocation. The functional anomaly could be, for example, two channel members collecting the same market data. In this case it is obvious that collecting the data at one level and using it at both will reduce costs for the channel as a whole (13). An example of a more efficient functional allocation is the way multiple grocers have transferred the responsibility for buying from the individual stores to the head office.

(ii) Simplification Economies

It is because vertically integrated marketing channels operate as a unit that it becomes possible to simplify various activities. Ordering and invoicing, for example, can be simplified by introducing a standard system (14). A standard system eliminates the need for each channel member to convert the paperwork received from other channel members into a form that meets the requirements of its own particular system. The direct savings that result from this may be quite considerable.

Standardising functional activity is one facet of simplification, the other is making activities and relationships routine. Routine activities cost less to perform, because they take less time and require less qualified people to undertake them. They also release resources for planning and other strategic activities.

(iii) Scheduling and Synchronisation Economies

The scheduling of products through the channel and the synchronisation of the associated functional flows are expected to be better in vertically integrated marketing channels "because the requirements and intentions of member units can be predicted and/or controlled. There is also more data available for planning purposes in a centrally co-ordinated system than in a conventional channel" (15).

Improved scheduling can lead to overall reductions in the costs associated with holding stock. Centralised co-ordination, with its systemic orientation, can identify areas of over - and under - supply and instigate the necessary action to reduce the possibility of stock-piling in one area and stock-out in

another. In addition, careful scheduling can reduce the amount of 'buffer stock' that needs to be present in the system and can mean dispensing with buffer stock altogether at some levels of the channel. In conventional channels, there is unlikely to be sufficient trust between channel members for buffer stocks to be reduced in this way. Finally, improved scheduling can reduce both the number of times stock is handled and the number of points at which stock is held.

The synchronisation of activities is frequently a precursor to the repositioning of functional activities. The stated aims of synchronisation are: to streamline the way in which the marketing channel operates so that all activities that need to be performed are performed, but only once; and to introduce activities that are desirable, but not necessary, using the organisational slack created by eliminating duplication.

(iv) Contact and Market Access Economies

In conventional channels, trading relationships tend to be comparatively short-lived. This high turnover of trading partners is costly because every time a trading relationship is dissolved a search for a replacement trading partner has to be made and negotiations, over prices, quantities and services, undertaken. In vertically integrated marketing channels, trading relationships are much more stable. In corporate systems they can even be permanent, hence initial contact costs are reduced (16).

Access to the market-place is a feature of vertically integrated marketing channels that incorporate the final point of sale. Market access brings the benefit of an assured outlet for the channel's products. In addition, it provides the marketing channel with the means to monitor changes in demand at first hand.

The semi-permanent trading contacts, the assured access to the market, and the up-to-date demand information, together serve to reduce the uncertainty, and hence the business risk, of channel participants in vertically integrated channels. In many vertically integrated channels, the uncertainty of individual channel members is reduced still further because the quantity of products to be transferred from one channel level to another, and the price at which they are to be transferred, are determined centrally.

(v) Scale Economies

Channel participants in vertically integrated marketing channels tend to operate on a larger scale than channel members in conventional channels. In consequence, they benefit more from economies of scale.

(vi) Information Economies

A prerequisite of most of the other economies is the availability of the appropriate information upon which action can be based. For example, to reposition functional activities effectively, information about the way the channel operates and any associated problems, is vital.

The quantity and quality of the information used as a basis for decision-making in vertically integrated marketing channels is usually better than that used in conventional channels. This is for several reasons. In the first place, because vertically integrated channels are centralised, it is easier to piece together the 'bits' of information coming in from different sources. Very often this information only starts to mean anything when fitted together like a jigsaw puzzle.

Secondly, in vertically integrated channels, channel members are more predisposed to sharing information.

"In market coordinated systems, where members of one system are simultaneously participating in other competitive systems there may be some reluctance to reveal all parts of a marketing strategic plan out of fear that it might reach competition. In centrally coordinated systems where multiple memberships do not exist, members may be willing to divulge all of their plans." (17)

(vii) Communication Economies

Communications in vertically integrated marketing channels are subject to less 'noise' * than communications in conventional channels. This is because of the higher instance of routine

* *"Two general classes of 'noise' can be identified - omission and distortion. Omission occurs when a complete message is transmitted but not received, or when the symbols are technically received but their meaning is ignored. Distortion occurs when the message is received but some change has taken place in the signal between the transmitter and the receiver or a change in content meaning occurs between what the sender intended and that which the destination attaches to it." (18)*

communications, the use of standard operating procedures, the willingness of channel participants to pass on their information and the institution of feedback mechanisms. The comparative lack of noise is significant because it implies higher quality communications.

The quality of communications is an important factor in establishing the reliability of information - the 'better' the communications, the more credence can be attributed to the information received. The quality of communications is also a material factor in the nature of channel relationships (conflict, for example, can sometimes be reduced by improving communications between the parties of the conflict issue), the scheduling of products through the channel and the synchronisation of channel activities.

In many ways, the above division of the economies associated with vertical integration is false. This is demonstrated by the overlap between them. It is, however, believed that it is necessary to consider the economies using some form of classification to avoid unnecessary confusion - and the above scheme seems as good as any other, and better than most.

3.3.3 Diseconomies of Vertical Integration in Marketing Channels

Although the literature concentrates on the economies of vertical integration, it does also acknowledge that there are drawbacks as well.

One drawback of vertical integration is the separation of decision-making and decision-execution. This separation can lead to problems in communicating decisions and monitoring their implementation. In conventional channels, where decisions are usually made locally, these problems exist to a much lesser extent.

Many of the drawbacks of vertical integration are those that emanate from the complexity of the decisions which are made centrally. Decision-makers have to consider the implications of a decision made in one area on all other facets of a channel's operations. This obviously takes much time and effort and requires very high calibre decision-makers, factors which make decision-making costly. In addition, it is possible for the decision-making issues in a marketing channel to become too complex for decision-makers to cope with

adequately. Inevitably, this leads to poor decision-making *. An incorrect, or poor, decision is a greater problem for vertically integrated marketing channels than for conventional ones, because decisions normally affect the whole channel, not just a small section.

The loss of flexibility is another drawback of vertical integration, especially in industries with volatile markets that require the continual adjustment of marketing and distribution strategies. This lack of flexibility is mainly due to the administrative problems of making and implementing decisions quickly.

Although fewer in number, the diseconomies of vertical integration can be of sufficient importance to negate the economies. Hence the decision to vertically integrate should, ideally, be made after a careful comparison of the advantages and disadvantages. The conclusion is likely to be that *"when the demand for a product (or service) is relatively stable, its characteristics do not have to change frequently, when the product (or service) is relatively simple technologically, and when the advantages of mass scale production, processing, distributing or promoting are high"* (19), vertically integrated marketing channels have the advantage.

3.3.4 Empirical Studies of Vertical Integration and Performance in Marketing Channels

There are few major empirical studies which have considered the relationship between vertical integration and performance in marketing channels. Of those studies which have, the majority do so as an adjunct to their main research aim of explaining the growth of vertically integrated channels and their displacement of conventional channels. Agricultural markets, especially egg markets, figure frequently as the settings for the few studies which have the relationship between vertical integration and performance as their principal concern.

Probably the two most influential studies that consider the performance of vertically integrated marketing channels are those by Mattsson and Etgar.

Mattsson's study was *"inspired by certain very conspicuous changes in the marketing sector in Sweden during the last ten years or so There has naturally been a growing interest in, and awareness of, the effects of all these changes on behaviour and efficiency in marketing systems"* (20). The main emphasis of this study was on the development and definition of concepts. Mattsson identified three types of integration (institutional-based, decision-based and execution-based)

* Evidence of this is supplied by studies of decision-making in conglomerates.

and examined how each one may be expected to affect channel efficiency. The empirical element of this study comprised three case studies of grocery marketing channels. Each case study looked at a different channel type.

The research of Mattsson is important for three reasons:

1. It drew together the existing work in the area.
2. It introduced concepts from the social sciences to explain the connection between integration and efficiency.
3. It recognised that contractual arrangements in marketing channels, whilst differing from corporate arrangements in the mechanisms used to integrate the channel, are, in fact, part of the same phenomenon.

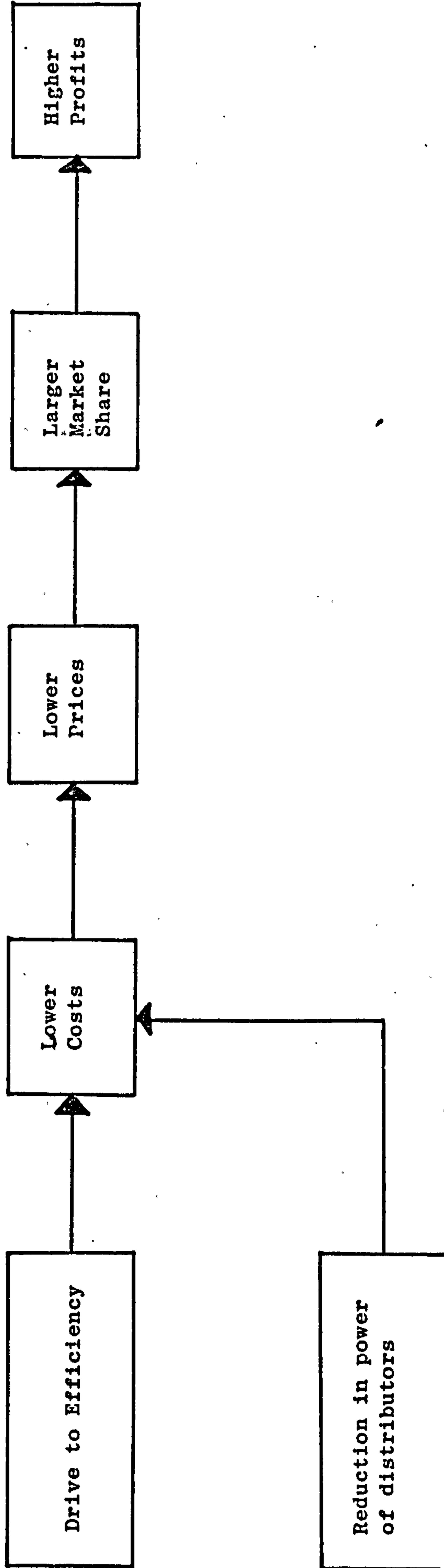
Etgar developed three models* to explain the motivations behind the move away from market co-ordination to centrally managed coordination (21) in marketing channels. The models were tested using information collected from the property and casualty insurance industry in America. Etgar concludes that the drive to efficiency reinforced by the reduction in the power of distributors served to reduce costs and increase profits. This conclusion is summarised in Diagram 3.2.

Although very little published work into vertical integration and performance comes from Britain, two works of note have emerged. In the early 1960's Fulop attempted to explain the growth of multiple chains and voluntary chains (22). Such was the contribution of this work that it is still frequently cited. Later the comparison by Izraeli of multiple and voluntary chains in the GB food sector cast serious doubt on the hitherto unquestioned assumption that voluntary chains are destined to be 'second best' (23). In later work Izraeli explains the growth of vertically integrated channels using his model of cyclical evolution, which is based on Galbraith's concept of countervailing power (24).

Research in agricultural marketing includes the simulation of egg production - marketing channels (in the USA) by McCarthy and Williams (25). Four basic channel types were simulated and the result provided additional support for the argument that lower costs are available if a vertically integrated structure is adopted. Investigating the same industry, but in a different way, Haas found owner integration to be more efficient than co-operative integration (26).

* The operational efficiency model; the power struggle model; and the service level model.

DIAGRAM 3.2. : THE MOTIVATION TO VERTICALLY INTEGRATE



Source : Etgar, Michael : An Empirical Analysis of the Motivations for the Development of Centrally Coordinated Vertical Marketing Systems : The Case of the Property and Casualty Insurance Industry; 1974.

Early research in the area was primarily concerned with the benefits of vertical integration by ownership. An example of this early work is that of Cole, who listed the advantages and disadvantages of corporate systems. These lists were based partly on information from interviews with business executives and government officials, and partly on data from contemporary studies (27).

Other studies which have contributed to the present understanding of the relationship between vertical integration and performance are, in no particular order, Adelman (28); Pashigian (29); de Chazeau and Kahn (30); Ridgeway (31); and Sturdivant (32).

3.4 AN ASSESSMENT OF THE LITERATURE ON VERTICAL INTEGRATION AND PERFORMANCE IN MARKETING CHANNELS

The aim of this section is to indicate the extent to which the literature* has satisfactorily investigated and explained the relationship between vertical integration and performance in marketing channels. For this reason, this section is an assessment of the literature as a whole; it is not a critique of the individual contributions that comprise the literature.

Most of the criticisms of the literature stem from its paucity. Although at first sight there appears to be a substantial number of publications, closer examination reveals that the treatment of the subject is mainly superficial and that there is a great deal of repetition of a small number of themes. In part, this is the consequence of scholars writing several, slightly different, articles on the one theme and based on the one piece of research, for inclusion in different journals. With such a small hard core of original work on the performance of vertically integrated marketing channels, it becomes almost facetious to speak of 'gaps'.

A possible reason for the apparent neglect of the area is that this particular research topic is not fashionable at the moment. Research on a subject does come in waves and, in the field of marketing channels, it would seem that the examination of power and conflict are the current preoccupations.+

* 'The literature' in this context and throughout this section, refers to papers, theses and books which explicitly consider the relationship between vertical integration and performance in marketing channels.

+ Evidence of this is provided by the relevant section of the bibliography.

In 1969, Mattsson published an excellent review of the treatment of vertical integration and efficiency in the literature. He identified six weaknesses:

1. It was often unclear whether a particular study was about real systems or models.
2. The system of concepts used. Integration and efficiency were noted as being inadequately defined, thus creating problems for interpretation and comparison.
3. It was impossible, in most empirical studies, to judge the reliability of the measurements and the possible applications of the results obtained.
4. There were contradictions in the analytical argument. This was often due to scholars working with different implicit models.
5. No clear reasons were given for the choice of variables.
6. The absence of explicit logical deductions in models meant that relations between elements were not clearly specified.

Although there have been some developments, these weaknesses are basically as true of the recent literature as they were of the early literature.

A general weakness, which Mattsson does not mention, is the lack of consensus on terminology. Work in this area rarely includes a statement that gives concise definitions of the terms used. This creates obvious difficulties when attempting to synthesize or compare studies. It has also led to the same term being used by the same scholar in slightly different ways. This happens most frequently with the term 'vertical marketing system'. Take, for example, the economies attributed to vertical integration. Some of these seem to imply a broader definition of the marketing channel, or vertical marketing system, than others.

In addition, to the general shortcomings, there are some principal criticisms of the way the literature approaches the investigation of the relationship between vertical integration and performance. The first of these criticisms concerns the performance aspect of the relationship. In the literature, efficiency is used as the sole indicator of performance. This is inappropriate because channel performance is not just a question of costs and prices; it is also a question of meeting the requirements of the market and the

participant channel members. In addition, the literature seems to overlook the importance of stating the perspective from which channel performance, or efficiency, is measured; and whether, in fact, the efficiency being measured is that of the channel, and not that of one of the channel members.

Another criticism concerns the way in which it has been assumed both that the centralisation of power and co-ordination go hand-in-hand, and that there is more centralisation in corporate systems than contractual systems, and in contractual systems than administered systems. Such fundamental propositions should be tested not assumed.

Thirdly, it appears that studies of vertical integration and performance have suffered from their inadequate use of the channel power, conflict, co-operation and communications literature. Mattsson, Izraeli and Etgar* have included behavioural factors in their work, but only to a limited extent. With few exceptions, therefore, the tendency to concentrate on economic factors remains. This is in direct contrast with the trend for studies of marketing channels in general, which is to become more eclectic. As far back as 1955 Palamountain advocated an eclectic approach to channel analysis, and since then the value of this approach has never been seriously opposed (33).

The last of these principal criticisms is that only scant attention has been paid to the formal modelling of the relationship between vertical integration and performance. This has led to a vagueness surrounding the intervening variables - What are they? How important is each one? Which variables influence which others, and in what ways?

A final, general, comment on the literature is that it does not consider the adverse effects of vertical integration on performance, nor the circumstances under which vertical integration may be expected to improve performance, in sufficient detail.

To summarise, the literature has shown that, generally speaking, a positive relationship can be expected between centralised co-ordination and channel efficiency. That the literature has not developed further is not because of the quality of the work in the area, some of it is admirable, but because of the lack of scholars investigating the relationship between vertical integration and performance. This has meant there have

* Etgar, however, separates his main investigation of vertical integration and power from that of vertical integration and operational efficiency.

been few new major empirical studies to develop and expand ideas, and few attempts at integrating the work from other areas of enquiry into that of vertical integration and performance in marketing channels.

CHAPTER 4MODELS AND THEORIES

Too often in studies of this kind, a model is advanced and investigated without any mention of the role or use of models generally. In this chapter, the nature and purpose of models and theories, together with the relationship between the two, are discussed. The chapter does not, however, purport to be anything more than an introduction to this fascinating, but complex, area.

4.1 MODELS

A model is a "simplified representation of a concept, system or process" (1). To be of any value, a model, "..... must bear some measure of similarity to the structure or process being modelled." (2) The model should also be suited to its purpose.

Models take various forms : there are physical scale models, schematic or diagrammatic models, mathematical models, analogous models and conceptual models. The difference between the various types of model may be illustrated by reference to the atom :

"If we wish to construct a model of the atom, a physical model might consist of balls of different sizes held together with wire or rods; a schematic model might be a sketch of the same kind of thing; a mathematical model might consist of a group of symbols in an equation, with coefficients to represent distances, velocities and forces; an analogous model might be indicated by saying an atom is 'something like' the solar system; and a conceptual model is expressed if we say, "Let us suppose that the atom consists of such and such." (3)

It is also important to distinguish between static models and dynamic models. The former are used to model structure and comprise such things as house plans, architectural scale models of buildings and maps; whereas the latter are used to model functions and processes. The computer has proved a particularly useful aid to dynamic modelling because it makes complicated simulations practicable.

The type of model used may be dictated by the subject being modelled, but, more frequently, it is determined by the purpose for which the model is required. Even models of the same type and of the same thing can differ in accordance with requirements. A map, for example, is one way of

modelling terrain which uses symbols to represent features such as roads, rivers, railways and lakes. Although following the same conventions, maps of the same area can and do vary in many ways including scale, detail and type (relief or road). These variations exist because a map needs to be suited to its use as much as it needs to be accurate. An accurate relief map which does not show roads can be little, if any, use to a person trying to identify the shortest route by road from A to B !

Basically, models are used for two main purposes; to predict and to explain or understand. It is possible to have models which do not explain, only predict. Such models are of limited use for investigative purposes because they add nothing to the understanding of the system for which behaviour is predicted, and because they do not allow the detection of changes in the underlying logic of a system.

But why are models, rather than any other means, used so extensively to elicit a prediction and/or explanation?

In the social sciences, models are used extensively for their capacity to reduce the highly complex realities with which they have to deal to manageable (that is, comprehensible) proportions. Such models are deliberate over-simplifications which are used, either as a "rough approximation to the actual state of affairs" (4), or as a way of gaining an appreciation of the fundamentals before going on to consider the complex refinements. The economists' 'economic man' and 'perfect competition' are examples of models which are over-simplifications and which are used for both prediction and explanation.

Most studies using models, be they the models of social scientists or of pure scientists, are concerned with investigating the consequences of either the same action in differing circumstances or a different action in the same circumstances. It is always possible that some of the actions to be considered would do irreparable damage to the system under study, so it makes sense to experiment using models before experimenting with the real world. In addition, there is the attraction of the manipulation of a model being easier and less costly of resources generally, than the manipulation of the real world - should, indeed the real world be accessible for manipulation.

When using the model in this way, it is important to remember that the model is not reality. Furthermore, the researcher must avoid the temptation of trying to re-shape the real world to fit his model, rather than vice-versa, when the two no longer correspond.

Then again, not all models are representations of known reality. Some models represent hypothetical situations and still others represent situations beyond man's current experience. In these cases, the researcher has no choice other than to work with models.

Finally, models are used because the very process of modelling is seen as a way of improving the understanding of a system. This is because formalising knowledge into a model highlights the gaps in that knowledge and leads to information being made explicit that was only implicit before. In fact, models have been defined as, "*formalised and explicitly defined concepts*" (5).

4.2 THEORY

The word 'theory' is used in many different ways, "*at times so broadly so as to include almost all descriptive statements about a class of phenomena, and at other times so narrowly as to exclude everything but a series of terms and their relationships that satisfy certain logical requirements.*" (6)

Most scientists, pure and social, fall somewhere in the middle of these definitional extremes, at a position which is reflected by Kerlinger's definition of a theory, which is :

"..... a set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting the phenomena." (7)

Similarly, Homans insists that :

"..... Not until one has properties, and propositions stating relations between them and the propositions form a deductive system not until one has all three does one have a theory." (8)

A theory also implies a certain level of validation and for this reason it is important to be aware of the distinction between hypotheses, theories and laws. Hypotheses are tentative proposals of relationships; theories are hypotheses which have been partially tested and have remained tenable, and scientific laws are relational statements which, to the best of our knowledge, are always true. (Rivett rather cynically describes a scientific law as, "*a scientific hypothesis which has not yet been disproved.*" (9))

Much emphasis is given in the literature to the scientific method of developing theories. Whilst the details of this method differ with the writer, it is generally acknowledged that there are four basic steps which are : learning; generalisation; experimentation; and validation.

Very rarely does a theoriser achieve all his learning by direct acquaintance; more often knowledge of a phenomena is attained partly by acquaintance and partly by the descriptions of others. In this way, the theoriser is able to build on previous studies of the phenomenon, even if he believes they are in some way inaccurate or have drawn inappropriate conclusions. Indeed, it would be very wasteful of the efforts of earlier theorists and researchers, and it would slow down progress, if each new researcher to an area insisted on only accepting information gained by direct observation as a basis for theorising.

Combining all learning, the theoriser attempts to extract the essential truths about a phenomenon and from these formulate a series of inductive generalisations.

Inductive generalisations are nearly always probabilistic. This is because it is uncommon for a researcher to consider his learning to be sufficient for definitive statements. It is upon these inductive generalisations that deductive arguments about the phenomenon under study are based, and hypotheses are formulated.

The term 'experimentation' is used in its broadest sense and it refers to testing the results of the deductive arguments, that is, it refers to hypotheses testing. If the outcome of repeated investigations support the hypotheses, and the hypotheses themselves constitute a deductive system, then a theory is said to have been validated.

Once developed, a theory should be formalised. Formalisation refers to making a theory more precise by drawing out its underlying logic. In this way a theoriser improves the likelihood of accurate communication of his theory.

At this point, it is interesting to reflect on the question, "Why does man search for theories?" It seems that the main motivating force is the desire to comprehend, or, if this is out of reach, at least to explain the happenings of the world. The wish to improve what is happening appears to be very much a secondary consideration of a theoriser. There is substantial historical evidence to support this view. Proverbs, for example, are early 'theories' which are principally concerned with finding patterns within the apparently unpredictable environment.

The aim of the theoriser is, therefore, to understand the phenomenon he studies, rather than to improve it. In the case of marketing, this has led to much of the antipathy against marketing theorists expressed by marketing practitioners. Operational marketing man is charged with the task of improving his marketing system. As the work of marketing theorists is usually couched in academic language and does not always lead to immediate system benefits, the marketing practitioner tends to dismiss it as irrelevant.

"In common with the layman they (practitioners) regard theory merely as a product of armchair speculation, being completely cut off from practical problems. All practice is based upon some theoretical assumptions, however incompletely formulated or inadequately based. A theory helps to explain and predict by giving a synoptic summary of previously validated hypotheses. Thus, 'there is nothing more practical than a good theory'; it crystallises the accumulated wisdom of previous research and presents new insights into a problem by suggesting relationships amongst variables derived by logical deduction." (10)

4.3 MODELS AND THEORIES

In the previous section, the process of formalising theories was mentioned. As models comprise logical statements an alternative way of considering formalisation is to think of it as revealing the model upon which a theory is based. Theories of buyer behaviour, for example, are based on models of how buyers behave under certain conditions when making particular purchasing decisions.

Of course, any model is capable of several different interpretations and can thereby generate several different theories. Similarly, a comprehensive theory may contain several models.

In the present research, a model of the relationship between vertical integration and performance in marketing channels is advanced. If this model is shown to be explanatory, then it may be used as the whole or partial basis for one or several theories of marketing channel behaviour.

4.4 BASIC CONSIDERATIONS IN EVALUATING MODELS

It was noted earlier that the worth of a model is a function of the extent to which it accurately reflects the system that is being modelled and its ability to fulfil the purpose for which it is intended. This suggests that the basic criteria against which models may be evaluated are accuracy and appropriateness.

Different models have different characteristics and, therefore, require the use of different measures of accuracy and appropriateness. There are four fundamental considerations in this regard :

- 1 The form of the model - physical, schematic, mathematical, etcetera. Obviously, the measures used to evaluate, say, a scale model of a building will differ from measures used to evaluate a model which is a complex mathematical formulae.
- 2 The basis of the model - the 'real world' or a hypothetical situation? A model which aims to represent reality will have to meet requirements which are quite distinct from the requirements a model which is designed to be a useful analytical abstraction has to meet.
- 3 The purpose of the model - to describe, explain, analyse or predict? A model constructed to predict, and nothing more, cannot be criticised for failing to provide an explanation.
- 4 The state of knowledge in the area and the stage of model development. In a new field of study, models will be, by necessity, more crude than models in well developed fields of study. It is important, therefore, that a model is judged according to whether it is an early attempt at modelling, or a sophisticated refinement of existing models.

It is the last of these four considerations, the current state of knowledge and model development, which tends to be overlooked.

Models of reality are usually evaluated at two levels, non-empirical and empirical. Non-empirical evaluation is used as a pre-cursor to empirical evaluation to identify the fundamentally unsound and obviously inappropriate models. Such evaluation is desirable because empirical evaluation is costly of both time and resources, which means that it is advisable for it to be used selectively.

4.5 EPISTEMIC GAPS

In order for models and theories to be subject to empirical evaluation, they need to be put into a form which can be empirically examined. This requires theoretical concepts to be translated into operational statements. The relationship between the theoretical concept and its operational counterpart may be termed the 'epistemic relationship' (11).

Ideally an epistemic relationship will be isomorphic, that is there will be a point-to-point correspondence between the theoretical concepts and operational systems, but this can rarely, if ever, be achieved. Nonetheless, every effort has to be made to keep the gap between the two as small as possible if an empirical testing is to be sound.

When dealing with the behavioural or the social sciences, the researcher often has to rely on intuition to determine whether or not the theory or model and the operational hypotheses match sufficiently well. This is due to the lack of formalised tests of association suited to measuring epistemic gaps in this area.

CHAPTER 5VERTICAL INTEGRATION AND PERFORMANCEIN MARKETING CHANNELS :A MODEL

The perceived shortcomings of existing analyses of the relationship between vertical integration and channel performance, together with the views expressed by marketing and distribution managers in a series of exploratory interviews, prompted the construction of the model presented in this chapter.

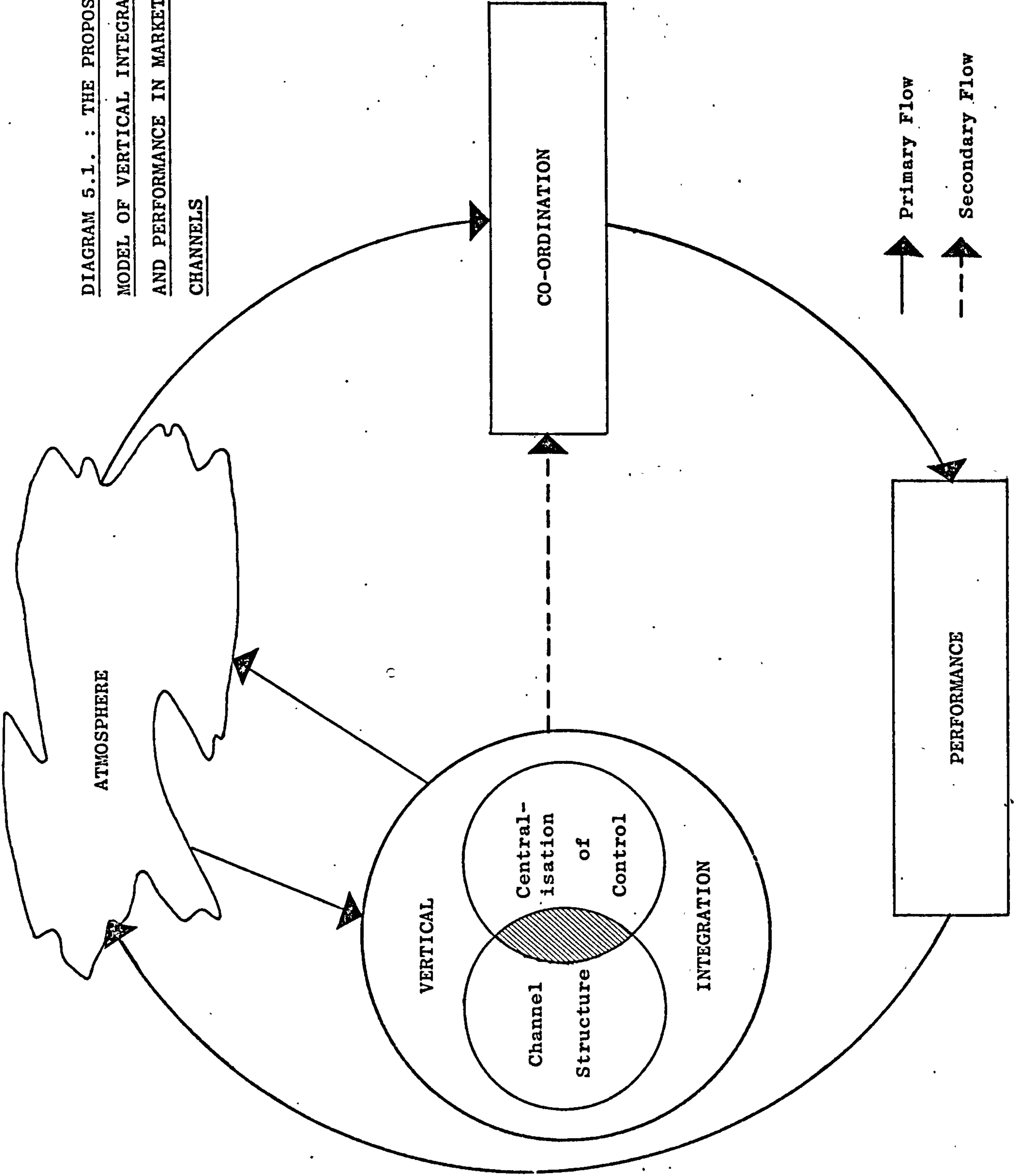
The model differs from previous explanations in four main respects, they are :

1. It is firmly based on a social systems approach to the study of marketing channels.
2. It does not equate vertical integration with structural integration.
3. It takes a multi-dimensional view of channel performance.
4. It develops the concept of 'channel atmosphere' as a key variable.

Diagram 5.1 illustrates the proposed model of vertical integration and channel performance, which may be summarised as follows :

It is postulated that the structure of a marketing channel, and the type of power relationships that operate within a channel (which determine the centralisation of

DIAGRAM 5.1. : THE PROPOSED
MODEL OF VERTICAL INTEGRATION
AND PERFORMANCE IN MARKETING
CHANNELS



control), have a profound impact on the nature of the atmosphere associated with a marketing channel. Channel atmospheres with certain characteristics, it is argued, encourage co-ordination and, hence, channels with atmospheres of this type may be expected to be more co-ordinated than channels without such atmospheres. Greater co-ordination means, by definition, better orchestration of channel functions which, in turn, implies improved overall channel performance, although not all channel members necessarily benefit. Improved channel performance is seen as influencing atmosphere mainly by increasing the predisposition of channel participants to work together. It is, however, recognised that a channel member dissatisfied with channel performance, for whatever reason, may inhibit this positive influence. Finally, it is contended that an atmosphere with a positive input from channel performance favours vertical integration.

In addition to the main flow described above, the vertical integration of a marketing channel is acknowledged as having a direct influence on co-ordination. This influence is apparent in that centralised control and formalised structural integration can facilitate co-ordination.

Before proceeding to examine the model in more depth, consideration is given to its composite factors, namely, vertical integration, co-ordination, channel performance and channel atmosphere. In developing the model much attention was directed at refining these factors, especially the innovative variable of channel atmosphere.

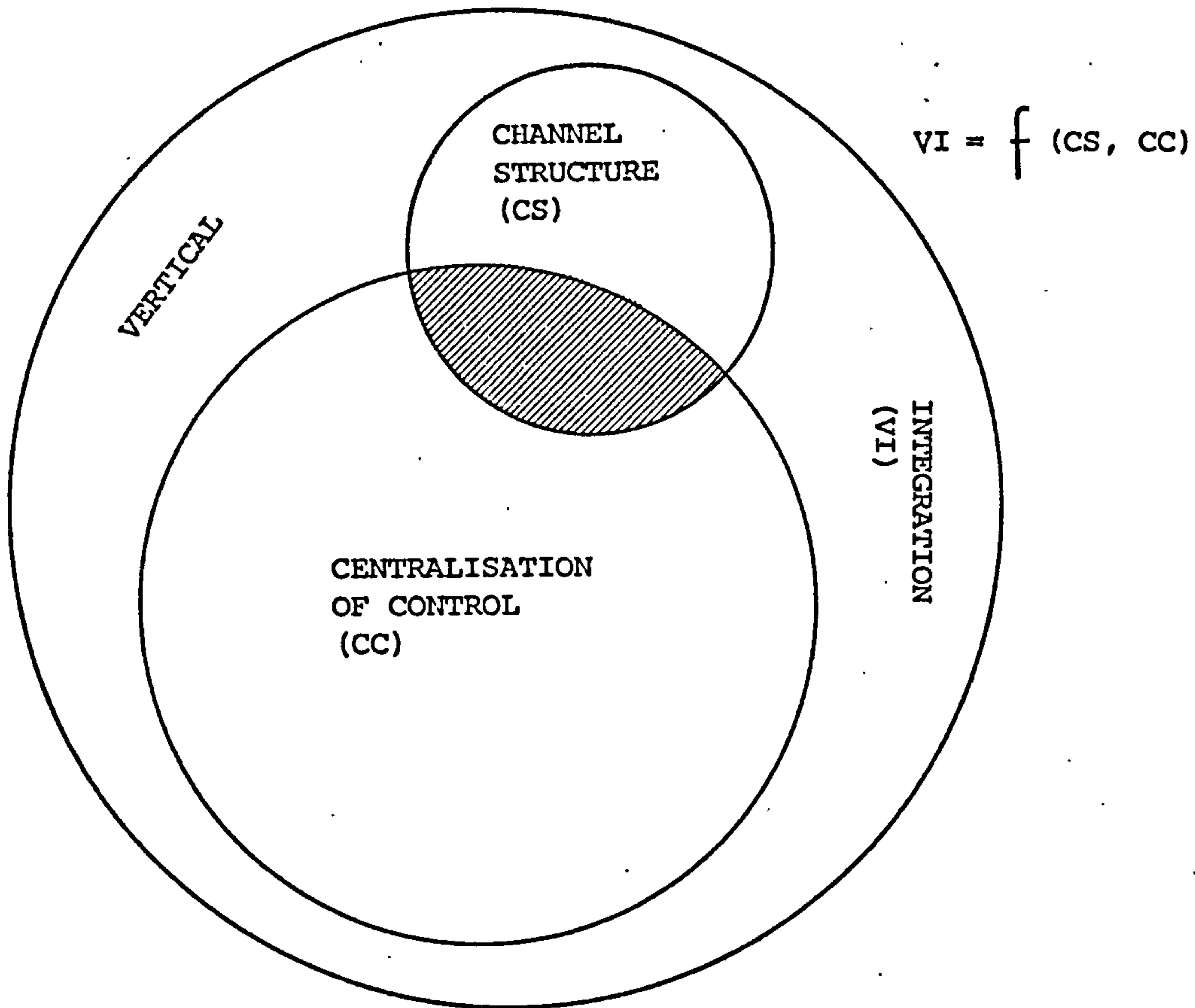
5.1 VERTICAL INTEGRATION IN MARKETING CHANNELS

It is generally assumed in the channels literature that :

Structural Integration = Vertical = Centralisation
 (channel structure) = Integration = of Control

A different view is taken in the model presented in this chapter. This view is that vertical integration is considered to be a function of channel structure and

the centralisation of control, thus :



Vertical integration is taken to be the process of creating a marketing channel entity. This means that the phrase 'the greater the vertical integration' is translated as 'the more the marketing channel acts as a unit'.

Some marketing channel structures appear to facilitate vertical integration more than others. Channels which are structurally integrated by ownership or by a strict contract, for example, seem to be more likely to operate as a single unit than channels which are not.

The major determinant of vertical integration is, however, the centralisation of control. The greater the concentration of power in a channel, the easier and more likely it is for that channel to function as an entity. Where there is a channel structure that favours

vertical integration as well as highly centralised control (the shaded area in the diagram), vertical integration may be expected to be highest.

5.1.1 Channel Structure

Channel structure is concerned with the structural form, or shape, of the channel and the type of structural connections that exist amongst its members.

Channel structure replaces structural integration, a term which appears in most previous studies of vertical integration and performance. The reason for this is that the term structural integration leads to the notion of a degree of structural integration which is considered to be virtually meaningless.

The first problem with the degree of structural integration is its measurement. There are too many variables to be taken into account for a reliable measure to be constructed, and an unreliable measure is at best useless. A valid measure would, for example, have to be capable of distinguishing between :

- an ownership tie where all marketing channel decision-making rests with the divisions (or subsidiaries) within the limits imposed by general performance criteria.
- and
- an annually negotiated contractual tie which binds members to follow all centrally determined policies and tactics regarding marketing and distribution.

It is unlikely, that a measure of such sensitivity could be formulated; even if it could be, there is little possibility that it would be practicable.

In addition to the measurement problems of structural integration, there is the question of the usefulness of the concept of the degree of structural integration. Practitioners, and academics, are really interested in knowing the possible consequences of adopting different organisational forms. It seems more appropriate, therefore, to compare performance with marketing channel structure, which is observable and comprehensible, than with a theoretical, and probably arbitrary, measure of the degree of structural integration.

To characterise the structure of a channel it is suggested that the following dimensions should be considered :

1. The type of connections between channel members - e.g. informal, contractual, corporate.
2. The number of formalised agreements within the marketing channel.
3. The coverage of any formalised agreements - i.e. the number of channel members involved in each agreement.
4. The scope of any formalised agreements - i.e. the range of channel related behaviour covered by each agreement.

5.1.2 The Centralisation of Control

The extent to which channel behaviour is centrally controlled depends on the concentration of power in the marketing channel concerned. Channel control is decentralised in channels where there are many channel members and power relationships amongst channel members are fairly equally balanced, and centralised in channels where there are one or two dominant channel members which effectively control channel activity through the power they exercise over the other channel members. Between these two extremes, there are various degrees of centralisation determined by the number of power-holders and their strength compared with the power subjects.

To appreciate the reasons why power relationships among channel members differ from channel to channel, it is useful to understand the concept of power in the context of the marketing channel. The following section provides a brief resumé of this concept.

(i) Power in Marketing Channels

Power is a relational, not an absolute property. Thus, it is meaningless to describe a channel member as being powerful within a vacuum. A channel member can only have power vis-a-vis another channel member, or several other channel members.

For simplicity, the convention is adopted of explaining power in terms of a dyad - that

is, a two party network - comprising channel members O and P.

"O's power over P is defined as the net increase in the probability of P enacting a behaviour after O has made an intervention, compared to the probability of P enacting the behaviour in the absence of O's intervention." (1)

Note that according to this definition it is not necessary for P to actually enact the desired behaviour for O to have power over P. All that is necessary is for the probability of P enacting the behaviour to be increased. The extent to which this likelihood is increased indicates the degree of O's power over P. When the power of O over P is such that O can determine the behaviour of P, then O's power becomes control.

The degree of power that O has over P may be represented as follows (2) :

$$M = S_1 - S_2 \quad - 1 \leq M \leq + 1$$

where : M is the amount of power O has over P.
 S_1 is the probability of P doing X given O has done Y. i.e. $P(P, X/O, Y)$.
 S_2 is the probability of P doing X without O having done Y i.e. $(P(P, X/O, \bar{Y}))$.

if : $M = 0$, ($S_1 = S_2$), this means O's intervention has no effect on P.

$M = +1$, this means O's power over P is at a maximum because P does something he would not have done without O's intervention, that is, O has control over P.

$M = -1$, this means P does not do something he would have if O had not intervened which gives O maximum negative power, that is, O has (negative) control over P.

The converse, and first requisite, of power is dependence. For one channel member to have any power over another, the latter must be dependent on the former in some way :

"The power of O over P is equal to, and based upon, the dependence of P upon O The dependence of actor P upon actor O is (1) directly proportional to P's motivational investment in goals mediated by O, and (2) inversely proportional to the availability of those goals to P outside of the O - P relation." (3)

Thus, in a marketing channel, P's dependence on O, and consequently O's power over P, is determined by the importance of the resources controlled by O to P and the possibility of P obtaining the resources from a party other than O.

If P is independent of O, then whatever O does has no effect on P, therefore, O can have no power over P. On the other hand, if P depends solely on O for certain resources, O is in a position to control P.

The sources, or bases, of a channel member's power are those resources that can be exploited in order to influence another channel member (4). The number, magnitude and importance to others of the resources available to a channel member are usually fairly accurate indicators of the power which that member holds within the channel.

There are very many sources of power, and an almost equally large number of ways to categorise them. The scheme most frequently used in the channels literature is that devised by French and Raven which classifies power in terms of the perceptions of those subject to power. The focus on perceptions is justified because a channel member behaves in accordance with what he perceives to be the power of other channel participants over him, whether or not this perception is accurate (5).

There are five bases of power identified by French and Raven as being especially common and important, they are (6) :

1. Reward power, based on P's perception that O has the ability to mediate rewards for him. Examples of the rewards that one channel member may be in a position to give another are wider margins, additional promotional allowances, technical and management assistance.
2. Coercive Power, based on P's perception that O has the ability to mediate 'punishments' for him. Sanctions available to a channel member may be reductions in margins, denials of exclusive territories, a reduction in shelf allocation.
3. Legitimate power, based on the perception of P that O has a legitimate right to

prescribe his behaviour. Legitimacy in a marketing channel may be contained in a legal agreement, or it may emerge in the form of a 'norm'.

4. Referent power, based on P's identification with O. *"It is difficult to identify cases of purely referent power in channels. It is more likely to occur in conjunction with other bases" (7)* especially reward based power.
5. Expert power, based on the perception of P that O has some special knowledge or expertise. Information about the market provides a particularly durable basis for this type of power.

"A channel member could acquire a significant amount of power by gathering, interpreting and transmitting valuable market information". (8)

Rarely does the power held by an individual channel member stem from only one of the above power bases; usually, it emanates from the combination of two or more. Some combinations are synergistic (for example, expertise can enhance legitimacy and reward encourage identification), others the reverse (for example coercion impedes identification).

Studies which have investigated the implications of applying the various sources of power indicate that coercive power tends to increase channel conflict whereas non-coercive power (reward, legitimate, referent and expert) tends to decrease it. (9). On the other hand, economic (reward and coercion) sources of power contribute more to the accumulation of power by a channel leader than do non-economic (legitimacy, referent and expert) sources (10).

A dimension of power which is sometimes overlooked is its scope. Power is issue specific, which means it relates to identified areas of behaviour. Hence, in a similar way that the statement 'O is powerful' is meaningless, because power is relational, so 'O has power (or control) over P' is insufficient because it does not identify the areas of behaviour for which this is the case.

It is very unusual for one party to have blanket power over another, especially in marketing channels. More usually, one party has power over another in a range from nil to control

which may vary across the spectrum of functional activity. For example, a retailer is unlikely to have power over all aspects of a supplier's behaviour, but it may have control over promotional allowances, considerable power over pricing, a little power over pack design whilst having no power over product formula.

The discussion of power has concentrated on the power of O over P. Power, however, is not necessarily uni-directional; O can have power over P in some areas of activity and at the same time P can have power over O in other areas. The overall balance of power between O and P is simply the relative strength and scope of the power of each channel member.

Whenever the balance of power is heavily weighted in one party's favour, it may be anticipated that the other party will aim to equalise the power relationship by creating countervailing forces*. According to Galbraith, it is this quest for power equalisation through countervailing forces that holds economic power in check (11).

Although power relationships underline the centralisation of control, the analysis of these relationships is not always the most convenient method of determining the degree of centralisation. It is often more appropriate to consider centralised control with reference to the two main facets of centralisation : decision-making and the control over the execution of functional activity.

(ii) The centralisation of decision-making

The degree of centralisation of decision-making is a function of the number of channel members making channel decisions and the type of decisions being made by them.

Ansoff identifies three types of decisions; strategic, administrative and operating (12). Strategic decisions are the highest order of decisions as they are concerned with the way in which the resources of the marketing channel are to be used to meet the require-

*Probably the most common way of creating countervailing power is for disadvantaged parties to form a coalition.

ments of its environment. Administrative decisions are those concerned with establishing the appropriate operating structure for fulfilling the requirements of the channel strategy. Operating decisions concern the day-to-day, tactical, running of the channel.

Strategic decisions are both more complex and more far-reaching than either administrative or operating decisions. A strategic decision, once made, shapes the administrative and operating decisions it generates. Hence, strategic decisions pervade the behaviour of a marketing channel.

It is because of their complexity and influence that, when a channel is moving from decentralised to centralised decision-making, strategic decisions are centralised first. After strategic decisions, administrative decisions are centralised, and finally operating decisions. On this basis, it is possible to identify four states of decision-making in marketing channels, ranging from decentralised to centralised, as shown in Table 5.1. It must be emphasised that these are four staging points on a continuum and not discrete categories, as the layout of the table might suggest.

Data on the total number of decision centres in a channel and on the type, or types, of decisions made by each decision-centre, thus provide a basis from which to estimate the centralisation of decision-making. Caution is needed, however, in interpreting the results of such an exercise, because even in marketing channels with decentralised decision-making there tend to be fewer decision-makers concerned with strategic decisions than with either administrative or operating decisions.

(iii) The centralisation of control over the execution of functional activity

Every marketing channel comprises eight functional flows* and each functional flow is made up of several functional activities. The fewer the number of operating units controlling activities within a functional flow, the more centralised the control of that functional flow. Thus, it follows that the fewer the number of operating units

*See Section 2.1 and Appendix A.

TABLE 5.1 : THE CENTRALISATION OF DECISION-MAKING IN MARKETING CHANNELS

DECISION TYPE	CENTRALISATION →			
	1	2	3	4
STRATEGIC	MANY DECISION CENTRES	FEW DECISION CENTRES	FEW DECISION CENTRES	FEW DECISION CENTRES
ADMINISTRATIVE	MANY DECISION CENTRES	MANY DECISION CENTRES	FEW DECISION CENTRES	FEW DECISION CENTRES
OPERATING	MANY DECISION CENTRES	MANY DECISION CENTRES	MANY DECISION CENTRES	FEW DECISION CENTRES

which between them control all functional flows, the greater the overall centralisation of control over the execution of channel activity.

Decision-makers do not necessarily control the execution of the activities that their decisions affect. This means that decisions are not always implemented. In a symbol group, for example, the symbol head office may decide on the form and usage of point-of-sale promotional material, whilst member retailers control the execution of point-of-sale promotion. The implementation of the head office decisions regarding point-of-sale promotion is therefore in the hands of the member retailers, although subject to the general influence of the head office.

5.2 CO-ORDINATION OF THE FUNCTIONAL ACTIVITIES OF MARKETING CHANNELS

The purpose of a marketing channel is to distribute products. To enable products to travel along marketing channels and reach the market there has to be at least some co-ordination of channel activity. This means that there is co-ordination in all marketing channels. What varies is the extent to which channel activities are co-ordinated.

There are two types of co-ordination associated with a marketing channel, they are :

1. Intra-functional flow co-ordination. This is concerned with the co-ordination of each of the activities that together comprise a functional flow of the marketing channel.
2. Inter-functional flow co-ordination. This refers to the co-ordination of the eight functional flows* that comprise all marketing channels. In other words, it considers how well the functional flows of the channel dovetail into each other.

Although both types of co-ordination are important, it is the latter type which is most significant. This is because interfunctional flow co-ordination represents the co-ordination of total channel activity and, thus, the co-ordination of the marketing channel. Taken alone, intra-functional flow co-ordination could lead to sub-optimisation.

* These are listed in Section 2.1 and Appendix A.

Three indicators of channel co-ordination are suggested. These indicators are based on the notion that a highly co-ordinated marketing channel is one that is functionally streamlined and operates smoothly. This notion is in line with the meaning generally given to co-ordination in the marketing and channels literature. The three indicators of channel co-ordination are :

(i) The number of duplicated activities

It may be expected that the more co-ordinated the channel, the fewer the instances of activity duplication.

The identification of duplicated activities is complicated by functional flows being divisible (13), that is, they comprise several functional activities. Hence, what may, at first, appear to be duplication may, on closer examination, prove to be two distinct activities that belong to the one functional flow and which are identified by the same generic term. For example, it may be found that press advertising is undertaken at two levels of the marketing channel, thus implying duplication. A more detailed perusal may indicate that at one point the press advertising is directed at 'the trade', whilst at the other level it is directed at consumers.

Typically, the activity which duplicates another, and is hence redundant, is undertaken because 'it always has been'. Hence, for example, certain accounts procedures may continue to be followed at some points along a marketing channel although a centralised computer has made them obsolete.

(ii) The number and scale of operational 'bottlenecks' and 'black spots'.

Operational bottlenecks and black spots (points where things always seem to go wrong) are normally caused by a lack of co-ordination. This means that the more co-ordinated the activities of a channel, the fewer and smaller the operational bottlenecks and black spots there are likely to be.

(iii) The grouping of functional activity

In marketing channels which are highly co-ordinated, activities that are complementary tend to be grouped together. The corollary of this is that

there is unlikely to be any substantial co-ordination in marketing channels in which complementary activities are not grouped together, but instead are undertaken separately.

In assessing channel co-ordination, co-ordination should not be confused with co-operation. Co-ordination is a functional concept which, as noted, is concerned with the way in which channel activities are ordered and fit together. In contrast co-operation is a behavioural concept referring to one way in which channel members may interact*. The terms are neither synonymous nor interchangeable. They are, however, often confused because co-operation is widely believed to be an important, even vital, aid to co-ordination.

5.3 PERFORMANCE AND THE MARKETING CHANNEL

Despite the preoccupation with performance throughout most of the work on marketing channels, the conceptualisation and measurement of performance generally lacks sophistication.

There are three types of performance measures which can be applied to socio-economic systems, such as the marketing channel. They are (14) :

1. Efficiency (or productivity) measures
2. Generalised profit measures
3. Effectiveness measures

Nearly all marketing channel studies which incorporate the measurement of performance use only one of these three types of measure. Of the three, efficiency is the most common choice, as demonstrated in Chapter 3. The consequence of this has been that evaluations of performance have tended to be partial, and thus inadequate. By combining all three measurement approaches it is believed that a more complete and balanced evaluation of channel performance may be made.

5.3.1 A Framework for Performance Measurement

Both efficiency and generalised profit relate the input of a system to its output. They do this, however, in essentially different ways.

*See Section 5.4.1.

The concept of efficiency has its basis in studies of energy where it is defined as the ratio of energy input to energy output. In general systems theory this has become the ratio of system input to system output.

Normally, efficiency is presented in one of three ways :

1. resource input required : achievement of a given result
2. given resource input : output
3. output per standard unit of input

In all three cases, the lower the system input vis-a-vis output, the more efficient the system is said to be.

Generalised profit is not a ratio but the difference between system input and system output when measured in the same units. In modern economies the unit used for this purpose is invariably money, but this need not always be so. A farmer, for example, could choose to calculate the generalised profit of his arable land in terms of grain tonnage (crop reaped minus seed sown). According to the measure of generalised profit, a system is more successful the larger the surplus of output over input.

Whilst generalised profit establishes the size of the surplus made from the use of certain inputs to create an output, efficiency shows how well resources have been used in achieving the output. Neither measure, however, is able to evaluate the appropriateness, or desirability, of the output.

Effectiveness measures the extent to which the output of a system meets the requirements of its environmental conditions and the objectives for which it, the system, is designed to meet. In other words, effectiveness is the system's ability to produce a desired result, to be effectual. In evaluating effectiveness, however, no consideration is given to the resources used. A system which fulfils its goals is always more effective than a system which does not, irrespective of the cost involved. For this reason, there is a need for measures of effectiveness to be combined with performance measures which assess the use of resources in achieving a result.

From the above discussion it is evident that, taken alone, neither efficiency, nor generalised profit, nor effectiveness constitute a sufficient indicator of system performance. Taken together, however, they form a comprehensive means of evaluation.

Diagram 5.2 combines the three types of performance measures into a framework of measurement for open systems.

The framework illustrates that efficiency and generalised profit measure the conversion process from input to output and that effectiveness measures the results achieved against the results desired, that is, the objectives. In the framework it is assumed that an appropriate environmental fit is always an objective of an open system.

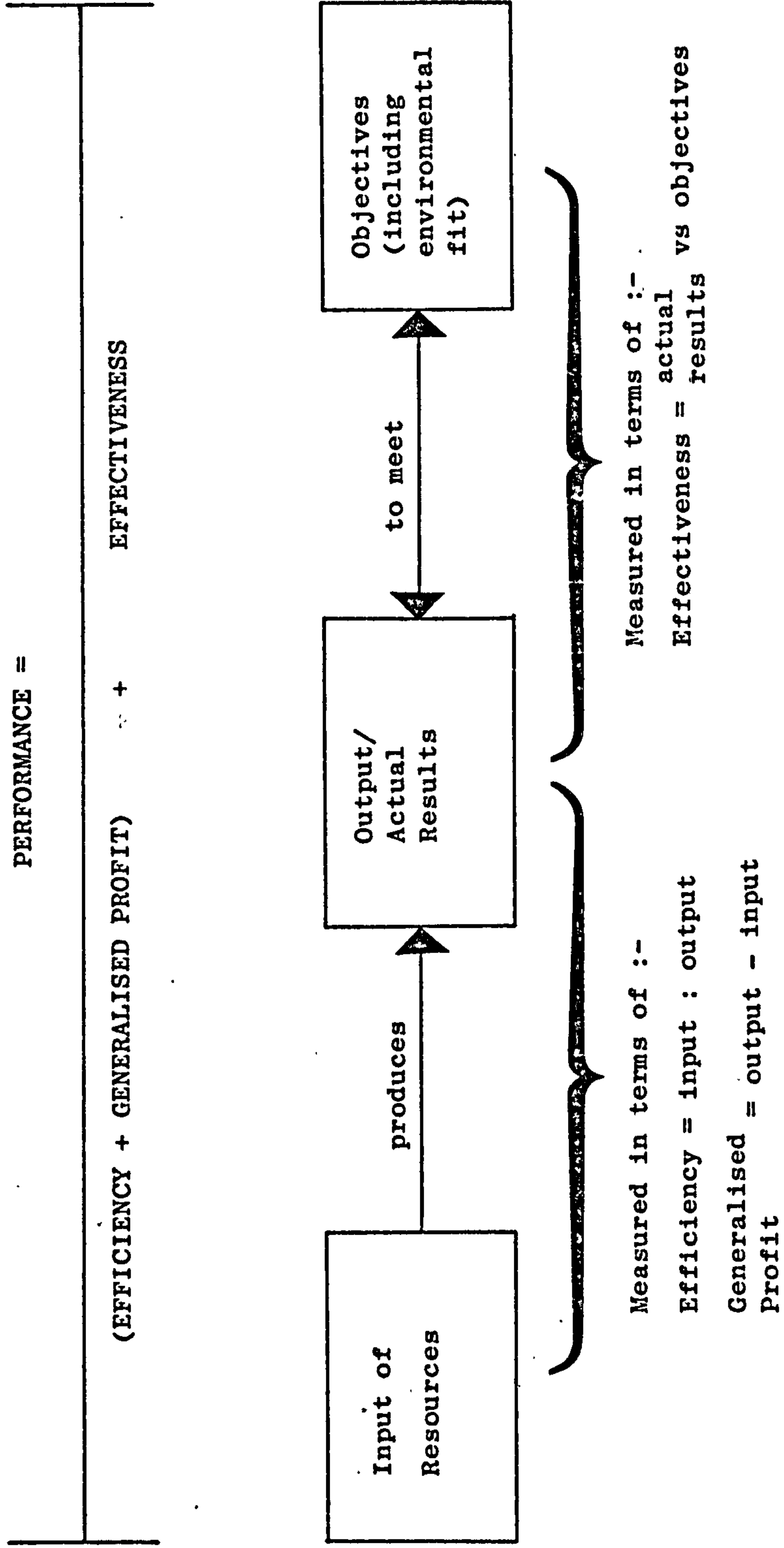
The number and precise nature of the measures used to evaluate the performance of a system varies with the type and purpose of the system concerned. This is because different systems have different inputs, outputs and objectives. The more complex the system, and the wider the range of the objectives to be met by it, the greater the number of performance measures which will be required.

It is possible for the same system to have its performance evaluated in several different ways within the suggested framework. This is because a system may be evaluated from various viewpoints, and each viewpoint may be expected to apply different performance criteria which reflect different system requirements.

5.3.2 Marketing Channel Performance

The marketing channel is an open, social system and, therefore, its performance is measured by a wide variety of parties each looking at the channel from a different point of view. The objectives held for the channel, the roles designated the channel and its members, the identification of relevant factors and the interpretation of the results, all depend on the position, role, aims and perceptions of the assessor. It follows from this that there can be no universally applicable set of performance criteria for even a single marketing channel. It also follows that, to be meaningful, measures of performance must be associated with the perspective from which measurement is made.

DIAGRAM 5.2. : A FRAMEWORK FOR PERFORMANCE MEASUREMENT



In this model of vertical integration and performance, channel performance is considered from three perspectives:-

(1) The Consumer

This perspective has been adopted because it is the consumer who the marketing channels of 'consumer goods' purport to serve. In addition, as a general rule, it is the consumer who decides what to buy and from where it will be bought.

The consumer does not perceive or evaluate a marketing channel as such, what he evaluates is the relative satisfaction and benefit of purchasing a particular product from a particular outlet. This evaluation process is usually, but not always, unconscious. Consumers tend, for example, to make conscious and more deliberate comparisons of alternatives when purchasing capital goods.

The performance of a marketing channel* from the consumer's point of view is, therefore, a function of the extent to which it meets consumer requirements, both in isolation and in comparison with other channels. As consumers tend not to make conscious appraisals of the relative benefits of all available purchase opportunities for a product, the following approach to the evaluation of channel performance is proposed :

1. Identify consumer requirements regarding the purchase of a particular product category.
2. Collect information about the factors identified in 1 for each marketing channel being studied.
3. Compare the results of 2 with consumer requirements and, when available and appropriate, with averages for the product market.

Basically, the extent to which the channel meets consumer requirements is a measure of channel effectiveness. It constitutes an indicator of the 'environmental fit' of the marketing channel. The consumer is not concerned with the efficiency or generalised profit of the channel — at least, not directly. Indirectly,

*The marketing channel has been defined as being product specific.

the consumer is concerned with these measures because they influence the output of the channel and hence its ability to meet consumer requirements.

(ii) The Channel as a Whole

This treats the channel as an entity and attempts to assess how well it serves itself.

It is unlikely that such measurement normally takes place - who, after all, would initiate it? In the context of research, however, it provides a useful basis for comparing the performance of different channels.

The use of this measure for comparative purposes means that a standard set of performance criteria must be employed.

The measures used to evaluate performance from this perspective have been selected from the channels literature, and based on suggestions received during preliminary interviews. In accordance with the framework of performance measurement, the measures consider the efficiency, profitability and effectiveness of marketing channels.

1. Efficiency Measures

To measure channel efficiency, it is assumed that the cost of using a resource is an appropriate surrogate for the input of that resource.

- Income per £ of marketing channel costs.

$$E_1 = \frac{TC_t}{TI_t}$$

where : E = efficiency
 TC = total cost of distributing the product through the given channel.
 TI = total income from distributing the product through the given channel.

suffix t = time period.

- Marketing channel costs per unit sold.

$$E_2 = TC_t : n_t$$

where : n = number of units sold.

Other notation as before.

2. Generalised Profit

The same assumption regarding the relationship between resource cost and resource input is made for the generalised profit measures of channel performance, as it is for the measurement of channel efficiency.

- Total profit of the marketing channel.

$$GP_1 = TI_t - TC_t$$

where : GP = Generalised profit.

Other notation as before.

- Profit contribution per unit sold.

$$GP_2 = \frac{TI_t - TC_t}{n_t}$$

Notation as before.

3. Effectiveness

The assumption underlying the measures of channel effectiveness is that channels strive to improve their market position and to increase their sales. Growth and market position also indicate the extent to which the marketing channel is meeting the requirements of its target market. The more a channel meets the requirements of the market it aims to serve, the more sales that channel may be expected to make.

Not all channels have as their target market the main, national, mass market for a product.

Some channels aim to serve a specific segment of the total market. It is for this reason that it is essential that measures of channel effectiveness are not biased in favour of the large scale operation serving the mass market. Hence, in this model, percentages are used, and references are made to the share of the target market segment rather than to the share of the total market.

- Growth of the marketing channel

(a) % change in sales volume

$$G_1 = \frac{n_t - n_{t-1}}{n_{t-1}} \times 100$$

where : G = growth

Other notation as before

(b) % change in sales value

$$G_2 = \frac{TI_t - TI_{t-1}}{TI_{t-1}} \times 100$$

Notation as before

- Market position of the marketing channel

(a) % of the target market segment

$$MP_1 = \%TM_t = \frac{TI_t}{TMS_t} \times 100$$

where : MP = market position

% TM = % of the target market segment

TMS = target market sales

Other notation as before.

- (b) change in the share of the target market segment

$$MP_2 = \% TM_t - \% TM_{t-1}$$

Notation as before.

A number of additional dimensions are important considerations in the assessment of channel effectiveness. These are :

- Capital investment in time period t as related to existing capital, and capital investment in time period t-1. This represents the consolidation of past growth and the foundation for future growth.
- Flexibility, that is, the ability of the marketing channel to react to changes in the environmental conditions of the marketing channel. An indication of the flexibility of a particular channel is evidence that adjustments have been made to accommodate a change in market conditions.

(iii) Individual Channel Members

The assessment by individual channel members of channel performance is important because, no matter how well a channel serves its customers and itself, unless it meets the requirements of those members who comprise it, changes will be sought.

Not all channel members, however, consider themselves to be part of a marketing channel. Some perceive themselves to be independent businesses with suppliers and/or customers (15). This means that not all channel members evaluate the channel to which they belong, instead they evaluate their suppliers and/or customers. Furthermore, a channel member may not undertake explicit evaluation of either the channel or its suppliers and customers.

The above complications mean that only indirect use may be made of channel member perceptions of channel performance. That use is made of member perceptions is important because the objectives and characteristics of different channel members vary very greatly, even amongst those occupying the same or very similar positions. Thus, the only valid assessment of channel suitability for a particular member is one which uses the channel members' own, sometimes implicit, performance criteria. The measurement approach suggested is :

1. Identify the general requirements, and any specific targets, of each channel member regarding the market channel.
2. Compare the requirements of the individual channel members with the activities of the marketing channel.

The ability of a marketing channel to fulfil the requirements of its members is an indicator of channel effectiveness of the same genre as the ability of the channel to meet consumer requirements*.

5.3.3 Channel Member Performance

Whilst the main concern of the model is with relating vertical integration to channel performance, the performance of the individual channel members is also relevant. By measuring the performance of individual channel members it is possible to identify several interesting factors. Is the overall performance of the channel reflected in that of the channel members? Does the channel have some segments where channel member performance is substantially different (either better or worse) than in the rest of the channel? In a product market, do the channel members that perform well tend to occupy the same position in the channel?

As the measurement of channel member performance is a secondary, not a primary, consideration, the use of the following, conventional pre-determined indicators is considered adequate. They are :

1. Sales growth, or otherwise, for a specified number of years.
2. Gross margin.

* Assuming the channel is for a consumer good, industrial product channels will have end users, or customers, rather than consumers.

3. The expansion, or otherwise, of facilities and/or of the range of activities undertaken within the channel.

5.4 CHANNEL ATMOSPHERE

The atmosphere of a social system is that intangible something which may be defined as the feeling conveyed to an actor* by his environment. Although intangible and elusive, atmosphere has a presence and an influence on behaviour which is frequently recognised in everyday life and by those engaged in such activities as politics and labour relations. The explicit recognition of channel atmosphere is rarely found, however, in the literature on marketing channels.

The influence of atmosphere on the behaviour of an actor is derived from the effect of atmosphere on the way an actor perceives his environment.

All environments are complex superstructures with very many facets; too many for an actor to become completely familiar. An actor, therefore, evaluates his environment on the basis of knowledge of a few aspects and a general impression of the rest. In forming a general impression, an actor reacts, albeit usually unconsciously, to atmosphere, which is, after all, a synthesis of factors into feelings or impressions. Hence, a hostile atmosphere, for example, is likely to lead to a different assessment of an environment by an actor, and subsequently to different actor behaviour, than is a friendly atmosphere.

A search of the channels literature yielded only one major study concerned with channel atmosphere. The study, by Maronick, characterises the marketing channel as an intraorganisational system and considers channel climate to be a form of organisational climate (16). This intraorganisational approach is fundamentally different from the interorganisational approach adopted in the present research.

The only other explicit recognition of channel atmosphere that was discovered in the channels literature was in a text-book by C. Glenn Walters (17). Walters looks at channel atmosphere in relation to channel co-ordination in its widest sense. This provides the basis for the characterisation of channel atmosphere which is used in

* Actor is the term used to denote a member of a social system. See Chapter 2.

the model of vertical integration and performance proposed in this chapter.

Being intangible, atmosphere cannot be observed. Instead, surrogate indicators of channel atmosphere have to be used. In this instance, six elements have been identified as being instrumental in creating a channel atmosphere that encourages co-ordination, they are :

1. The desire to work together
2. Contact between channel members
3. Reciprocity of ideas
4. Mutual trust and respect
5. Intensity of involvement
6. Motivation

The first four dimensions have been developed from those elements advanced by Walters. The additional dimensions have been extracted from the work on inter-organisational systems concerning non-commercial organisations. They are included as a result of preliminary interviews, which indicated that they were relevant.

5.4.1 The Desire to Work Together

Alderson identifies the contradictory tensions of monostasy, the urge to stand alone, and systasy, the urge to stand together, which are present in all marketing channels (18). The desire to work together refers to the balance between these two forces. If monostasy is paramount there is little desire to work together, but if systasy is paramount the desire to work together is strong.

The desire to work together influences channel atmosphere through its effect on channel co-operation and conflict. Basically, marketing channels with members

that want to work together are more likely to exhibit voluntary co-operation and joint problem-solving than channels with members that keep interaction to an absolute minimum. Furthermore, the stronger the desire to work together the greater the probability that conflict is resolved constructively.

(i) Co-operation

In the same way that there must be at least some co-ordination in a marketing channel to distribute products (see Section 5.2), so there must be some co-operation amongst channel members. Without this co-operation, products, payments and information would not be transmitted from one channel member to another.

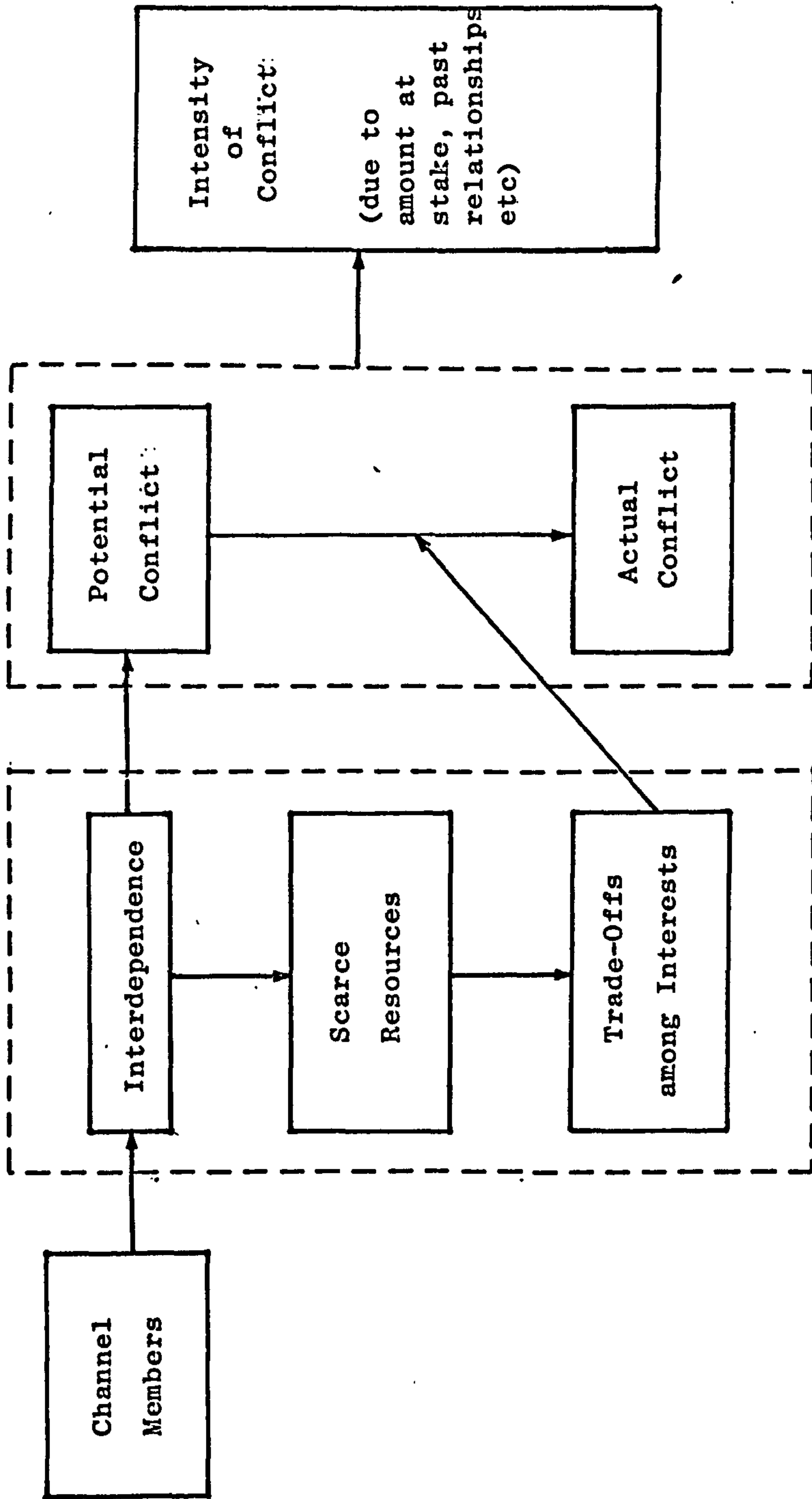
Co-operation in a marketing channel is not always voluntary, sometimes it is imposed by one channel member on another through the use of power. It is important to distinguish between voluntary co-operation and imposed co-operation because they each have different implications for channel behaviour.

Voluntary co-operation indicates that there is agreement on the desirability of working together and, in consequence, a will to overcome problems created by the mechanics of co-operation. In contrast, imposed co-operation is likely to lead to intransigence, especially when difficulties arise. As difficulties often do arise when attempting to improve co-ordination, a marketing channel in which voluntary co-operation predominates is likely to be more productive in this regard than one in which co-operation is mainly imposed.

(ii) Conflict

It is assumed in interorganisational theory that conflict amongst organisations in interorganisational networks, such as the marketing channel, is an inevitable outgrowth of functional interdependence and the scarcity of resources. As a consequence, it is thought that interorganisational systems always operate under conditions of partial conflict. Diagram 5.2 depicts this relationship between conflict, interdependence and the scarcity of resources.

DIAGRAM 5.3. : THE CONFLICT FIELD



Adapted from Firat, Tybout and Stern : "A Perspective on Conflict and Power in Distribution".

Many causes of channel conflict have been enumerated in the channels literature, the principal ones being :

1. Incompatible channel member goals. Channel member goals can be mutually exclusive. Alternatively, goals are incompatible simply because there are insufficient resources to meet them all.
2. Role Conflict. A role is "the set of prescriptions defining what the behaviour of a position member should be" (19). Role-related channel conflict occurs when there is dissensus about the roles of channel members, when the roles of channel members are ambiguous and when channel members do not fulfil their roles (often because of incompatible elements in the role).
3. Perceptions of Reality. Channel members may perceive the same circumstances differently and their resulting behaviour may, therefore, conflict (20).
4. Expectations. Opinions about the future can vary and lead to conflict over the best course(s) of action to pursue (21).

Channel conflict is frequently presented as something which is inherently 'bad'. This portrait of conflict, which stems from an intraorganisational view of the channel*, is inaccurate because, although conflict can be destructive, it can also be constructive. Conflict can, for example, result in a new form of marketing channel which is better co-ordinated and more efficient than the original form. In other words, "conflicts between members of a distribution channel are not necessarily bad; they can be advantageous to both parties if the likely results of compromise and trade-offs are understood". (22)

Boulding has developed the concept of a 'level of hostility' in social systems to separate destructive from constructive conflict. According to this concept, conflict above the level of hostility is dysfunctional, but conflict below it, healthy (23). A possible exception to this rule is zero vertical conflict in marketing channels which can "breed passivity, complacency and thus lack of innovation". (24).

* In intraorganisational systems, conflict is seen as breaking down decision-making mechanisms.

A marketing channel's tolerance of conflict, that is, the degree of conflict which can exist before it becomes destructive, is mainly determined by the willingness of channel members to work together and find acceptable solutions to conflict issues. If, for example, a channel has a history of antagonism amongst its members, the probability of conflict issues escalating into bitter hostility with destructive consequences is high. On the other hand, a channel with a background of good relationships will generally be able to find constructive solutions to even quite major conflict issues.

5.4.2 Contact between Channel Members

The nature of the contact amongst channel members relates to the combination of the type (e.g. by price list, letter or personal visit) and frequency of contact.

Co-ordination may be either facilitated or hindered by the nature of channel contacts through their influence on the quality of channel communications.

"Co-ordination is positively associated with good communications, suggesting that communications can perhaps play a role in leading to co-ordination." (25)

Direct contact by letter, telephone or personal visit, encourages the two-way communications which allow channel members to become more aware of each other's activities, needs, problems and ideas. This greater awareness means that channel members are in a better position to identify duplicated activities, incompatible practices and other manifestations of poor co-ordination. In addition, two-way communication provides the means for channel members to discuss possible solutions to problems, including those of co-ordination.

In contrast to the above, indirect contact through price lists and promotional leaflets keeps channel members distant from each other and precludes interactive communication. Under these conditions, co-ordination is given little assistance.

It is interesting to note that direct contact and two-way communication can sometimes appear to increase conflict

in a marketing channel. The word 'appear' is used advisedly because in nearly all cases the increase is illusionary, the implication being that two-way communication encourages covert conflict to become overt. Overt conflict is, arguably, preferable to covert conflict because it is easier to manage and, therefore, normally less destructive in its consequences.

The influence of the frequency of contact is that frequent regular contact is generally expected to be more effective in achieving co-ordination than infrequent, spasmodic contact.

The importance of considering both the type and frequency of contact may be demonstrated by an example. An executive visit would be expected to be more effective than a telephone call as a method of communicating. This conclusion is likely to be different, however, if the executive visits are annual but the telephone calls weekly.

5.4.3 Reciprocity of Ideas

The reciprocity of ideas is the process of channel members relating their own ideas and listening to those advanced by others.

Listening is more than hearing, it is hearing with a will to understand and appreciate. It is the listening which most channel members find difficult, especially when the views being expressed are contrary to those of the channel member listening to them. If a channel member does not listen, but instead exhibits a disinterested and unsympathetic attitude towards the difficulties of others and their suggestions for solving the problems they face, the atmosphere of a channel is quickly, adversely affected.

The reciprocity of ideas can lead to improved co-ordination in two ways :

1. The greater appreciation of each others requirements and views afforded by the reciprocity of ideas helps predispose channel members towards working together more closely to improve the co-ordination of their activities.
2. As more channel members advance more ideas, it is probable that better solutions to channel problems, and better ways of arranging functional activities will come to light.

5.4.4 Mutual Trust and Respect

In an atmosphere of mutual trust and respect, a participant is far more likely to co-operate with other channel participants in co-ordinating activities than in an atmosphere lacking those ingredients in part or altogether. In fact, channel member monostasy is encouraged when a channel member feels unable to rely on others in the marketing channel.

5.4.5 Intensity of Involvement (27)

The more involved a channel member is with a marketing channel, the more dependent it is on the continued survival and success of that channel and, therefore, the more committed to improving channel performance. This means the channel member will favourably consider all avenues to channel prosperity, which may include greater co-ordination.

In this context, the involvement of a channel participant in a particular channel is indicated by the proportion of business going through the channel, the length of time it has been a member of the channel and the presence of any legally binding agreements tying it to the channel.

5.4.6 Motivation

Unless a channel participant wants to improve its own performance, it is unlikely to be motivated to make changes to the way it operates. Also, if a channel participant is not motivated to change, even if all other factors point to greater co-ordination, there is unlikely to be much progress in this direction.

Apathy is probably a bigger problem for channel co-ordination than conflict because it is negative and without energy. Conflict does have energy which can, under certain conditions, be directed to effect change and improve co-ordination. Apathy can only result in stagnation.

To summarise, an atmosphere that favours channel co-ordination may be expected to exhibit the following characteristics :

1. A strong desire to work together on the part of the channel participants.

2. Direct and frequent contact amongst channel participants
3. The reciprocity of ideas with channel participants really listening to each other.
4. A high degree of mutual trust and respect.
5. A high degree of channel participant involvement in the channel.
6. The motivation of channel participants to succeed.

5.5 THE MODEL

In this section, the proposed model of vertical integration, which was outlined in the introduction to this chapter, is examined in greater detail. As each of the composite factors have been discussed, this examination concentrates on the nature of the relationships between these factors.

The model has been depicted as having a circular form in order to imply a continuous relationship between the four key factors of vertical integration, atmosphere, coordination and performance. This contrasts with the way in which previous descriptions of the relationship between vertical integration and performance in marketing channels have been constructed. These fall into a linear mould, with vertical integration as the starting point and performance as the finishing point, indicating a discrete process (see Diagram 3.1).

To aid the comparison of the model developed in this research with the earlier explanations given in the literature, the description of the proposed model also starts with vertical integration.

5.5.1 Vertical Integration → Atmosphere

In the proposed model, the vertical integration of a marketing channel is determined by its structure and by the degree to which control is centralised. Thus, the greater the centralisation of control and the stronger the structural ties, the more vertically integrated the channel.

It is postulated that, in general, a highly integrated marketing channel will contribute to creating an atmosphere which exhibits the factors that favour co-ordination. This is because structural ties and the centralisation of control tend to promote direct contact, imply greater intensity of involvement and indicate that there is some predisposition towards working together, at least amongst the initiators of vertical integration.

There are, however, certain aspects of vertical integration which can have an adverse effect on channel atmosphere. The use of coercive power, for example, can lead to conflict* and can also reduce co-operation in future periods, especially if heavy use is made of coercion. Atmosphere can also be damaged by the attitude of those operating in a channel towards the channel itself. For instance, a channel member that wants to be structurally independent, but is forced into a contractual arrangement, will add discontent and probably non-co-operation to the channel atmosphere.

5.5.2 Atmosphere → Co-ordination

Atmosphere is considered to be the main influence on channel co-ordination in this model. The reasoning behind this is that atmosphere represents the combined influence of all aspects of channel behaviour and circumstances, not only vertical integration.

It was noted in Section 5.2 that there is some co-ordination of functional activities in all marketing channels. The main point of interest thus lies with the degree of co-ordination, rather than with the fact of co-ordination.

To improve the co-ordination of a marketing channel it is essential to identify the means by which channel activities could be better co-ordinated and to regroup functional activities accordingly. In channels with many channel members, improvements in co-ordination will tend to result from the realignment of activities amongst the channel members. This compares with the greater proportion of functional realignments that occur within channel member boundaries for those channels comprising a few channel members.

Irrespective of whether the co-ordination of activity is mainly within or across channel member boundaries, it is contended that attempts at improving co-ordination are more effective if the atmosphere of the channel exhibits the characteristics identified and discussed in Section 5.4. This is because an atmosphere of this type

* The hostility created by coercion tends to reduce the level of hostility above which conflict is destructive or dysfunctional.

encourages channel participants to work together to find ways of improving channel co-ordination and, more importantly, to implement them once they are discovered.

5.5.3 Vertical Integration → Co-ordination

The existing literature on vertical integration and performance implies that a marketing channel which is centrally controlled is normally better co-ordinated than a channel which is not. The logic supporting this view is that a centrally controlled channel has a central management which has the power to change the channel operation and so improve co-ordination.

Whilst it is accepted in this model that the centralised decision-making and control of highly vertically integrated channels can and does lead directly to improved co-ordination, it is not accepted that this is either the only or the main influence. Other factors, such as channel performance, also influence the propensity of channel participants to co-ordinate. In this model these other influences are accommodated in the variable called channel atmosphere.

Furthermore, it is not accepted that vertical integration always leads to improved co-ordination. This qualification is based on the premise that not all decisions that are made centrally are necessarily correct. Thus, co-ordination can be impaired as well as improved by the centralisation of control. It is possible, for example, that the central management of a channel might be misinformed about channel activity and that a decision to improve co-ordination may, when implemented, have the reverse effect.

5.5.4 Co-ordination → Performance

In Section 5.3 it is argued that channel performance should be viewed from three different perspectives; namely, the channel's (which is the equivalent of overall channel performance), the consumer's and the individual channel member's. In addition, it is suggested that the individual performance of a channel member is also relevant. It is, therefore, necessary to consider the effect of co-ordination on all these facets of channel performance.

The overall performance of a marketing channel is considered to be a function of its efficiency, profitability

and effectiveness.

1. Efficiency The relationship between the co-ordination and overall efficiency of a marketing channel is discussed extensively in the existing literature on vertically integrated marketing channels. There is a consensus that improvements in channel co-ordination lead to economies and thus to improvements in channel efficiency, a view supported by empirical studies. Within the marketing literature, there is, in total, sufficient evidence to accept that there is a positive relationship between channel co-ordination and channel efficiency.

2. Profitability Improved co-ordination is also expected to reduce total channel costs, through better use of resources, and thus increase the profitability of the marketing channel.

3. Effectiveness The third and final facet of overall channel performance that is considered in this model is channel effectiveness. The effectiveness of a marketing channel is the extent to which it meets the requirements of its trading environment. Success in this depends on the accurate identification of market requirements, which is aided by co-ordinated information flows. Providing that the marketing channel adopts (implicitly or explicitly) the appropriate objectives for being effective, then greater co-ordination is expected to facilitate their attainment.

As far as the consumer is concerned, if the savings from co-ordination are passed on in lower retail prices or higher quality, and if the improved functional performance associated with improved co-ordination leads to better customer service (such as shorter delivery dates and fresher food), then co-ordination may be said to improve the performance of the marketing channel.

A channel member will normally evaluate the effect of co-ordination on channel performance in accordance with the impact that co-ordination has had on its own performance. Co-ordination is increased by realigning channel activities, and this realignment can have an adverse as well as a beneficial effect on individual

channel members. As a result of realignment a channel member may, for example, find that it is undertaking more activities but not receiving any more payment. This is the case in the grocery trade where multiple grocers are pushing back functions to manufacturers but are not tolerating compensatory increases in manufacturer margins.

5.5.5 Performance → Atmosphere

The model postulates that channel performance has a direct influence on channel atmosphere, and consequently channel performance affects both vertical integration and co-ordination. There are various ways in which performance can be influential.

Consider the performance of the channel as a whole. If a marketing channel has been successful for a substantial length of time, a sense of well being may be expected to prevail. Furthermore, the success is likely to encourage an atmosphere of mutual trust and respect amongst channel members as well as to promote a desire to work together, greater involvement with the channel, and a constructive approach to dealing with conflict.

On the other hand, poor channel performance will tend to result in an unsettled and disaffected atmosphere. This is the type of atmosphere in which conflict escalates and voluntary co-operation is rare.

The evaluation of channel performance by channel members is another influence on channel atmosphere. A channel member which believes that the channel has performed well and has facilitated its own satisfactory performance will obviously influence channel atmosphere differently from a channel member which attributes its own poor performance to the poor performance of the channel.

Finally, the atmosphere of a channel can be affected by consumer satisfaction, or more accurately, consumer dissatisfaction with channel performance. In these days of consumerism, dissatisfaction has become vocal. Apart from the consumers, there are a number of magazines, radio and television programmes and action groups which have adopted a watch-dog role for the consumer. Hence, when consumers are dissatisfied with a channel, in addition to any loss of sales, the

channel may also have to face bad publicity and may have to defend itself against various action groups. The effect of this may be that the individual channel members join together to form a united front to forestall such criticism. On the other hand, the result may be that each member tries to lay any blame at the door of the other channel members. One certain consequence is that there has been an increasing awareness of the power of the consumer to influence marketing channels.

5.5.6 Atmosphere → Vertical Integration

Atmosphere influences vertical integration through its effect on the way individual channel members regard the various types of marketing channel structure and the use of power. If, for example, channel atmosphere is one of close, friendly relationships then it is likely that a vertically integrated channel will be acceptable to channel participants. In contrast, an atmosphere of hostility and fierce independence does not bode well for instigating, or maintaining, an integrated channel structure. Furthermore, it will hinder, and even undermine, any attempt to centralise control.

5.6 IN CONCLUSION

The model proposed in this chapter describes the relationship between vertical integration and performance in marketing channels. The literature argues that the structural configuration of a marketing channel in any given product market is the best indicator of its relative degree of co-ordination and efficiency. This model contends that it is channel atmosphere which is the more reliable indicator of co-ordination and performance because there are many more factors than vertical integration which influence channel co-ordination.

CHAPTER 6THE EMPIRICAL RESEARCH DESIGN

This chapter describes the case study approach that has been adopted to examine the model of vertical integration and performance presented in the previous chapter. The data collection methods are specified, and the mode of analysis is outlined.

6.1 THE CASE STUDY APPROACH

A case study is a thorough description of a phenomenon such as a situation, organisation or system. It provides the researcher with much detail about a specific set of circumstances. In consequence, it is generally regarded as a method of finding clues and generating ideas rather than as a method of obtaining data for the confirmative testing of ideas.

Case studies are traditionally used to interpret the results of a researcher studying a phenomenon without pre-determined categories or classifications. All the information that is discovered is evaluated, and that which seems particularly relevant is pursued further and examined in even greater detail. These are classical 'ideas generation' case studies.

Alternatively, a case study may be used to investigate a set of variables and relationships, which have been identified by totally informal methods, in a more ordered and structured way. Here, the purpose of the case study is to provide a means of first level validation which is also capable of suggesting appropriate modifications. It is in this second way that the case study is used in the present study.

Case studies are often compared unfavourably with other research methods. This comparison is unfair. A case study is sometimes the most difficult type of study to do well. Unfortunately for its reputation, it is also the easiest to do badly and tends not to "reveal sloppy and brainless work as glaringly as do more 'rigorous' types of research" (1)

Books on research methodology tend to give scant attention to the case study approach, and then emphasise its limitations and difficulties. There is, however, no reason to avoid the case study if it is suited to the work. There is no such thing as a universally 'best' research method.

The empirical element of this study is intended to provide an initial empirical examination of the suitability and validity of the proposed model, to indicate areas of weakness and to identify ways of developing and refining the model. The model is a detailed analysis of the process by which vertical integration, atmosphere and co-ordination influence performance. This makes the case study, with its facility to furnish detail and to allow exploration, the most appropriate means of meeting all the above intentions.

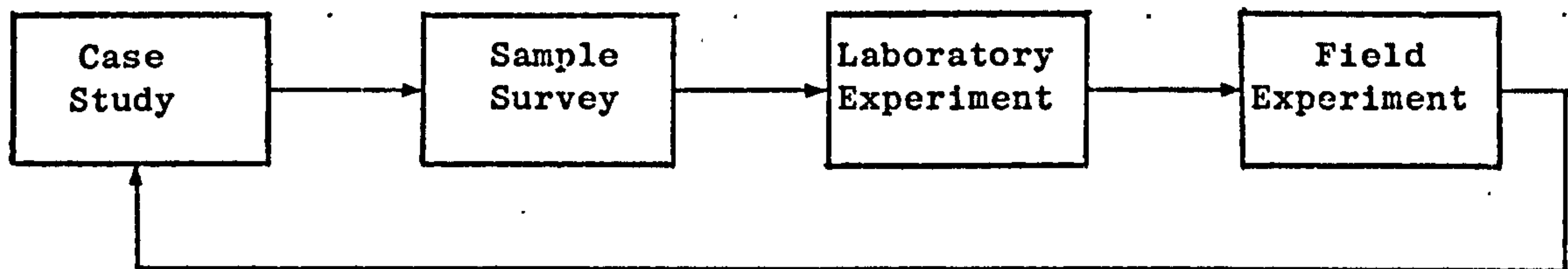
The multiple purpose of the empirical work stems from the construction of the proposed model. Whilst the model is partly based on observations from preliminary interviews, and takes the results of previous empirical studies in the area into account, it is still, predominantly, intuitive. Furthermore, the preliminary interviews were conducted informally with a wide assortment of marketing channel operators so that some covered different topics than others. Hence the need for an ordered empirical examination of the model at this point. Equally, there is a need to keep an open mind about the form of the model and its operational interpretation at such an early stage of development, if the work is to avoid the risk of losing sight of reality.

It is felt that only after the scrutiny of a case study, and the inclusion of the modifications suggested by the exercise, should a model be exposed to the wider validation afforded by sample survey or experimental techniques. (One exception is acknowledged, that is when extensive observation, mainly in the form of case analysis, precedes the model building process as recommended in grounded theory and phenomenology). It is further believed that some of the previous work concerning vertical integration and performance in marketing channels has suffered from the absence of case study analysis.

There is always the danger that a model will be accepted, or rejected, on the basis of the results of a sample survey or experiment which, because of the poor match between the operational and conceptual, did not actually test the model. This danger is increased when there is no intermediate case analysis, because the operational equivalents of conceptual ideas have to be determined without the aids of insights from case analysis. This means that greater reliance is placed on intuition which, in turn, increases

the possibility of a substantial epistemic gap.

The idea of a methodological sequence is supported by Evan. In the context of organisational research Evan advances a flow chart of research methods as shown (2):



His reasoning behind this particular sequence is that a researcher can investigate specific variables or relationships discovered by case analysis using sample surveys. A laboratory experiment may then be used to study in yet more detail the dynamics of the relationships indicated. Finally, the researcher is able to test the results of the laboratory in the field and in the process is likely to generate new areas for case analysis. Evan then continues :

"The fact that the literature in organization theory does not provide a single instance of a methodologically integrated sequence of studies similar to the one sketched above is not an argument as to its feasibility or utility but rather an indication of a glaring deficiency in the field Given the necessary resources, research programs can be designed with methodological integration in mind, but the omission of any link in the sequence can have serious consequences for the resulting generalizations" (3)

In this study, five marketing channels, or cases, from the one product market, are examined. It was necessary to look at five cases, more commonly a study contains only one or two cases, to be able to make the appropriate comparisons for examining the model. The five channels form two groups. In the first group are two channels which exhibit the same degree and type of vertical structure but differ in terms of channel member size and market coverage. The aim of this comparison is to indicate the role of structure in channel performance. The second group comprises three channels which differ in terms of structural configuration. Here the intention is to examine the similarities and differences among such apparently disparate marketing channels.

The rationale behind conducting cases within the one product market was two-fold. Firstly, it allowed all effort to be directed towards becoming familiar with the one environment. Secondly, focusing on one market went

some way towards achieving a state which approximated environmental ceteris paribus for the cases.

It is never possible to get all other things exactly equal, but every effort has to be made to get other things as equal as possible. Unless a reasonable state of empirical ceteris paribus exists, research results cannot be assumed to be reliable because of possible inappropriate comparison (i.e., 'chalk' and 'cheese'). Not all breaches of ceteris paribus are obvious. Many are subtle and can go undetected by the original researcher and several generations of subsequent users of the research results.

6.2 A NOTE ON CAUSALITY

A particular feature of the model which has been advanced is the causality pattern it contains. It is disappointing, therefore, to reflect that causality cannot be proved statistically or otherwise, just 'strongly supported by the evidence'.

Statistical techniques are able to show the way in which variables vary and to identify when two or more variables vary together. Statistics can even calculate the extent to which the variation of a dependent variable is accounted for by named independent variables, and hence support, or otherwise, the causal contention of the researcher. What statistics cannot do is identify the dependent and independent variables - this has to be done by the researcher. In other words, even if highly sophisticated statistical methods are used, it still remains the researcher's responsibility to infer causality. For this reason, and because in any study the possibility, however slight, of there being an unidentified causal factor can never be totally discounted, some researchers will not progress their work beyond establishing correlations between factors.

Sometimes causation and prediction are confused ; a factor is said to be the 'cause' of a given set of circumstances when it is, in fact, no more than a predictive variable. This is an especially common pitfall in studies using regression. As with breaches of ceteris paribus, obvious mistakes are easily identified and corrected. Difficulties arise where a factor could, quite feasibly, be a cause as well as a predictor.

Although less likely, it is similarly possible that a cause is not recognised as such but thought of simply as a predictor.

There is no objective test of causality ; all involve, to a lesser or greater degree, the subjective judgement, hopefully informed, of the researcher. A variety of criteria are suggested in the appropriate literature as aids in establishing causal relationships. One of the simplest, and most misused, is the time order of events. This criterion is based on the observation that a cause usually precedes its effect. Usually but not always. There are enough exceptions to invalidate this as a necessary condition of causality. For example, the fact of shops stocking up in October and November is not the reason that Christmas occurs in December, but the effect. It is surprising, therefore, to read in a recently published book on research methods :

"Thus time order is only one condition which must be met, and it is only a necessary condition - not a sufficient one." (4)

Despite its limitation, temporal ordering is still a useful tool in the consideration of causality. It can, for example, back up a hypothesised causal relationship. If what is believed to be the cause precedes the effect, added weight may be attributed to the hypothesised causality. However, if the cause does not precede the effect, and there is no known reason why it must, then order should not be used as the sole reason for refuting a suggested causal relationship.

Simon provides a very comprehensive and comprehensible set of criteria of causality, which is used here (5). According to Simon a causal relationship is expressed in a statement that has the following important characteristics :

1. It is an association that is strong enough for the observer to believe it has a predictive (explanatory) power great enough to be scientifically useful or interesting.
2. Qualifications, or side conditions, must be sufficiently few and sufficiently observable for the relationship to apply under a wide enough range of conditions. That is, there must not be too many 'ifs' and 'buts' in order for a relationship to hold.
3. There should be good reason to believe that even when the control variable is not the 'real' cause - and it rarely is - it is intimately tied to the 'real' cause and is not a spurious proxy.
4. The more closely a relationship is related to a general framework or theory the stronger it's claim to be called causal. This condition has to be relaxed for social sciences, other than economics, because they do not have developed bodies of deductive theory. Instead, the weaker criterion of whether

or not the statement of the relationship is accompanied by other statements that seem to explain the mechanism by which the relationship operates may be used, but only with caution.

6.3 CHOICE OF THE PRODUCT MARKET

To suit the empirical research, the product market, from which the marketing channels cases were to be chosen, had to meet four requirements. They were :

- (i) Marketing channels should cover the full spectrum of structural forms.

This condition was necessary because the comparison of marketing channels displaying different structural forms is central to the empirical research

- (ii) The market should be widely dispersed with a substantial number of participants at all levels of the marketing channel.

For valid comparisons, distinct, separate channels, without overlapping membership, are required. It is unlikely that a sample meeting this requirement could be found in a market that is concentrated into 2 or 3 firms at any given level. Also, a dispersed market by virtue of the very number of participants it contains, renders the inevitable 'refusals to co-operate' less problematic.

- (iii) The product should be a fast moving consumer good.

There are several reasons for this condition. Firstly, decisions on distribution (physical and commercial) tend to be more important and more frequent in consumer good markets than in capital good markets. The greater importance stems from the influence that distribution decisions have on price and promotion policies and the relatively high proportion of total costs accounted for in distribution. The frequency of decisions is a direct result of consumer goods moving quickly along marketing channels.

Secondly, it is easier to identify when a consumer good marketing channel exists than when a capital good channel exists. Fast moving consumer goods are continually moving along operating channels. It is usually safe to assume, therefore, that if a consumer good ceases to flow along a channel, the channel has been eliminated. This is not so obvious with capital goods. In these markets, products do not flow continually along all channels, so it is sometimes difficult to distinguish between a channel that is in abeyance and a channel that is defunct.

- (iv) The product should be one for which there is low brand awareness

If there is high brand awareness among consumers, it may be argued that brand X and brand Y of the same good are, in effect, different products. This issue is avoided if brand awareness is low. In these markets the product is seen almost as a commodity and consumers on the whole do not appear to distinguish between brands.

Furthermore, high brand awareness leads to consumer pull for brand leaders. In some cases consumer pull can be strong enough to push retailers into stocking brand X rather than brand Y, whatever the relative merits of the whole 'package' associated with each brand. When brand awareness is low, this pressure does not exist and decisions regarding suppliers may be made on the basis of the service and price they offer. It may be expected that in this latter situation, channel members will be in a better position to articulate the criteria used in assessing alternatives and the perceived benefits, if any, of different types of supplier.

This list of requirements does not appear to be particularly difficult to meet. Nevertheless, few product markets were, in fact, acceptable under these conditions. Of those that were, the (hen) egg in shell market* was selected because it exhibits some additionally desirable characteristics. The first of these concerns the product itself. An egg is an egg and easily recognised as such, so there are few product classification problems, and hence, clear and distinct market boundaries.

* For convenience, throughout the rest of this thesis the term 'the egg market' refers to the (hen) egg in shell market, unless stated otherwise.

Secondly, it is only very recently, that is since the beginning of 1980, that there has been any significant foreign trade in eggs. At the time of the fieldwork, 1978, the foreign trade in eggs was at a very low level (only about 2% of supplies were imported). This meant that the research could be concentrated on the home market, thus avoiding the intricacies of foreign trade, with no detriment to the value of the research findings.

Finally, the egg market is in decline. Egg consumption is falling and prices, allowing for their fluctuation, have been rising by less than costs, especially production, transportation and packing costs. In these circumstances the emphasis has to be on finding ways of improving performance. This study of vertical integration and performance is, therefore, very pertinent to the industry.

A review of the egg industry, which gives an appreciation of the environment of the case study channels, is to be found in Appendix B.

6.4 DATA COLLECTION

The planning of data collection is as much concerned with determining the information that is required as it is with deciding among the ways of actually collecting data. A primary determinant of both of these facets of data collection is the empirical method to be employed. A laboratory experiment, for example, has very different data requirements from those of say, a social survey. Two other determinants are the time and resources available to the researcher.

6.4.1 Questionnaires

With the help of the Eggs Authority, and with the use of telephone directories, lists were compiled of egg producers, egg producer - packers and egg packers. These lists were annotated with details of size and type of operation - when such information was available. A list of grocers, multiples, symbols and local independents, was also compiled, again with annotations.

From these lists, suitable initial contacts were made by telephone. The appropriate points of contact were identified as being the marketing director/manager of egg suppliers and the buying director of egg retailers. In small companies, without specialist directors, the managing director was approached.

If the company that was contacted agreed to participate in the study, a contact questionnaire was completed and an interview arranged. The contact questionnaire (see Appendix C) asked for names of suppliers and/or customers. From this information other companies, or channel members, were contacted until a full marketing channel was identified and recorded on a channel plan (as shown in Appendix C). Care was taken to ensure that the marketing channels selected formed the necessary mix of channel types.

The design of the self-administered questionnaire posed an interesting problem. The difficulty was in designing a questionnaire which enabled equivalent information to be collected for each marketing channel, but allowed different information to be collected from channel members with differing channel roles*. To overcome the problem a modular questionnaire was developed.

Five questionnaire modules were designed, based on the unit of the marketing channel, these were : background (information about the channel member company), egg production, egg grading and packing, egg marketing, and egg retailing. These modules were then collated into the relevant combinations for the individual marketing channels. The only additional requirements were for link questions, which accommodated the connections between the four functional levels of the channel. An example of the modular questionnaire is given in Appendix C.

The modular questionnaire is an innovation in the study of marketing channels. It is anticipated, however, that its flexibility will lead to further use in this field. The modular questionnaire is, in fact, suited to other research which involves the comparison of systems which are performing essentially the same function but which are organised very differently.

6.4.2 Interviews

As previously mentioned, the five channels that were studied form two groups of two and three channels respectively. The two channels in the first group were studied in the greatest depth for the reasons discussed in the following chapter. To do this, interviews were arranged with representatives of the main functional areas in each channel member organisation of this former group. For the latter group only one respondent from each channel member was interviewed.

The interviews lasted a varying amount of time, the shortest being two hours, the longest almost a full working day.

*Different information was needed, for example, from an egg producer than from an egg producer-packer, although equivalent information about production and packing was required for all channels that were studied.

The average length of time for an interview was four hours.

A semi-structured interview technique was used because it afforded the desired flexibility for interviewing respondents who represented companies that differed in size and type as well as in channel role.

Each interview was prefaced by the resolution of any queries relating to the self-administered questionnaire. After this a number of key areas were discussed (see Appendix D). These corresponded to the elements of the model that was presented in Chapter 5. For each of the key areas a basic approach for obtaining the required information was determined and applied in all interviews. The precise way in which the subject areas were introduced and pursued was not pre-determined, instead it altered in accordance with the situation and circumstances of the individual respondents. This approach can result in subtle changes in question inference but can also serve to increase the pertinence of the interview. It was not possible to ensure that no adverse effects occurred, but any imbalance was almost certainly countered by the advantages gained from the non-restrictive approach to the interviewee.

6.4.3 Background Information

To become as familiar as possible with the egg market, all accessible published information was accumulated and general interviews were conducted with 'experts', and with other selected people from the egg industry.

A particularly useful source of background information was the relevant trade magazines and the weekly reports of the Eggs Authority. From these it was possible to discover the idiosyncracies, politics and issues of the egg market which, in turn, made it possible to communicate, rather than just talk, with respondents.

Other sources of published information were those papers and articles written by researchers from the agricultural colleges and the agricultural departments of universities, that concerned egg marketing and other non-technical aspects of the egg industry. Especially interesting was the work of Haas (6) who has investigated the benefits of various structural forms of egg production, packing and marketing in the United States.

6.5 DATA ANALYSIS

In this research the information is analysed using simple comparison tables, description and discourses. Confirmative statistics cannot be applied with any validity to case studies - so this customary tool, and sometime crutch, of researchers is denied to this work.

The results of the case studies are analysed in three ways :

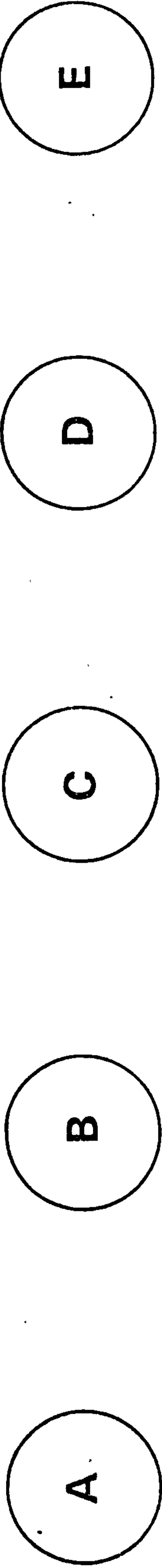
- (i) Each marketing channel is analysed individually.
- (ii) The marketing channels within each sub-group are compared.
- (iii) All five marketing channels are compared and contrasted.

These three types of analysis are illustrated in Diagram 6.1.

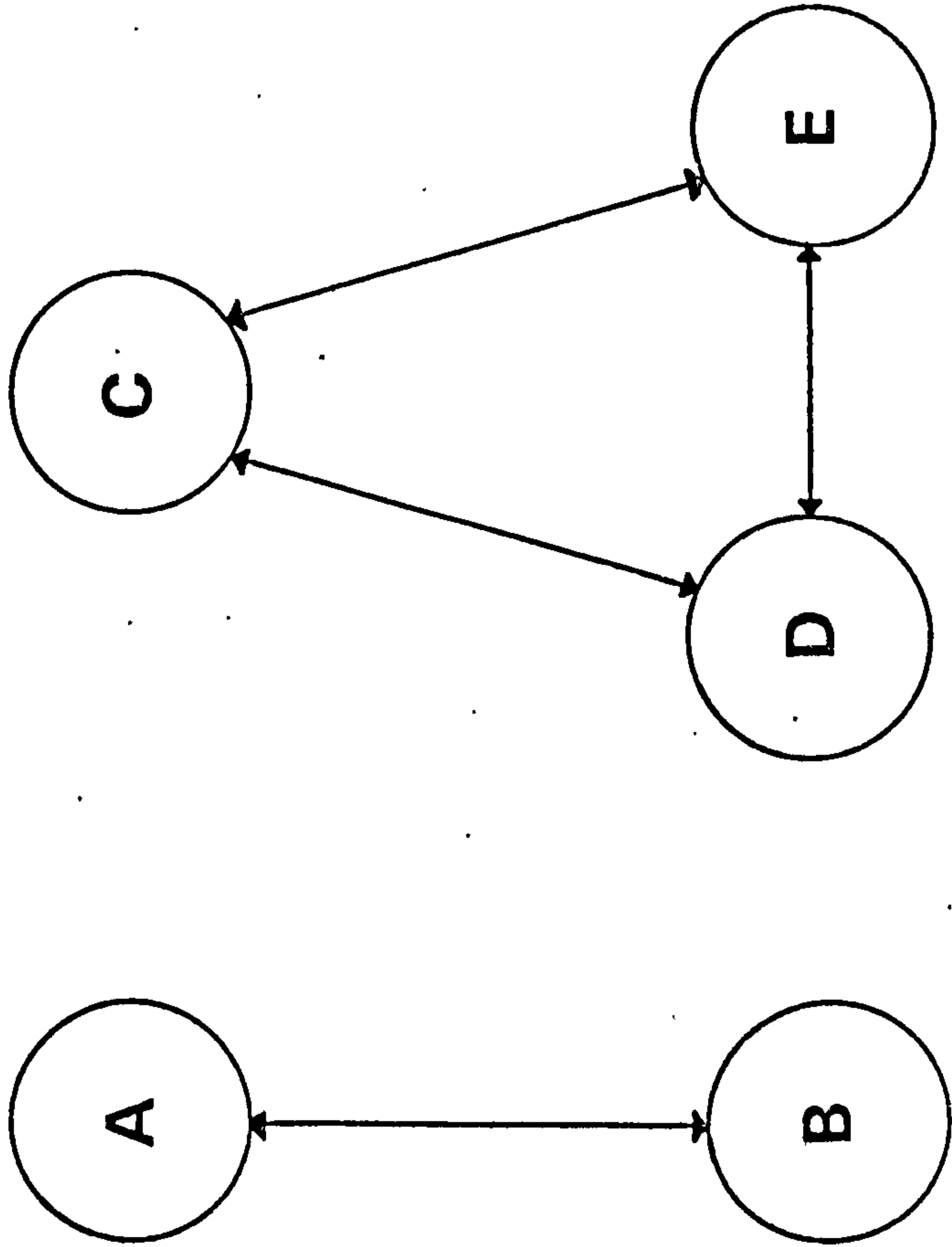
The individual investigations of each channel are used to identify the major factors of influence and the ways in which the marketing channels behave and react. The comparisons are essential for indicating the relationships and associations of the different channel characteristics and modes of behaviour.

DIAGRAM 6.1. : TYPES OF CASE ANALYSIS EMPLOYED

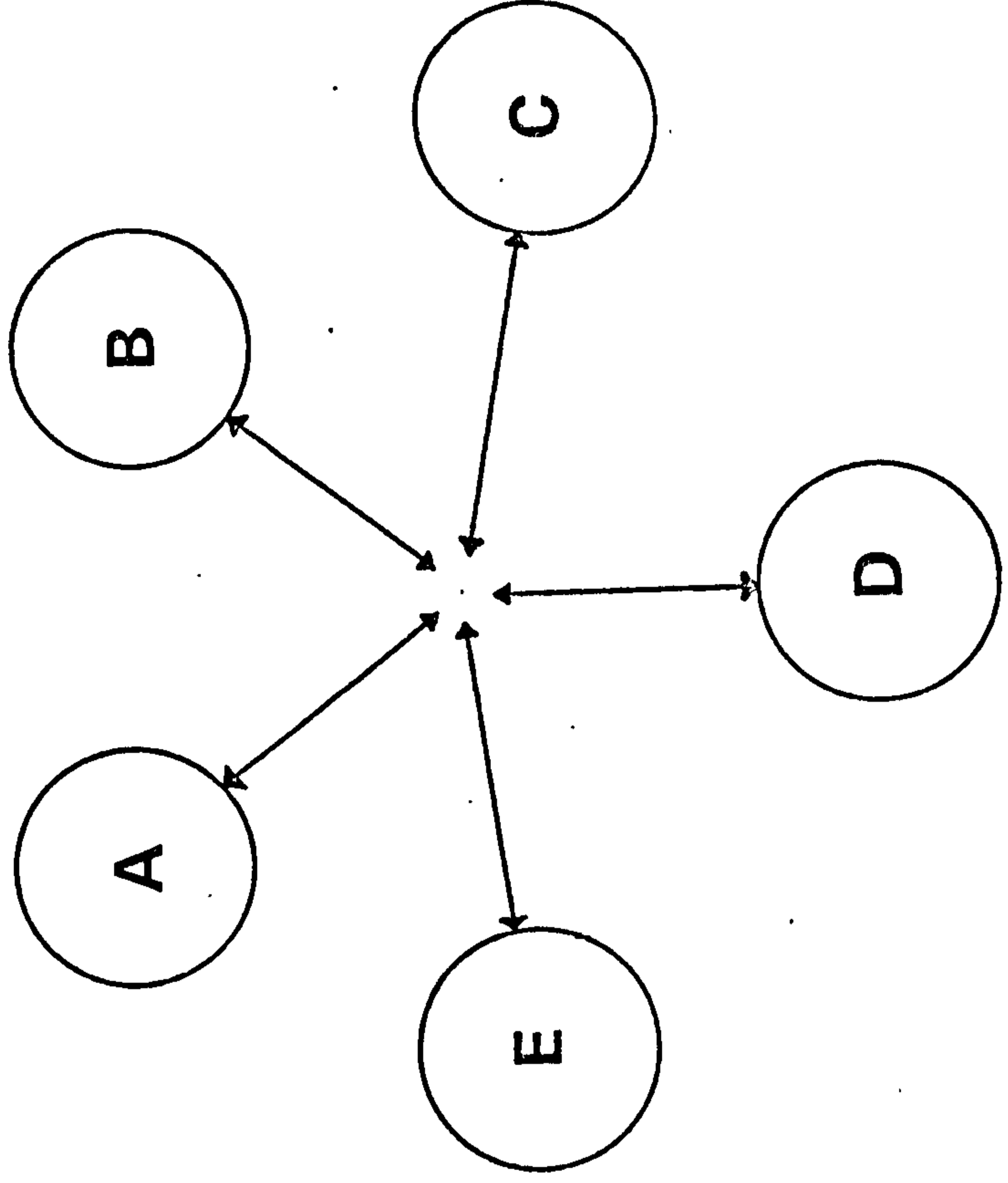
INDIVIDUAL ANALYSIS



SUB-GROUP COMPARISONS



GROUP COMPARISON



CHAPTER 7

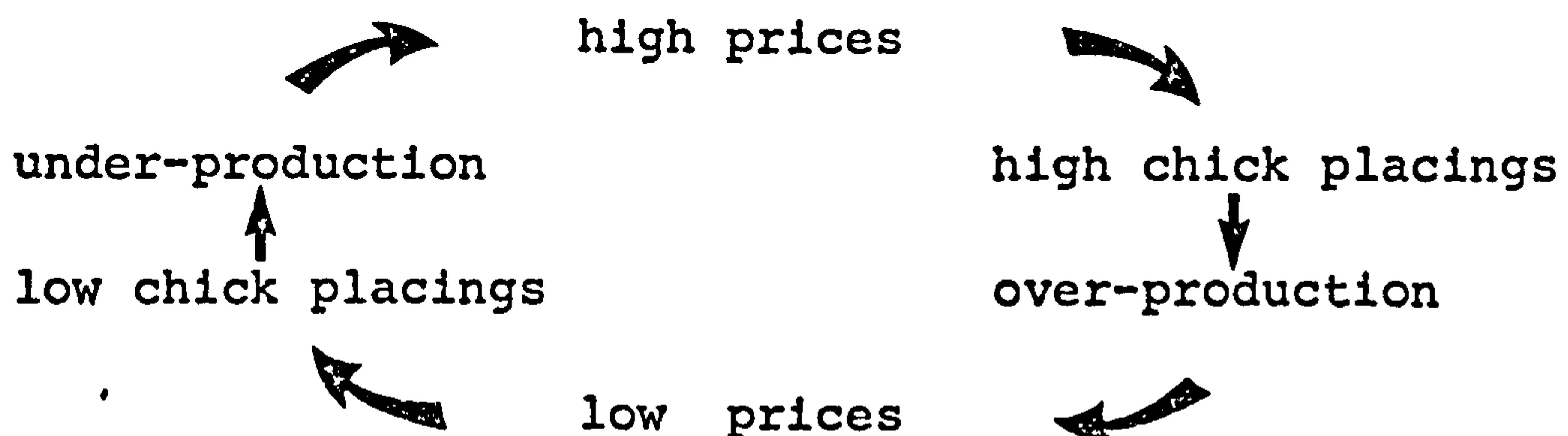
THE CASE STUDIES

In this chapter, five egg marketing channels are analysed in terms of vertical integration, co-ordination, performance and atmosphere, the four elements of the model presented in Chapter 5. In addition, the results of these individual analyses are contrasted and compared.

7.1 AN INTRODUCTION TO THE CASE STUDIES

The information for the case studies was collected between May and October 1978. Throughout this period the egg industry suffered from the effects of over-production, which were rock-bottom prices and negative returns for producers. This over-production of eggs was a legacy of the high number of chick placings in 1977, which had been encouraged by the high prices for eggs prevailing in that year.

Although the scale of over-production in 1978 was exceptional, the fact of over-production was not. The egg industry constantly oscillates between under- and over-production, high and low prices, thus :



This oscillation occurs because the egg industry is inherently unstable, due to a combination of price sensitive supply and price insensitive demand*. Thus,

*This is discussed more fully in Appendix B, Section 6.

a period of balanced supplies and constant prices is uncharacteristic of the egg industry, and a period of over-production and low prices is not.

The summer of 1978 was also the time when the Imperial Chemical Group made its successful take-over bid for J B Eastwood, the second largest supplier of eggs. This bid had an adverse effect on this study for two reasons. Firstly, it altered the environmental conditions part-way through interviewing, and, secondly, it appeared to make the respondents who represented the egg suppliers less open in expressing their opinions and in providing information about activities and performance. This reservation on the part of the respondents, which occurred after the take-over bid became public, seemed to stem from the apprehension caused by the bid. The anxiety of egg suppliers was easy to appreciate because the Imperial Chemical Group already owned Ross Poultry Ltd., (a member of Goldenlay, the largest egg supplier). Indeed it was Ross Poultry Limited which actually bought J B Eastwood.*

In order to maintain confidentiality, the members of the various channels studied are identified by totally fictitious names. Names are used in preference to letters or numbers because they are much easier to relate to and to remember. Letters are used, however, to label the five different egg marketing channels which are studied.

Egg production, grading and packing, marketing, physical distribution and retailing are the basic functions to be found in all channels that distribute eggs. By relating these functions to the channel members that perform them, it is possible to describe the vertical structure of the egg channels. Obviously such descriptions are simplifications, but nonetheless they are very well suited to the purpose of this section - that of introducing the egg channels which have been subject to case analysis.

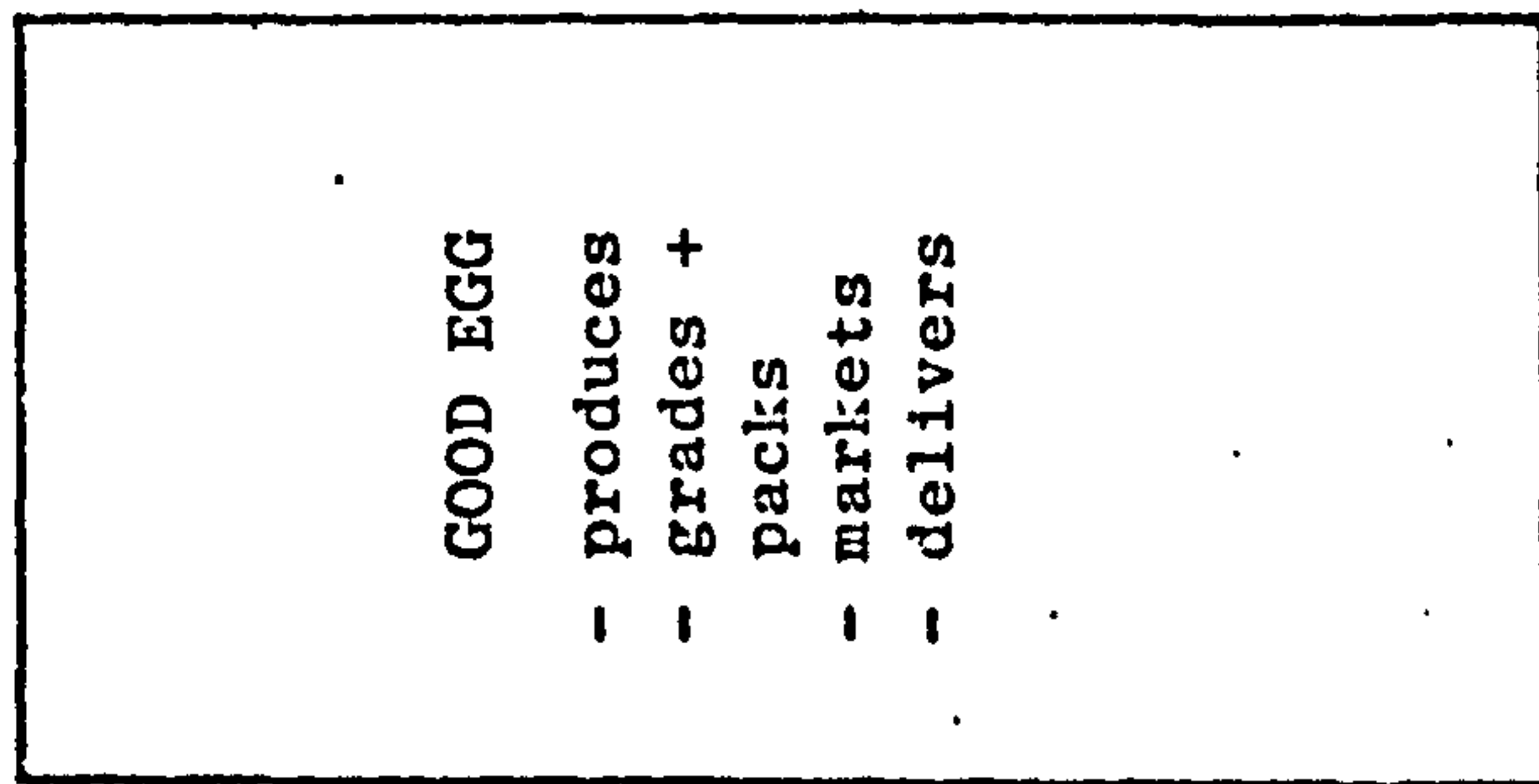
The simplified structures of the five channels are shown diagrammatically in Diagram 7.1.

Both channels A and B are ones in which egg production, grading and packing, marketing and delivery to the retail outlet are performed by one company whilst egg retailing is performed by another. Despite this similarity in vertical structure the two channels are markedly different.

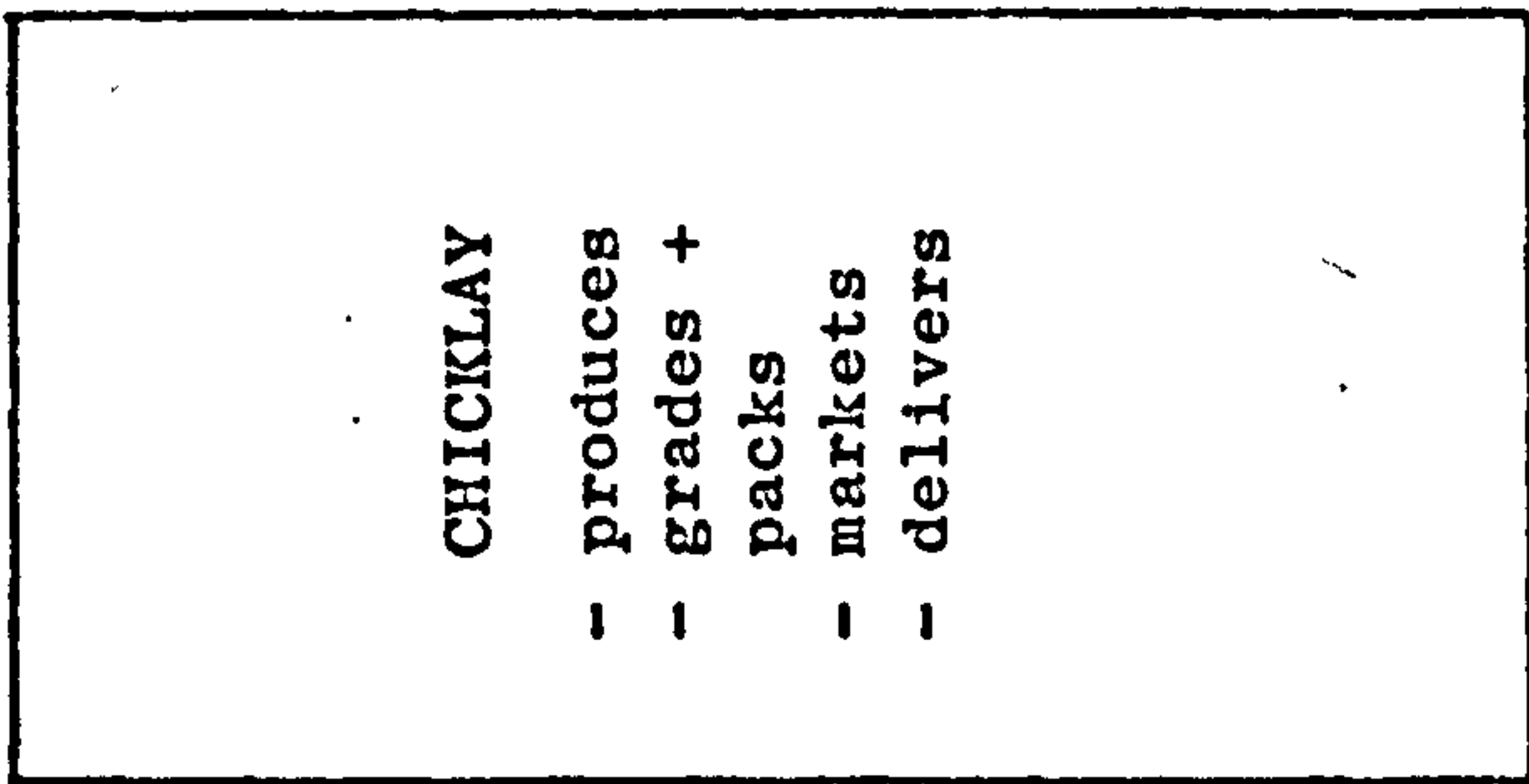
* When the takeover was finalised, Ross Poultry Limited and J B Eastwood traded under the new name Ross, Buxted Nitrovit (RBN). RBN retained the brand name Daylay, which had belonged to Eastwoods. There was disagreement over whether or not Goldenlay should market the Daylay eggs. This was resolved by RBN leaving Goldenlay early in 1979.

DIAGRAM 7.1. : THE FIVE CASE STUDY CHANNELS

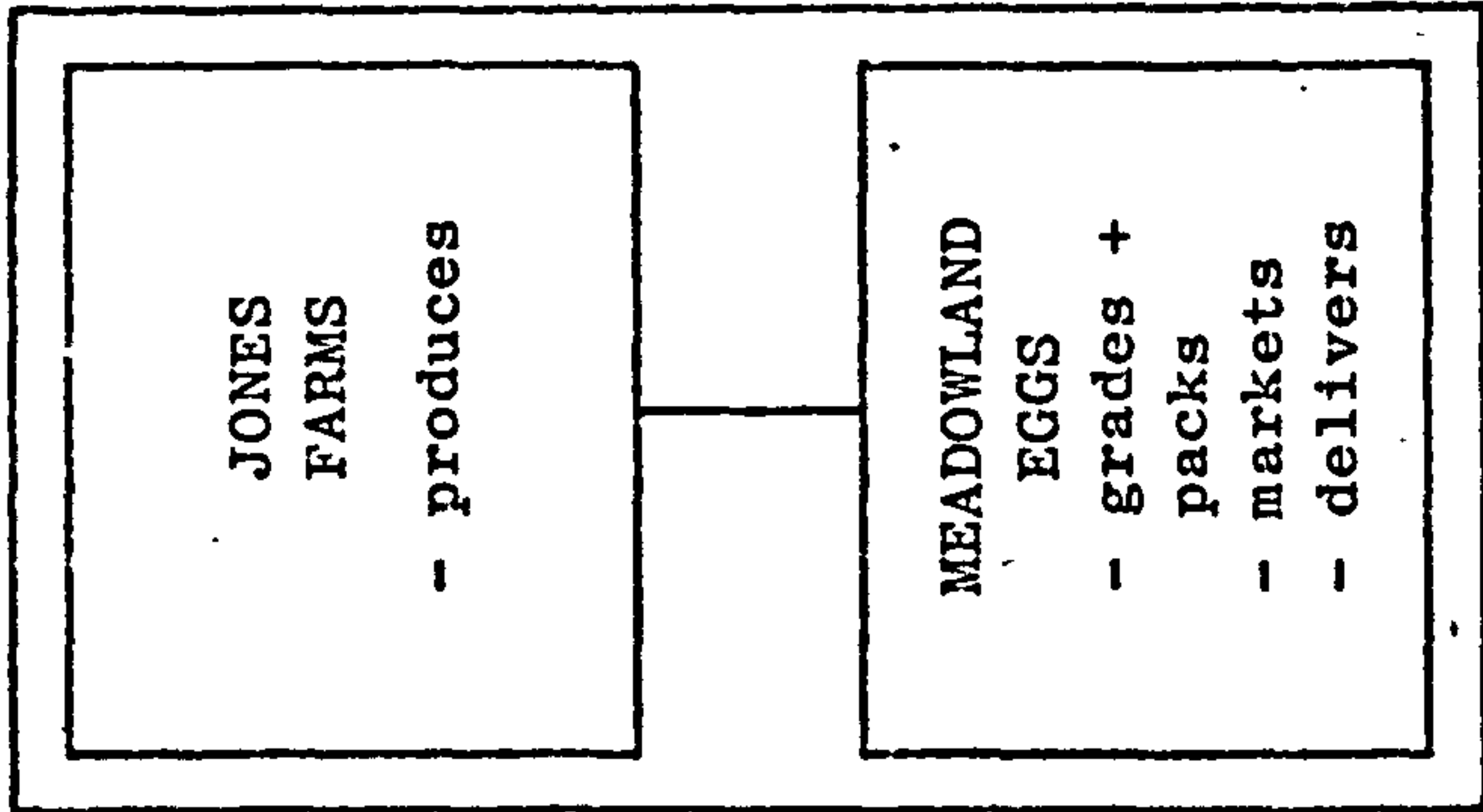
CHANNEL A



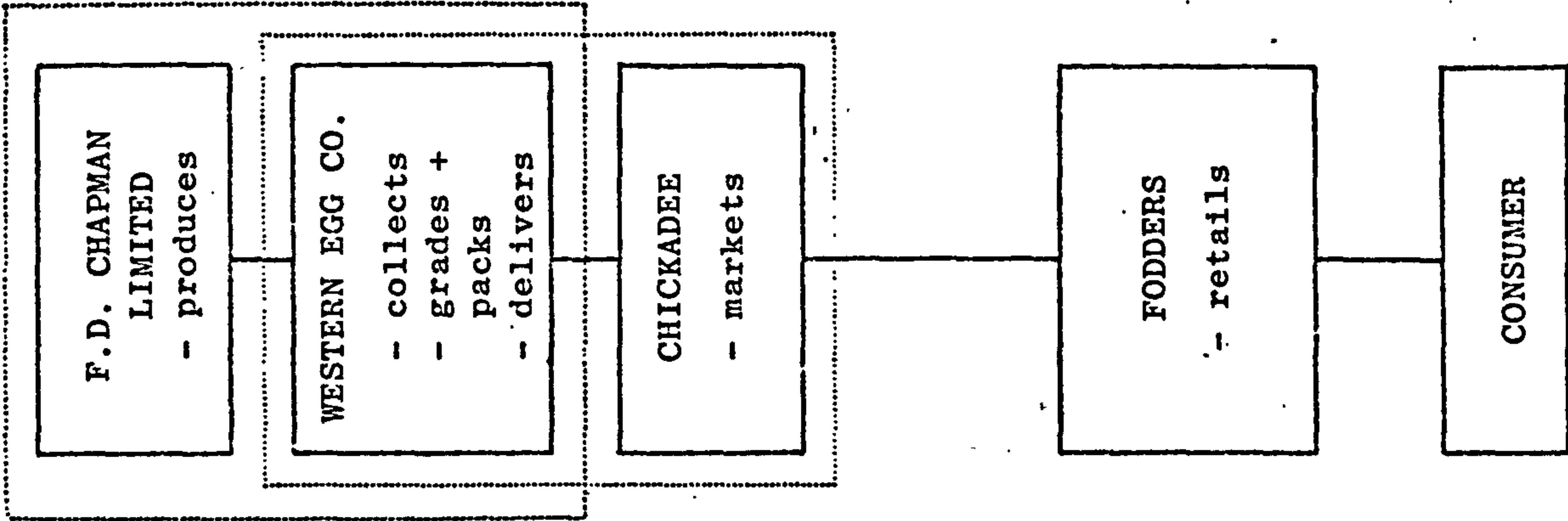
CHANNEL B



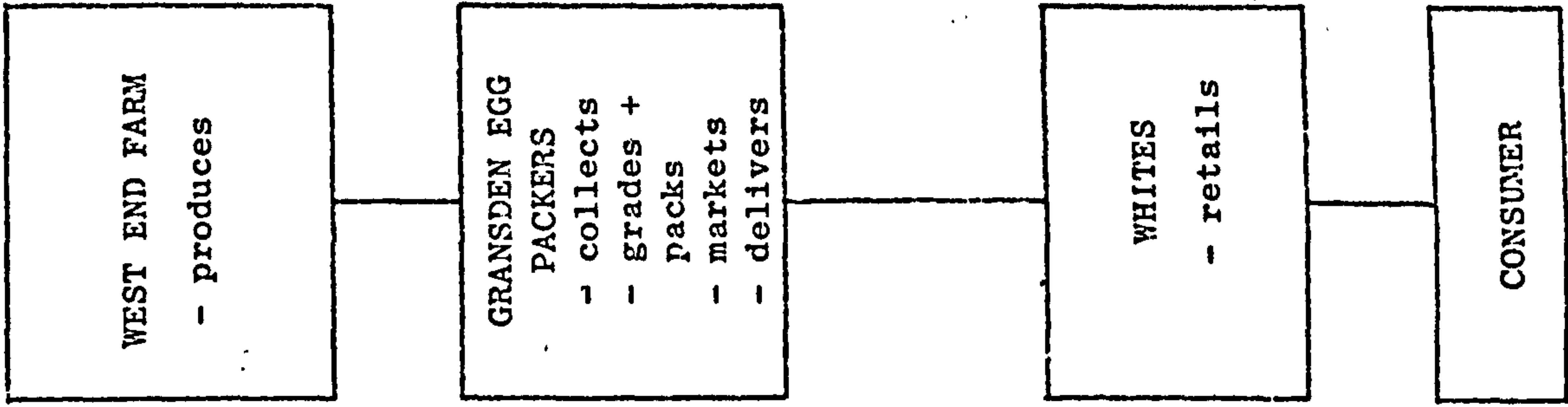
CHANNEL C



CHANNEL D



CHANNEL E



In channel A, the egg supplier, Good Egg, is a large regional producer-packer with approximately 7.5% of the total high street egg trade. The company has six rearing farms, ten laying farms, three packing stations, a feed mill and a head office with a marketing department and computerised accounts system. The retailer in channel A, Valuestore, is a second-tier, regional grocery multiple with 34 outlets.

In the case of channel B, however, the egg supplier, Chicklay, falls into the category of local producer-packer. Chicklay was started in 1970 by two brothers. Since then it has grown substantially but still only operates from the one site. Hulstons, the retailer in this channel, is another small family firm.

Channel C differs from channels A and B in that egg production is undertaken by one company, Jones Farms Ltd., and egg grading, packing, marketing and delivery by another company, Meadowland Eggs. Both companies, however, have the same shareholders and top managers, which means that they are run as one business. The retailer in this channel is Betterbuy, a grocery multiple with several hundred outlets.

Channel D is an example of an egg co-operative scheme that supplies a large grocery multiple. The multiple, Fodders, negotiates with Chickadee, which is an egg marketing co-operative owned by several egg packers. Each egg packer, the one considered here being the Western Egg Company, is supplied with eggs by egg producers under contract. Western Egg Company is, in turn, a co-operative owned by the producers who supply it with eggs under contract.

Channel E is an egg marketing channel where there are no formalised connections between channel members. Egg production is undertaken by West End Farm; egg grading, packing, marketing and delivery by Gransden Egg Packers; and retailing by Whites. All three channel members are small concerns.

In Appendix E there are detailed descriptions of the structure, history and functional activities of the five egg marketing channels.

As noted in Chapter 6, channels A and B are studied in the greatest depth. These channels were selected for particular attention because they allow the comparison of two channels with similar structures which are otherwise substantially different. Such a comparison is interesting because it is the channel structure that the

existing literature regards as instrumental in determining channel co-ordination and thus performance, but which the model proposed in Chapter 5 does not. Time, and especially the conditions prevailing in the egg industry after the take-over bid by the Imperial Group for Eastwoods, precluded all five channels being examined in equal detail.

7.2 CHANNEL MEMBERS AND OPERATING UNITS

It became evident at an early stage of the pilot interviews that the channel member boundaries of a firm or company are not always the same as the legal boundaries. A channel member is a managerially distinct unit, and is normally a firm or a company. In some cases, however, legal and operational boundaries do not match, and the classification of channel members in this respect is not as clear cut.

The following set of guidelines has been used in this study to determine what is, and what is not, a channel member :

1. Subsidiaries of a holding company are treated as separate channel members, joined by ownership, when they each have their own, distinct management teams. Otherwise, subsidiaries are treated as units within a channel member.
2. Legally separate companies with the same owners and effective management are considered to comprise a single channel member.
3. Legally separate companies with common ownership but distinct management are treated as separate channel members with an ownership tie.
4. Divisions of the one company, with the same top management and administrative centre are considered to comprise a single channel member.
5. Where one company is a part owner of another, the two companies are treated as separate channel members, providing the part-owned company has differentiated management.

The pilot stage of the empirical work also indicated that the channel member was not the most appropriate unit of analysis for a detailed examination of the functional organisation of marketing channels. This was particularly apparent in marketing channels comprised of a few large channel members, each undertaking a wide range of channel activities.

The notion of an 'operating unit' was thus developed. An 'operating unit' is, quite simply, a unit performing a set of channel activities. In a marketing channel with many small channel members each performing a few channel activities, operating units and channel members can be synonymous. In contrast, in a marketing channel with one large channel member undertaking the entire task of moving a product and its title from production to the final point of sale, all the operating units belong to the one entity.

7.3 CHANNEL A*

This section examines channel A using, where possible, the indicators of vertical integration, co-ordination, performance and atmosphere which are advanced in Chapter 5.

7.3.1 Vertical Integration

Vertical integration is described in the model as being the product of the combined influence of channel structure and the centralisation of control.

(i) Channel Structure

The organisation of channel A is presented schematically in Diagram 7.2. The diagram has an unconventional format which is designed to show the structural connections between channel members as well as to indicate the location of the relevant operating units**.

The diagram confirms that there are two channel members in channel A; Good Egg, a subsidiary of Allsorts Inc., and Valuestore, a subsidiary of Bertrams. Together, these two channel members undertake all the activities needed to move an egg from the laying shed to the consumer's basket***.

* A detailed description of this channel is provided in Appendix E, Section 1.

** In the diagram, the operating units enclosed by a solid circle are those directly pertinent to the study. The operating units denoted by a dashed circle are peripheral to this work.

*** Good Egg is analysed in its major role as a producer - packer rather than in its role as a packer of eggs supplied under contract.

DIAGRAM 7.2. : CHANNEL A ORGANISATION

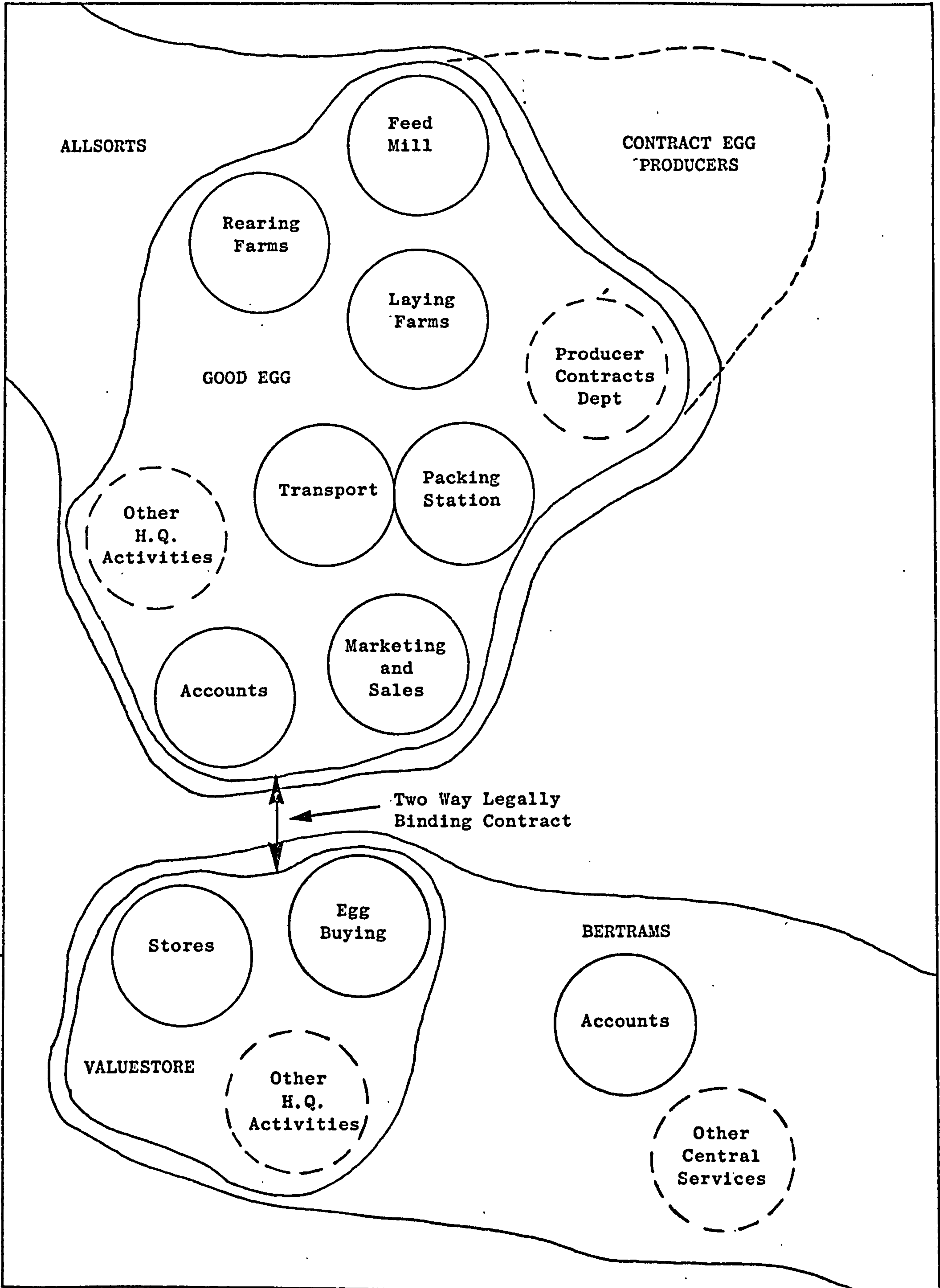


Diagram 7.2 also shows that there is a legally binding contract between Good Egg and Valuestore. It is unusual for there to be a formal, written, contractual arrangement between an egg supplier and retailer - especially one which, as in this case, confers the right to be a sole supplier. Discounts, promotional allowances, packaging and delivery are the areas covered by the contract.

(ii) Centralisation of Control

Two facets of the centralisation of control were identified in Chapter 5; the centralisation of decision-making and the centralisation of control over activity execution.

Within Good Egg, both decision-making and control over activity execution are centralised, but not to the same extent. The centralisation of decision-making is greater.

At the strategic level, five year plans are prepared by the top management of Good Egg. These plans can only be implemented after they have been ratified by Allsorts Inc. Allsorts then monitors the actual results of Good Egg against those forecast in the five year plan. In this way, Allsorts is able to control the overall targets whilst allowing Good Egg a fairly free hand in choosing the ways of achieving them.

This same approach to controlling decision-making and activity execution is apparent at all levels of Good Egg. The siting of a packing station, its equipment, procedures and daily output, for example, are decisions taken at head office, whilst the responsibility for keeping the packing station working and for meeting output, is held by the packing station manager. The performance of packing station managers is monitored at the head office.

One factor facilitating centralisation within Good Egg is that the head office is located within a moderately short drive of all but 2 of the 18 separate sites operated by the company (see Diagram E1). In fact, the head office is attached to one laying farm and has another laying farm, a rearing farm and a packing station all within a 5-mile radius. Thus, head office managers have no practical difficulty in making physical checks to ensure that their decisions are being implemented.

Nonetheless, the fact that Good Egg does operate from 18 different sites means that activity execution cannot be controlled centrally to the same extent that decision-making can.

Bertrams exercises strong centralised control over Valuestore, and similarly Valuestore tries to keep as much control as possible over internal decision-making and activity execution within it's head office. Store managers and store departmental managers are issued guidelines and have operating procedures laid down to cover most eventualities. In practice, however, these instructions are not always adhered to in the stores. The separation of the head office and the stores allows store and departmental managers some element of unofficial local control over certain in-store activities which are officially centrally controlled.

Valuestore's provisions buying department is responsible for making nearly all the decisions concerning eggs. The decisions made by this department are subject both to the direct and indirect influence of decisions made in other departments and to the dictates of Bertrams. Eggs, however, are seldom affected. This is probably because eggs arouse little interest at Valuestore, outside the provisions buying department.

Diagram 7.2 thus portrays, quite accurately, the tenor of the centralisation within both Good Egg and Valuestore.

As far as the relationship between Good Egg and Valuestore is concerned, the word 'control' is inappropriate. Neither controls the other, although they do influence each others' decision-making and activity execution.

The influence of Good Egg over Valuestore is mainly based on the provision of market information, together with suggestions on how to react to market changes. This information is required by Valuestore in order to keep it's egg merchandising and prices in line with other grocery multiples. Unlike some retailers, Good Egg does not have any 'shop floor' power over the way in which Valuestore presents eggs to the consumer. This is because Valuestore performs all its own merchandising and actually forbids suppliers to become involved.

Good Egg has identified its target market as being up-market, High Street, supermarket chains. The marketing and distribution policies adopted by Good Egg are, consequently, based on the requirements of the multiples concerned. These multiples account for 80% of sales, thus only minimal modifications are made to these marketing and distribution policies in order to accommodate the remaining types of customer. In other words, the parameters within which the product package and terms of trade offered by Good Egg fall, are determined by what multiples will and will not accept.

Valuestore is a grocery multiple with a quality image, and, as such, it influences Good Egg in two ways :

1. As a member of the target market that determines the basic conditions of supply.
2. As a long standing and valued customer.

The influence of Valuestore over Good Egg as a member of the target market is indirect and confined in impact to that of an individual within a group. The extent of direct influence as a customer is restricted to the traditional areas of egg quality, packaging, delivery, promotional activity and terms of trade.

Egg packaging provides an illustration of the way in which Valuestore influences Good Egg. The outer packaging demanded by Valuestore is a specially shaped, single-case* cardboard box. No other retailer will accept eggs supplied in these boxes, which means that the bulky packaging items must be kept in stock by Good Egg solely for the purpose of supplying eggs to Valuestore.

Turning, finally, to the balance of power between Good Egg and Valuestore, it would seem that this rests with Valuestore. The reason for this is that Valuestore is likely to be able to find alternative egg supplies more readily than Good Egg is to find alternative outlets for the 7% of its sales that go to Valuestore. Whilst the contract between Good

* 1 case = 30 dozen eggs.

Egg and Valuestore is in force, however, the freedom of Valuestore to apply the ultimate sanction of non-purchase is restricted. This is because the contract specifies that only if Good Egg fails to fulfil its contractual obligations is Valuestore able to buy from elsewhere.

Combining the information about the structure of channel A with the information concerning the centralisation of control, the conclusion is that channel A is highly vertically integrated. There are, after all, only two principal centres of control.

7.3.2 Co-ordination

Three indicators of functional co-ordination in a marketing channel are advanced in Section 5.2, they are :

1. The number of duplicated activities.
2. The number and scale of operational 'bottlenecks' and 'blackspots'.
3. The nature of functional activity groupings - i.e., whether complementary or otherwise.

It was found that it was not possible to obtain, by interview, sufficiently detailed information on the workings of the whole of channel A to be able to apply the above indicators with confidence. First-hand observation was ruled out by the channel members as well as by time and cost considerations. It was, therefore, decided to focus on two particular aspects of egg marketing channel operation which were stated to be common problem areas by independent commentators on the egg industry. These two aspects of the egg marketing channel are :

1. The matching of egg production to packing stations with the orders to be met by them. This is mainly a question of getting the appropriate mix of size and colour combinations.
2. The ordering, delivery, invoicing and payment cycle between retailers and their egg suppliers.

(i) Matching egg production with packer requirements

Egg production is not as immediately controllable as, say, the production of baked beans. If more or less baked beans in a particular can size are required, the production changeover can be effected in days, if not hours. With eggs this is not the case. In the first place, chickens are 18 to 20 weeks old before they start laying eggs with any regularity. Secondly, a chicken can only produce eggs of the one colour*. Finally, the eggs produced get bigger as the laying bird gets older.

Good Egg uses a computer program to schedule its own egg production and that of contract suppliers. Working back from projected sales figures, the program calculates the necessary flock composition and thus the timing of chick placings**. It also identifies the anticipated shortfall of egg production to sales, assuming current facilities, and identifies the additional flock requirements.

This forecasting exercise is repeated 'as necessary', which appears to mean whenever one of the divisional managers feels that the parameters of the last forecast no longer apply. In 1977 there were 6 forecasts.

Another computer program produces egg production profiles for every flock serving a Good Egg packing station. These profiles serve two purposes, which are :

1. They enable the quick detection of flocks not performing up to standard.
2. They help the packing station managers to plan daily packing activity. To illustrate, suppose that a packing station manager has an output requirement for one day that is heavily weighted to white, size 2 eggs. The flock profiles tell the packing station manager which of the flocks supplying his packing station with eggs are likely to supply a large proportion of eggs of this type. With this information, the packing

* Generally, brown birds produce brown eggs and white birds produce white eggs.

** The number of day-old chicks to be put into rearing sheds for the 18 weeks prior to their transfer to laying sheds.

station manager can determine the order in which the eggs from the various flocks are graded and packed.

Within Good Egg, the opinion seems to be that the computer-based system of reconciling egg production with packing station requirements for meeting orders is better than the manual system which it replaced.

An independent assessment suggests that this short-term profile works well on a day-to-day basis. It is difficult to assess the performance of the long-term forecasting system because Good-Egg has grown very rapidly and has seldom, if ever, stood still long enough for the system to be adequately evaluated.

There is a variety of evidence to support the conclusion that the day-to-day co-ordination of egg supplies and packing station requirements is successful. This includes the fact that there are few last minute transfers of eggs from one packing station to another, that orders are virtually always fulfilled without substitution, that it is usually known a week in advance if additional eggs need to be bought in, and that there are very few occasions when eggs have to be quality checked because they have been in storage for two weeks or more as a result of the supply of a particular size/colour combination of eggs far exceeding the demand.

The system is not without its faults, however. One problem is that the system is inclined to generate too much information for packing station managers to assimilate. This problem is exacerbated by the duplication of information which appears on the many different print-outs that each person receives.

(ii) The ordering, delivery, invoicing, payment cycle

The ordering, delivery, invoicing and payment cycle differs from the commercial cycle mentioned in Section 2.1 in that delivery is included and credit is combined with payment.

This cycle in channel A is described in Diagram 7.3*. It is shown to involve several departments of Good Egg and to incorporate Bertrams as well as Valuestore.

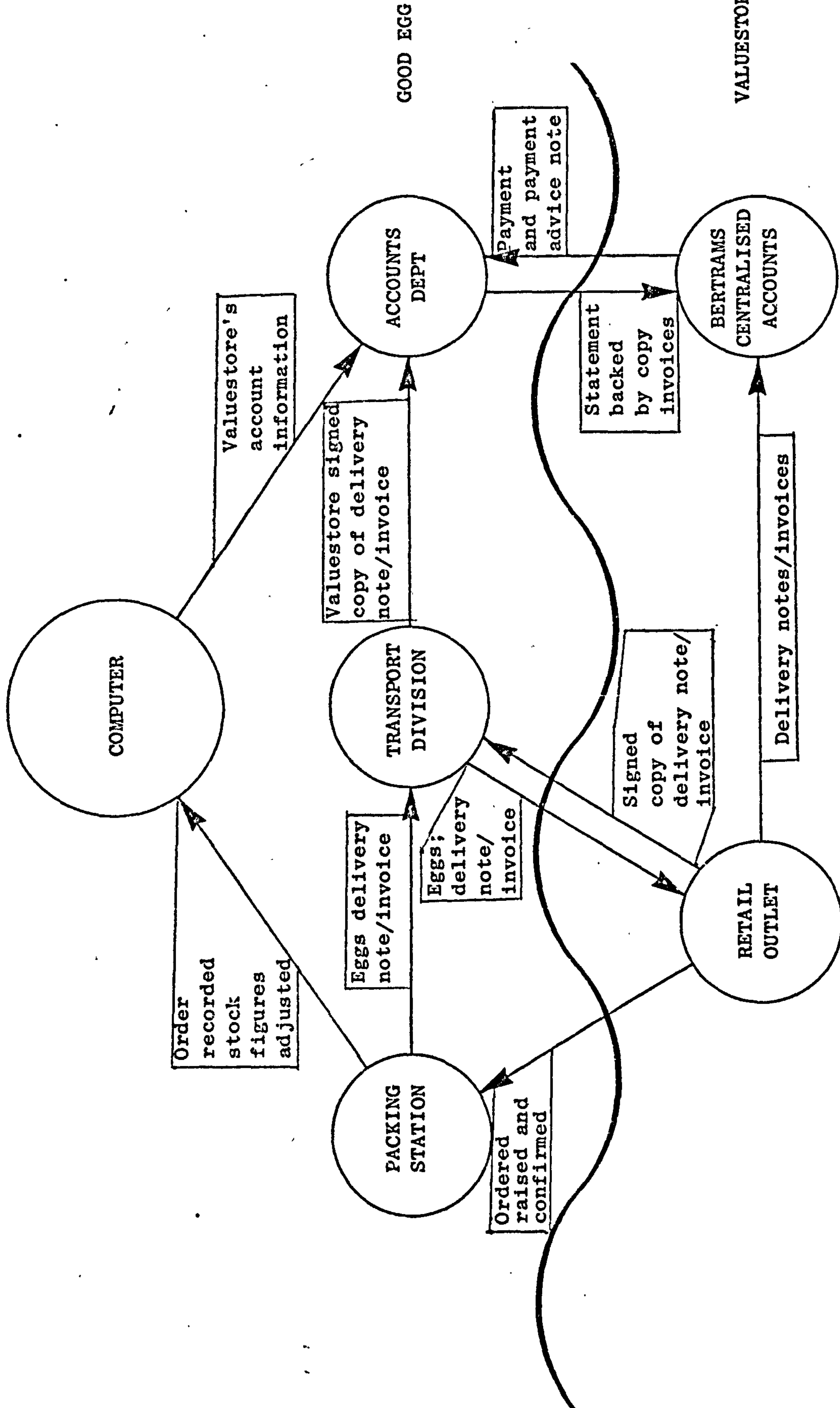
The ordering and accounts system of Good Egg is computerised. The tele-sales girls, who receive the orders, have VDU's linked to the central computer and they are able to use these to adjust stock and raise combined delivery note/invoices. Good Egg readily admits that, although the computerised system has improved co-ordination in this area, the ordering and accounts system still contains many unnecessary duplicated activities. The word unnecessary is significant here. In accounts systems some duplication is often tolerated for security reasons. The accounts department of Good Egg, for example, receives separate notification of customer orders and customer deliveries and intends that this practice should continue.

When Good Egg converted to a computerised system, the combined delivery note/invoice was introduced. The intention was to eliminate the separate invoice, which was believed to be superfluous. Valuestore's own accounts department shared the opinion that a combined delivery note/invoice and monthly statement was sufficient and thus happily accepted the change. Since then, however, Bertrams have assimilated Valuestores accounts into the centralised system which requires that a statement is sent together with back-up invoices. These are checked against delivery notes before payment is made - often late, according to Good Egg. This means that Good Egg has to raise two combined delivery note/invoices for every delivery to a Valuestore outlet.

The ordering and delivery system within the cycle appears to be very much better co-ordinated than the ordering, invoicing and payment system previously discussed. The ordering and delivery system is organised such that a Good Egg tele-sales girl rings the provisions manager of a Valuestore outlet for his order two days prior to the required delivery of the order. If, however, a Valuestore outlet needs an urgent delivery of eggs, the provisions manager may place an additional order which Valuestore undertakes to deliver within 24 hours.

* See Appendix E, Section 1, for more detail.

DIAGRAM 7.3 : CHANNEL A'S ORDERING, DELIVERY, INVOICING, PAYMENT CYCLE



VALUESTORE/BERTRAMS

GOOD EGG

Delivery days for each Valuestore outlet are set annually by discussion between the provisions manager and the manager of the packing station serving the outlet. The number of deliveries of eggs which an outlet receives every week is determined by negotiations between the Good Egg marketing department and Valuestore's provisions buying department.

Assuming that the overall co-ordination of channel A is adequately reflected in the co-ordination of the two aspects of functional activity which have been considered, the co-ordination of channel A may be said to be fairly good to good on a scale that measures from poor to excellent.

7.3.3 Performance

Although the model is primarily concerned with channel performance, it also recognises the relevance of the performance of individual channel members. A discussion of the performance of channel A is, therefore, followed by a consideration of the performance of Good Egg and Valuestore.

Section 5.3 contends that channel performance should be measured from three perspectives; the consumer's, the channel's and the channel members'. The performance of channel A is accordingly considered from each of these perspectives.

(i) The Consumer

The Eggs Authority sponsored consumer usage and attitude surveys indicate that the consumer wants "a good, fresh egg at a reasonable price." For the purpose of this study, therefore, freshness and price are the criteria used to assess how well a channel serves its consumers.

1. Freshness

Using information provided by Good Egg and Valuestore, it is calculated that it takes from 2 to 7 days for eggs of a popular size/combination to reach the shelf of a Valuestore outlet from a laying farm which is either owned or contracted by Good Egg.

This does not, necessarily, mean that eggs are 2-7 days old when purchased by the consumer. They may be on the store shelf for a few days. Valuestore is very keen on the stock rotation of eggs, so normally all eggs are cleared from the shelves within a week.

The freshness of eggs sold to consumers by Valuestore is further ensured by a sell-by date set 12 days after the packing date. This means that an egg sold to the public by Valuestore is never more than 17 days old*. To be appreciated, this figure should be set against the fact that, when stored in the right conditions, a Class A egg can have a shelf life of up to 6 weeks.

2. Prices

The prices of eggs for the sample week of 8-14th May 1978 in Valuestore outlets generally compare favourably with average prices. This is shown in Table 7.1. Only the price of brown, size 2 eggs was above average, all others were below average.

From the above it would seem that channel A meets the consumer requirement of fresh eggs at reasonable prices.

(ii) The Channel as a Whole

An assessment of the performance of the channel as a whole is based on the performance of the channel as viewed from its own perspective.

The need to combine efficiency, profitability and effectiveness measures for a balanced assessment of the overall performance of a marketing channel is one of the main themes of Section 5.3. Specific measures for this purpose are, therefore, advanced. It is unfortunate, however, that in this instance it is not possible to use the efficiency, profitability or most of the effectiveness measures to assess the overall performance of channel A.

*

This 17 day period accounts for eggs coming from small laying farms with only twice weekly collections.

TABLE 7.1 : VALUESTORE EGG PRICES COMPARED WITH AVERAGE PRICES^a

FOR THE WEEK BEGINNING 8th MAY 1978

EGG SIZE	WHITE			BROWN		
	VALUESTORE PRICE (p)	AVERAGE PRICE (p)	VALUESTORE —AVERAGE (p)	VALUESTORE PRICE (p)	AVERAGE PRICE (p)	VALUESTORE —AVERAGE (p)
2	54	54.1	-0.1	58	55.4	+2.6
3	43	47.2	-4.2	46	48.8	-2.8
4	42	44.1	-2.1	45	46.5	-1.5
5	33	37.8	-4.8			

a. Average Prices as given in the Eggs Authority Weekly Report No. 364.

In most cases, a measure cannot be applied because Good Egg and Valuestore would not provide the necessary information. In a few instances, however, a measure cannot be used because the information that is needed is either unavailable in its required form, or is not capable of extraction from the information that does exist.

1. Efficiency and Profitability*

The efficiency and profitability measures suggested in Section 5.3 are based on total channel income, total channel sales in units and total channel costs. In channel A, because Good Egg is the sole supplier of eggs to Valuestore, the total income of the channel is equal to the value of Valuestore's total egg sales. Similarly, the number of eggs sold by channel A is equal to the number of eggs sold by Valuestore.

Whilst Valuestore would provide figures for the number of eggs sold. (1,442 cases per week in 1978), information on the total value of those sales was refused. This means that the total income of channel A is unknown and hence channel performance measures containing this factor cannot be used.

To calculate the total costs of a channel, detailed cost data is required from all its members. In the case of channel A, Good Egg and Valuestore would not provide this data and so the total costs of this channel cannot be calculated.

Although Good Egg would not give cost information which enabled the isolation of the cost of supplying Valuestore with eggs, it did provide the following costs for eggs going to a multiple grocer (see table on next page).

*

$$E_1 = TC_t : TI_t$$

$$GP_1 = TI_t - TC_t$$

$$E_2 = TC_t : n_t$$

$$GP_2 = \frac{TI_t - TC_t}{n_t}$$

See Section 5.3 for details.

	Average cost per case (May 1978)
Egg collection	10 p
Egg delivery	30
Grading and Packing activity	60
Ovotherm pre-packs	74
Cardboard box	22
	<hr/> 1.96
Marketing	4
Merchandising	4
Administration & Accounts	4
	<hr/> £ 2.08 <hr/> <hr/>

2. Effectiveness

The model measures channel effectiveness by the percentage growth, or otherwise, of sales volume and sales value; the share of the target market and how this has altered; the capital investment in the channel and the flexibility of the channel.

The percentage growth in the average number of eggs sold per week by channel A between 1977 and 1978 was 3%. This small growth reflects the difficulties which Valuestore has faced operating in the fiercely competitive grocery trade. There is no equivalent figure for the growth of sales value because, as previously noted, Valuestore would not provide information on the value of its egg sales.

The target market of channel A is the High Street egg market. In the same way that the egg sales of channel A equate with the egg sales of Valuestore, so Valuestore's market share is synonymous with channel A's. Valuestore, however, does not know its share of either the High Street egg trade or the total retail egg trade - and without sales value figures

it has not been possible to calculate it. This means that the two market share based measures of channel effectiveness cannot be applied.

The capital investment in a marketing channel is a measure of channel effectiveness which cannot be strictly applied. This is because of the many difficulties associated with apportioning any investment made by a firm amongst the marketing channels to which it may belong. Rarely does a firm only belong to one marketing channel.

In channel A, for example, Good Egg has invested in facilities which benefit channel A and all the other egg marketing channels to which it belongs. The only basis upon which this capital investment could be apportioned amongst the various channels is cost - and this would result in figures of little or no meaning.

The capital investment measure has, therefore, been modified to refer to capital investment by channel members which will affect the channel under investigation. Hence, in channel A, it may be noted that Good Egg has invested very heavily in equipment and systems to improve its performance as an egg producer-packer but that Valuestore has only invested in new wire display baskets for eggs.

The final measure of channel effectiveness is the flexibility of the marketing channel. This refers to the ability of a marketing channel to respond to changes in its trading environment.

Although flexibility seems a straightforward measure, a satisfactory way of applying it to channel A, or, indeed, to any marketing channel, has not been found. It is believed that this is due to the character of the egg industry. The nature of the recent changes in the egg industry are such that, beyond necessitating all marketing channels to adjust their prices, they have affected channels to greatly differing degrees. Hence, the absence of a definite response, other than a price change, by a channel to a change in market conditions may mean either that it has no need to make any further adjustment or that it lacks the flexibility to make any further adjustment. The problem is that there is no reliable way of determining which of these two alternative reasons is behind the apparent passivity.

(iii) The Channel Members

How well does the channel serve those that belong to it? This is the substance of assessing channel performance from the perspective of the channel members.

In channel A there are only two channel members, Good Egg, the egg supplier, and Valuestore, the egg retailer. This means that Good Egg's evaluation of channel A is equivalent to its evaluation of Valuestore as an egg retailer, and likewise that Valuestore's evaluation of channel A is equivalent to its evaluation of Good Egg as an egg supplier.,

1 Good Egg's evaluation of channel A

Good Egg has some very clear ideas on what it wants from a grocery retailer, which are :

1. That the retailer is a loyal customer. This is considered to be particularly important in times of glut when there are suppliers offloading eggs at knock-down prices.
2. That the retailer merchandises eggs to their full advantage. This is defined by Good Egg as giving eggs 'adequate' shelf space in 'good' positions, using point-of-sale promotional aids and taking care with the stock rotation to avoid old eggs being left on the shelves.
3. That the retailer sells eggs in Good Egg branded packs, rather than own label packs, and uses promotional material for eggs that features Good Egg's name. Good Egg also welcomes the opportunity to merchandise the eggs they supply to retailers.
4. That the retailer is willing to try new pack designs, display methods and promotional tools.
5. That the retailer takes more eggs each year and increases the proportion of eggs supplied by Good Egg.
6. That the retailer does not take credit outside the standard terms of payment.

Valuestore scores highly on what is probably the single most important criterion, loyalty. This loyalty is, in fact, ensured for the five-year period of the sole supplier contractual arrangement.

As far as egg merchandising is concerned, Valuestore suits Good Egg less well. In the first place, Valuestore sells own label eggs which means that the brand name of Good Egg is not promoted. Secondly, Valuestore does not allow Good Egg any direct involvement with the merchandising of eggs, which means that Good Egg merchandisers are not allowed in Valuestore outlets and that Good Egg is not able to display any of its promotional material. Finally, Valuestore egg displays tend to be dull, with ovo-therm packs, in wire baskets, on ordinary shelving.

Against this, however, the stock rotation of eggs is good, the shelf space allocated to eggs by Valuestore compares favourably with that allocated by other retailers and the positioning of eggs in-store is usually near the popular loose-cheese counter.

The willingness to innovate in egg retailing is another of the criterion advanced by Good Egg. Valuestore has in recent years changed to an ovo-therm pack from a pressed paper pack, adopted the wire display basket for eggs and tried many different types of promotion - usually at the suggestion of Good Egg. It is Valuestore, for example, that has tested the effect on sales of a '7 day old egg' guarantee, an idea put forward by Good Egg.

Turning to the number of eggs bought from Good Egg by Valuestore, this only increased nominally by 3% between 1977 and 1978, in line with the small increase in the egg sales of Valuestore. Needless to say there can be no increase on the 100% of eggs supplied to Valuestore by Good Egg under the sole supplier contract which has run since 1 January 1975.

Finally, there is the question of taking extended credit. This, Good Egg claims, happens far more frequently now that Bertrams handles the accounts. No hard evidence, however, was provided to support this claim.

2. Valuestore's evaluation of channel A

The following requirements were established as being held by Valuestore for its egg supplier, Good Egg* :

1. That fresh, high quality eggs are supplied.
2. That prices, allowing for discounts, are competitive.
3. That deliveries are prompt and reliable.
4. That the supplier is willing to run jointly financed promotions.

Good Egg has concentrated much effort on building a reputation for quality. One aspect of this has been the establishment of a quality control department which checks eggs for shell thickness, yolk colour and albumen consistency as well as freshness. The result has been that few eggs are rejected or returned by retailers for failing to meet quality standards.

It has not been possible to judge the competitiveness of the prices at which Good Egg supplies Valuestore with eggs because Good Egg refused to divulge either its basic selling prices or its discount structure. Dual information is necessary because the discount given against the basic selling price determines the real price at which eggs are traded.

The only indication that Good Egg's prices are competitive is that a condition of the contract between Good Egg and Valuestore is that Valuestore may break the contract if the prices and discounts offered by Good Egg are not comparable with those available elsewhere. As the contract has not been broken it appears that Valuestore considers Good Egg prices to be comparable.

The promptness and reliability of deliveries of eggs by Good Egg, and the willingness of Good Egg to run jointly financed promotions on eggs, were both confirmed by Valuestore.

* Valuestore, because it has only the one egg supplier, was not asked directly about egg supplier requirements. Instead the requirements for a supplier of provisions were discussed and then Valuestore was asked if there were any additional or different requirements in the case of eggs.

This assessment suggests that channel A meets Valuestore's requirements more fully than it meets Good Egg's. This should not be taken to mean, however, that Good Egg would like to leave the channel. On the contrary, Good Egg appreciates having Valuestore as a stable customer which takes 7% of its sales and the company intends to try to keep Valuestore's custom at the end of the 5 year contract. This applies even though Good Egg's continued growth and Valuestore's static egg sales will mean that the latter company's sales will represent a much smaller percentage of the former's business.

This section now considers the performance of the individual channel members rather than the performance of the channel as a whole. Three measures for this purpose are given in Section 5.3, they are :

1. Sales Growth
2. Gross margins
3. Expansion of facilities and/or activities.

Only two of these measures have been used in this study, the first and third. Gross margins could not be used because channel members would not supply them.

(iv) The Performance of Good Egg.

Since its takeover by Allsorts Inc., Good Egg has grown rapidly as shown by the increase in average weekly sales from 5,000 cases in 1973 to 20,000 cases in 1978.

This growth in sales has been accompanied by the extensive investment programme previously mentioned. This programme has covered the modernisation and expansion of existing facilities and the purchase of new facilities.*

The increase in sales and the injection of cash by Allsorts has also allowed a more sophisticated approach to marketing and especially to promotion.

* See Appendix E for details.

Good Egg, for example, is now able to afford to place advertisements in the grocery trade press, to run 'Win a Car' competitions for consumers and to offer a full merchandising service.

(v) The Performance of Valuestore

Valuestore is in the unfortunate position of being a second tier chain operating in the fiercely competitive grocery trade. The very modest 3% increase in the number of eggs sold by Valuestore between 1975 and 1978 underlines its competitive difficulties.

Rather than expansion, Valuestore faces rationalisation. Many of its small counter service and self-service stores have been closed and all service functions, such as accounts and personnel, are now undertaken by Bertrams.

7.3.4 Channel Atmosphere

It has been proposed in Section 5.4 that the extent to which the atmosphere of a channel favours co-ordination is indicated by the following dimensions :

1. The desire to work together.
2. Contact between channel members.
3. Reciprocity of ideas.
4. Mutual trust and respect.
5. Intensity of involvement.
6. Motivation.

Channel A is now analysed in terms of these six dimensions.

(i) The desire to work together

In a channel with only two channel members, such as channel A, the desire of the operating units within the channel members to work together is as important as the desire of the channel members to work together.

Within Good Egg, the divisional managers all expressed opinions in favour of egg production and packing being combined in one firm. This opinion was even expressed by a respondent who had worked for one of the egg producers acquired by Good Egg about 18 months prior to the interview. Hence it appears that there is a definite predisposition to working together, at least amongst the more senior managers of Good Egg.

The same belief in the benefits of working together was also expressed by those interviewed at Valuestore. In particular, the provisions buying department expressed a desire to work more closely with the provisions managers in the outlets.

A constant complaint of egg suppliers is that grocers do not merchandise or promote eggs adequately. It was not surprising, therefore, that the Sales Manager of Good Egg should express a keen desire to work more closely with Valuestore, especially in matters of promoting eggs. It is even more interesting that the head of the provisions department also expressed the opinion that Valuestore would benefit from working more closely with Good Egg, especially on the promotion of eggs.

To summarise, the desire to work together appears to be well-developed throughout channel A.

(ii) Contact between channel members

The model mentions only contact between channel members. In channel A, because there are only the two channel members and because they both have operational units at different geographical locations, contact within, as well as between, the channel members is considered.

In the case of Good Egg, the problem of having separate sites is mitigated by the fact that all but two of them are within a comparatively short driving distance of the head office and of each other. Nevertheless, the barrier to communication of physical separation is still present.

Although there is a substantial amount of paper passing between divisions and sites, much of this is routine. The telephone is, therefore, the main line of contact between the different sites. Personal visits also play an important role as do the monthly management meetings of divisional managers.

Valuestore similarly faces the problem of geographical separation. The provisions buying department compiles a weekly newsletter which goes to all store and provisions managers. This newsletter, which has a small social and general interest content, now acts as the main form of regular contact between the provisions buying department and the outlets. Letters, telephone calls and personal visits are also used to maintain contact.

The contact between Good Egg and Valuestore is at several levels and takes the form of paperwork, telephone calls and personal visits. In terms of improving inter-company co-operation, the most important contact is probably the twice-weekly telephone calls between the sales manager of Good Egg and the head of Valuestores provisions buying department.*

Despite the difficulties of physical separation, therefore, the nature of the contact within and between Good Egg and Valuestore seems to be of the type which the model suggests aids co-ordination.

(iii) Reciprocity of Ideas

The main forum for the exchange of ideas in Good Egg is the monthly management meeting. It is at this that the divisional managers discuss their ideas, air their views and hope to find solutions to their problems.

Within Valuestore, there is little discussion of ideas concerning the retailing of eggs. This is partly because the interest generated by eggs within Valuestore is low. The head of the provisions buying department does, however, have a special interest in eggs - but he tends to discuss his ideas with the sales manager of Good Eggs rather than with anyone else from Valuestore.

* A fuller description of the contact between Good Egg and Valuestore may be found in Appendix E, Section 1.3.

Evidence of the reciprocity of ideas between Good Egg and Valuestore can be found in the pre-launch testing of the '7 day old egg' guarantee. The idea of guaranteeing an egg to be a maximum of 7 days old when purchased was first suggested by Good Egg and then developed jointly.*

(iv) Mutual Trust and Respect

Sentiments expressed by respondents such as 'he knows his stuff' and 'you can always rely on them for a fair deal' indicate that a feeling of mutual trust and respect prevails in channel A.

(v) Intensity of Involvement

The involvement of both Good Egg and Valuestore in channel A is high. 7% of Good Eggs sales are accounted for by this channel and 100% of Valuestore's egg supplies. Furthermore there is a legally binding contract between Good Egg and Valuestore which has been operating since the channel was formed in 1975.

(vi) Motivation

Both Good Egg and Valuestore are highly motivated to improve their own performances, albeit for different reasons. In the case of Valuestore, for example, the desire to improve performance is based on the desire to survive, whereas in the case of Good Egg improved performance is required to ensure future growth.

7.3.5 Summary

To summarise, therefore, channel A is assessed as being a marketing channel with a high degree of vertical integration and a fairly good degree of co-ordination. The conclusion with regard to co-ordination is, however, based on the examination of only two facets of channel activity.

For the reasons given in the text, a full appraisal of the performance of channel A has not been possible. The

* The idea was accepted on the basis of the tests but subsequently dropped.

measures of performance which could be applied, however, indicate that channel A supplies consumers with fresh eggs at prices that are generally below average. Despite this, sales growth has been low in channel A at 3% between 1977 and 1978.

Good Egg is a rapidly growing egg supplier that wants to promote its name to consumers. Whilst the security of sales to Valuestore, which takes 7½% of Good Egg sales, weighs very heavily in favour of channel A from Good Eggs point of view, the fact that Valuestore sells own label eggs and has a very low growth does not accord with the aims of Good Egg. On the other hand, channel A appears to meet fully the requirements of Valuestore in respect of an egg supplier.

Finally, the atmosphere of channel A is established as being one that exhibits a well-developed desire for the channel members to work together; frequent direct contact both within and between the two channel members; the exchange of ideas between most parties; mutual trust and respect; substantial channel member involvement; and channel member motivation to improve their performance.

7.4 CHANNEL B *

In this section, the vertical integration, co-ordination, performance and atmosphere of channel B are discussed.

7.4.1 Vertical Integration

(i) Channel Structure

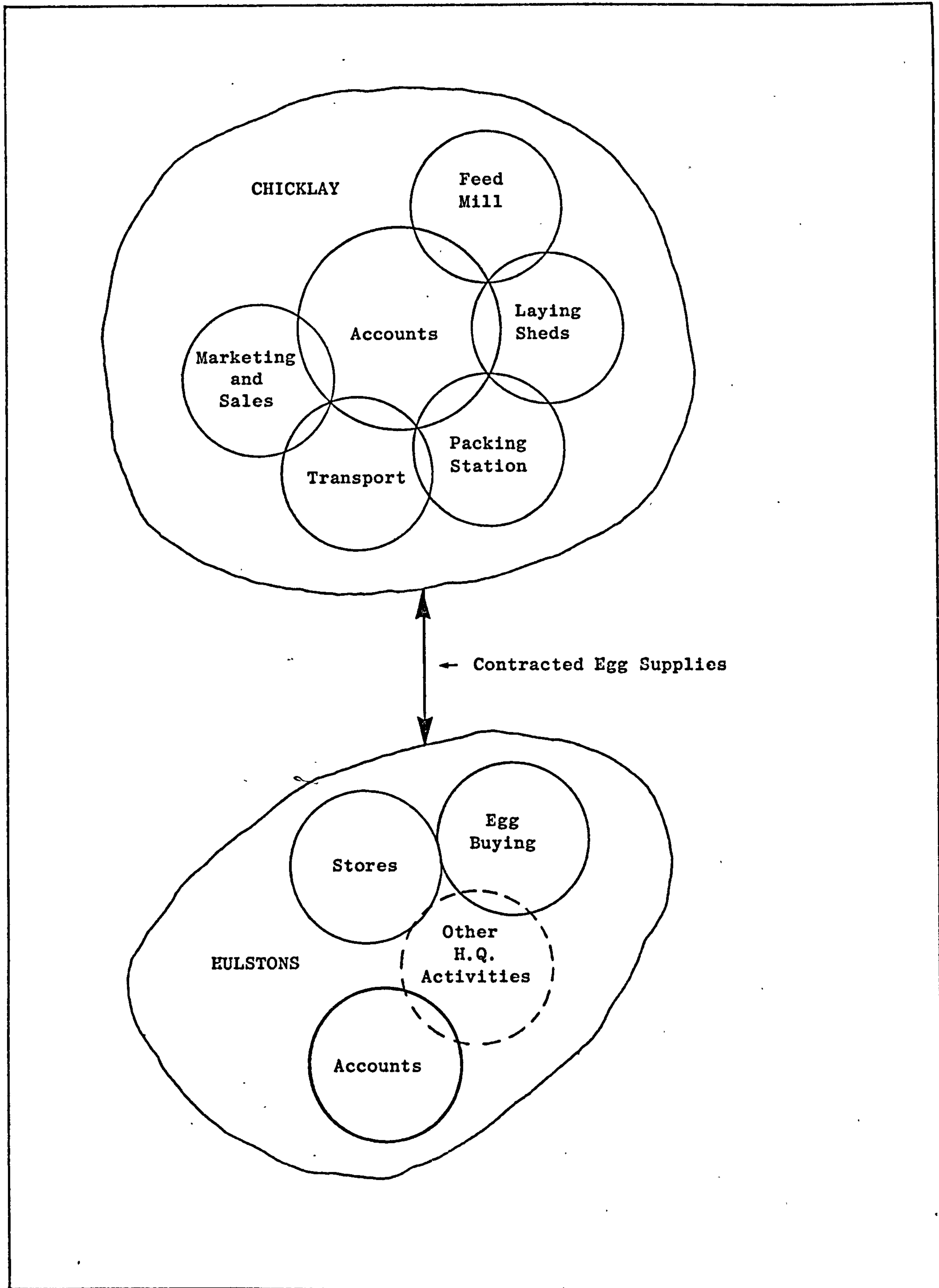
Channel B is shown in Diagram 7.4. It can be seen that there are two channel members connected by a contractual arrangement. This contractual arrangement allows for case bonuses to be paid if Hulstons buys a specified number of eggs from Chicklay.

(ii) Centralisation of Control

Highly centralised decision-making and control over activity execution are evident within both Chicklay and Hulstons, as depicted by the overlapping operating units in Diagram 7.4. The

* A detailed description of this channel is provided in Appendix E, Section 2.

DIAGRAM 7.4. : CHANNEL B ORGANISATION



degree of centralisation in Chicklay arises because the firm operates from a single site and because it is small enough for the two-man management team to be able to manage all the aspects of the operation.

Hulstons is, similarly, a small firm with a two person management team, but in this instance there are five sites (i.e. shops) to operate which means that some delegation is necessary.

The relationship between Chicklay and Hulstons is such that Chicklay has extended its influence over Hulstons to cover merchandising since the bonus contract scheme came into force. This has occurred because the contract makes provision for Chicklay to put up posters, attach shelf-talkers to gondolas, run special promotions and control stock rotation whilst placing on Hulstons certain shelf space and positioning constraints. In addition, Chicklay continues to influence the retail prices of Hulstons by providing information about prevailing prices and market conditions.

Hulstons influence over Chicklay covers the usual areas of pricing and delivery service. An indication of the influence Hulstons has over Chicklay is that Chicklay prices the pre-packs of eggs going to Hulstons although it finds the activity a 'nuisance' and does not offer this service to any other customers.

As far as the overall power relationship between Chicklay and Hulstons is concerned, Hulstons appears to have the upper hand. This is indicated by the fact that Chicklay prices pre-packs for Hulstons although it would prefer not to. The balance of power however, is not strongly in Hulstons favour. This is because Hulstons accounts for only 4% of Chicklay's sales. Although Chicklay would not want to lose the custom of Hulstons, if it did, the short term effect would simply be a reduction in the number of eggs bought in from the Central Egg Agency, by 26 cases per week.* In the longer term, Chicklay would expect to find another customer.

The evidence suggests that Channel B may be appropriately classified as highly vertically integrated.

* Only 70% of the 37 cases of eggs that Hulstons sells on average per week are provided by Chicklay.

7.4.2 Co-ordination

As in channel A, and for the same reason, the assessment of co-ordination in channel B is based on the co-ordination of egg production with packer requirements and of the ordering, delivery, invoicing, payment cycle.

(i) Matching egg production with packer requirements

Chicklay has adopted a deliberate policy of increasing and consolidating additional egg sales prior to building and stocking a new laying house to meet these requirements. Hence, it is only for short periods of time that Chicklay produces enough eggs to meet its orders. Normally, eggs have to be bought in from the Central Egg Agency to make up the difference.

Egg production is reconciled with orders on a day-to-day basis by the brother who looks after the packing and sales side of the business. This brother knows what eggs may be expected from the flock and what orders there are, and so he is able to arrange to buy-in the difference.

The potential weak link in this system is the reliance on buying-in eggs from the Central Egg Agency. Whilst this presents no problem in times of glut, when there is a shortage of eggs it can be difficult to obtain the particular eggs needed to meet orders. Chicklay admits to having had problems in the past which are caused by this, but it claims that it has never once failed to meet an order as a direct or indirect result.

(ii) The ordering, delivery, invoicing, payment cycle

This cycle is very highly co-ordinated, principally because there are very few people involved in its running. At Chicklay, there is a part-time office worker who takes orders, raises delivery notes and invoices, sends out statements and monitors payments. Orders are received from Hulstons shop managers once a week on the day before delivery. All Hulstons shops have their deliveries on the one day.

At Hulstons, the delivery notes left with the eggs are sent by the shop managers to the central office. Here they are checked by a clerk against the invoices and statements received from Chicklay. Payments are then made.

Even in a system as streamlined as this, some duplication of effort exists in the fact that the same information about an order is recorded several times on different pieces of paper.

Although the ordering/delivery/invoicing/payment cycle appears to be very well co-ordinated, the same cannot be said of the reconciliation of egg production with packer requirements. Hence, those two indicators alone show that the degree of co-ordination within the channel is variable.

7.4.3 Performance

The performance of channel B is considered from the three perspectives which are recommended, that is, the consumer, the channel itself and the channel members.

(1) The Consumer

1. Freshness

It has been calculated that a white, size 2 egg which is produced by Chicklay will be between 2 and 5 days old when delivered to a Hulstons outlet. If the eggs delivered to Hulstons have been supplied by the Central Egg Agency the age of the egg when delivered cannot be calculated.

The stock rotation of eggs by Hulstons has improved greatly following a number of complaints from customers of having been sold stale eggs. Now every effort is made to move all eggs within 10 days of delivery.

Although the eggs sold by Hulstons are priced by Chicklay they do not have a sell-by stamp, only a week number which few consumers understand.

2. Prices

Although Hulstons sells brown size 1 eggs as well as white sizes 2, 3, 4 and 5, it only buys white eggs from Chicklay. This is somewhat paradoxical as Chicklay produces and sells mainly brown eggs.

Table 7.2 shows that, for the week beginning 8 May 1978, Hulstons prices were above or near to the average for white pre-packed eggs.

(11) The Channel as a Whole

As in channel A, it has not been possible to apply many of the measures advanced in Section 5.3 for measuring overall channel performance. In most cases, measures cannot be used because:

1. Hulstons was unable to separate the revenue from the eggs supplied by Chicklay from its total egg revenue, and refused to supply any cost data.
2. Chicklay did not provide cost data that was sufficiently complete or adequately detailed for the calculation of channel B's total costs to be made. The cost data provided by Chicklay was as follows:

	<u>Average cost per case (May 1978)</u>	
Egg production (including depreciation)	White	£ 9.30
	Brown	£ 9.60
Egg collection		negligible
Total grading, packing, boxing, delivery		£ 1.20

3. It is not possible to calculate any kind of market share figure for channel B for several reasons. These are because (a) it is difficult to delineate the target market (b) only the size of the national retail market is known, and (c) channel B's share of the market is likely to be much less than 1%.

The measures which can be used are the percentage growth in the average number of eggs sold per week by channel B between 1977 and 1978, which is 23.4%, and the capital investment by Chicklay and Hulstons.

TABLE 7.2 : HULSTONS EGG PRICES FOR EGGS SUPPLIED BY
CHICKLAY COMPARED WITH AVERAGE PRICES^a FOR

THE WEEK BEGINNING 8th MAY 1978

EGG SIZE	WHITE			HULSTONS -AVERAGE (p)
	HULSTONS PRICE (p)	AVERAGE PRICE (p)		
2	56	54.1		+1.9
3	47	47.2		-0.2
4	46	44.1		+1.9
5	38	37.8		+0.2

a. Average Prices as given in the Eggs Authority Weekly Report
No. 364.

Chicklay has invested steadily, as finances have allowed, since it was set up in 1970. Most of this investment has been in laying sheds. In 1970 Chicklay had one laying shed and by 1978 it had four.* In contrast to this, the investment by Hulstons in eggs has been non-existent.

(iii) The Channel Members

There are only two channel members in channel B as was the case in channel A. Hence, once again, the egg supplier, Chicklay, in evaluating channel B is really evaluating Hulstons, and, similarly, Hulstons is really evaluating Chicklay.

1. Chicklay's evaluation of channel B

It was ascertained that Chicklay evaluates its customers using the following basic criteria :

1. The loyalty of the customer.
2. The increase, or otherwise, in the number of eggs the customer purchases.
3. The speed with which the customer pays its account.

In addition, if the customer is a retailer, Chicklay aims to be allowed to organise the way in which eggs are merchandised.

Hulstons has been a customer of Chicklay since 1975, and in that time it has increased the proportion of eggs it buys from Chicklay. Hulstons also meets Chicklays requirements by paying its account promptly and by allowing Chicklay to merchandise its eggs.

2. Hulstons evaluation of channel B

It was not possible to distil Hulston's requirements for either suppliers in general or egg suppliers in particular. It has to be sufficient, therefore, to note that Hulstons has increased its trade with Chicklay and that satisfaction was expressed with Chicklay

* See Appendix E, Section 2.1 for details.

during the course of the extended interview. These factors, allied to the lack of any expression of complaint, indicate that Hulstons is, in the main, satisfied with the performance of the other channel member.

From the above it would seem that channel B meets the requirements of its members.

This section on performance, finally, makes a brief consideration of the performance of the channel members themselves, using sales growth and expansion.

1. The performance of Chicklay

The growth of Chicklay since it was set up in 1970 has been continuous and increasing. By 1975 average weekly sales had reached 350 cases and by 1978, 650 cases, an increase of 86% on the 1975 figure.

The same pattern of growth is evident in the expansion of Chicklay's facilities and in the upgrading of its equipment.

2. The performance of Hulstons

It would seem that the owners of Hulstons have decided that the business is of a sufficient size for their requirements. 1974 was the date of the last acquisition, and since then, Hulstons has concentrated on giving each shop a unique, specialist feature, rather than on any extension of the number of business premises.

Hulstons would not divulge its turnover for 1975 and 1978, so its sales growth is unknown. The investment in its shops does, however, suggest that the business is healthy.

7.4.4 Channel Atmosphere

In this section the atmosphere of channel B is described using the six dimensions proposed in Section 5.4.

(i) The desire to work together

Within Chicklay and Hulstons, the strong desire to work together was unquestionable. Both firms expressed the clear opinion that they believed the close co-operation of their businesses to be mutually beneficial.

(ii) Contact between channel members

Contact between Chicklay and Hulstons is maintained indirectly by the routine flow of paperwork, and directly by telephone calls, at least twice weekly, and personal visits.

(iii) Reciprocity of Ideas

Chicklay and Hulstons do exchange ideas concerning ways of improving their trading relationship and with regard to the promotion of eggs. The last exchange of ideas resulted in the final form of the egg supply contract which Chicklay has introduced.

(iv) Mutual Trust and Respect

Chicklay discussed its idea for an egg supply contract with Hulstons because it valued the opinion of its customer. Previously, Hulstons has asked Chicklay for its opinion on certain matters for the same reason that it values the others opinion. This indicates a great deal of mutual trust and respect in channel B.

(v) Intensity of Involvement

Channel B was formed in early 1975. By 1978 Hulstons obtained 70% of its egg supplies from Chicklay and thereby accounted for 4% of Chicklay's sales. These figures indicate the importance of channel B to each of the channel members.

(vi) Motivation

Chicklay is committed to growth and thus wishes to improve its performance to allow further

growth. Hulstons appears to be content with its existing size, but it still seems to be keen to improve its performance.

7.4.5 Summary

Channel B may be summarised as a marketing channel which is highly vertically integrated. The level of co-ordination in channel B varies, even within the limits of the factors that are capable of examination.

From the consumers point of view the performance of channel B is not particularly good. Firstly, the age of eggs when they reach the Hulstons shop is not always known and there is no sell-by date, only a 'week number' which few customers can understand. Secondly, the price of the eggs sold is 'around or above' average, rather than below average.

From the channels own perspective, however, channel B has performed well, with a 23.4% growth in sales between 1977 and 1978. The channel also seems to meet the requirements of both Chicklay and Hulstons, channel members which themselves have improved their facilities throughout the period of the channel's existence.

As far as the atmosphere of channel B is concerned, this is characterised by a desire to work together; frequent, direct contact; the discussion of ideas; mutual trust and respect; a fair degree of channel member involvement; and highly motivated channel members.

7.5 A COMPARISON OF CHANNELS A AND B

In the two previous sections, the vertical integration, co-ordination, performance and atmosphere of channels A and B have been described in some detail. It is now appropriate to compare and contrast these two channels in order to determine if a pattern emerges.

7.5.1 Vertical Integration

Although channels A and B have very similar vertical structures, as shown by Diagram 7.1, their organisational forms are, in fact, very different, as illustrated by Diagrams 7.2 and 7.4. Diagrams 7.2 and 7.4 also ably

serve to illustrate the essential difference in the centralisation of control of these two channels. This is that the centralisation of control within the channel members is much greater in channel B than in channel A.

There are two associated reasons for the centralisation of control being greater within Chicklay than within Good Egg, and likewise within Hulstons than within Valuestore. The first reason is the relative size of the channel members. It is more difficult for a large organisation to centralise effective control over its members than it is for a small organisation. The second-associated reason is that in the case of both egg suppliers and egg retailers the bigger the operation the greater the number of separate sites there are likely to be. Yet again, it is more difficult to centralise control when the units over which control is to be exercised have different locations.

In both channels, the influence exercised across the channel member boundaries stays within the traditional areas of negotiation between egg suppliers and retailers. Neither Valuestore nor Hulstons, for example, has attempted to emulate Marks and Spencer, a company that even dictates the flocks from which its supply of eggs may be taken. Despite this, the patterns of influence within channel A are substantially different from the patterns of influence in channel B. The patterns of influence in a channel reflect the scope of the power that each channel member has over the other and the overall balance of power. It is these power relationships between channel members that identify channel A as the channel with the greater proportion of influence being exercised across member boundaries.

The purpose of the above discussion is two-fold. Firstly, it demonstrates how the label 'highly vertically integrated', which has been accurately applied to both channel A and channel B, hides a myriad of differences in the organisational characteristics of the two channels. Secondly, it provides the background to the conclusion that the overall vertical integration of channel B is marginally the greater.

7.5.2 Co-ordination

To assess the co-ordination of channels A and B it has been assumed that the two areas of activity which have been considered are, when taken together, a representative indicator of overall channel co-ordination. One possible shortcoming of these indicators, when applied

to channels A and B, is that they tend to focus on the internal co-ordination of the egg suppliers. This is, of course, because the egg suppliers in both instances are producer-packers. In a channel with a separate channel member producing the eggs, the co-ordination of egg production with packer requirements does involve co-ordination across channel member boundaries.

The method of co-ordination in channel A are very much more formalised than in channel B. This is mainly attributable to the difference in the size of the organisations concerned; they are bigger in channel A. The co-ordination of a large organisation is more complex than the co-ordination of a small one, hence the use of more sophisticated techniques by large organisations.

From the information provided, it would seem that the success in matching egg production with packer requirements has been better in channel A than in channel B. The delivery, invoicing, and payment cycle, however, is more streamlined and better co-ordinated in channel B.

In terms of the overall co-ordination of the channels, it is concluded that the degree of co-ordination is slightly higher in channel B. This is because the difference in the degree of co-ordination of egg production and packer requirements is less marked between the two channels than the difference in the co-ordination of the ordering, delivery, invoicing and payment cycle. Thus, on balance, if the indicators are representative, the co-ordination is slightly greater in channel B.

7.5.3 Performance

Channel A fulfils the criteria which are used to measure the performance of a marketing channel from the consumers perspective better than channel B. In the case of channel A, for example, the 'sell-by' date ensures that no egg sold to the public is more than 17 days old. No such guarantee is offered by channel B.

With regard to the prices of the eggs sold by channels A and B, a comparison of white eggs, sizes 2, 3, 4 and 5* gives price differentials of 2p, 4p, 4p and 5p, all in favour of channel A.

The original aim of this part of the study was to measure the performance of marketing channels as entities using

* Channel B sells only this range of eggs.

indicators of efficiency, profitability and effectiveness. For the reasons discussed earlier in this chapter this has not been possible. Data on the costs of collecting, grading, packing and delivering eggs in channels A and B was, however, obtained. This data shows that the cost is 76p more per case in channel A than in channel B. Although some of this difference may be explained by the use of alternative methods of calculation, the difference is too great to be accounted for completely by varying costing conventions. The most likely reason for the difference is the higher overheads of channel A, or more accurately Good Egg, and the higher depreciation costs. Chicklay's equipment is secondhand and has a low capital value.

One of the indicators of channel effectiveness that has been capable of application is percentage sales growth. In channel A, between 1977 and 1978, the number of weekly sales only increased by 3%. In channel B the increase was 23.8%. The figures speak for themselves.

The increase in sales of channel A, which represents 42 cases per week, is the direct result of additional eggs being sold to consumers by Valuestore. The sales increase in channel B, however, is the combined effect of Hulstons selling more eggs and buying a greater proportion of its eggs supplies from Chicklay.

A consideration of the performance of the channels from the point of view of their channel members, shows that channel B met the requirements of both Chicklay and Hulstons, whilst channel A met Valuestore's requirements fully, but Good Egg only partially.

The final point concerns the performance of the individual channel members. It is interesting to note that the egg suppliers in both channels are expanding very rapidly, albeit on different scales, Good Egg being a regional and Chicklay a local supplier. In the case of the retailers, Hulstons gives the impression of continuing success whereas Valuestore faces retrenchment.

7.5.4 Channel Atmosphere

The atmospheres of channels A and B share many characteristics. In fact, most of the variations in the atmospheres of channels A and B are matters of degree rather than substance.

The desire to work together appears to be equally well developed in both channels A and B. The mutual trust and respect found in those channels and the motivation of the channel members to improve performance are also

similar in both channels.

The contact between channel members is more frequent and direct in channel B than channel A because these channel members do not have the same problems of geographical dispersion. The amount and type of contact between channel members is comparable in the two channels.

The exchange and discussion of ideas is to be found in both channels within and between channel member boundaries. The reciprocity of ideas between channel members is similar in both channels. In channel A, however, there is only nominal discussion of ideas within Value-store, and in Good Egg the exchange of ideas tends to be limited to the monthly management meetings. This contrasts strongly with the frequent informal discussions between the owners of the family businesses of Chicklay and Hulstons in channel B. Overall, therefore, the reciprocity of ideas is greater in channel B.

The final indicator is that of intensity of involvement. On the basis of the proportion of trade going through a channel and the length of time a channel has operated, it seems that the intensity of involvement is slightly greater in channel A than in channel B.

7.5.5 Summary

A pattern emerges from the comparison of channels A and B which can be summarised as follows :

The vertical integration and co-ordination of channel B are marginally greater than those of channel A. The limited performance measures show that channel A is superior in terms of the freshness and price of the eggs supplied to consumers, but that channel B is superior in terms of sales growth and channel member satisfaction. Finally, the atmospheres of channels A and B are similar in terms of the desire to work together, mutual trust and respect and the motivation of channel members to improve performance. They are different however, in terms of total channel contact, the reciprocity of ideas and the intensity of involvement.

7.6 CHANNELS C, D and E

In this section, channels C, D and E are described in terms of the level of vertical integration and co-ordination, the nature of channel and channel member perform-

ance, and the type of channel atmosphere that prevails.

7.6.1 Channel C*

(i) Vertical Integration

Diagram 7.5 shows that channel C is comprised of three firms, but only two channel members. This is because Jones Farms and Meadowland Eggs, although legally separate companies, have common ownership and management. The positioning of 'accounts' and 'other HQ activities' in the diagram is to indicate that they are shared resources.

There is a formalised sales agreement between Meadowland Eggs and Betterbuy, a wholly owned subsidiary of Foodstuffs.

The control of Jones Farms and Meadowland Eggs is centralised in the form of Mike Jones, the founder. Although he now leaves much of the day-to-day running of the firm to his four managers, he still concerns himself with managing the business as a whole.

In the case of Betterbuy, most decisions regarding the retailing of eggs are made centrally. These decisions, however, are made in a way which gives some latitude to store managers in their implementation.

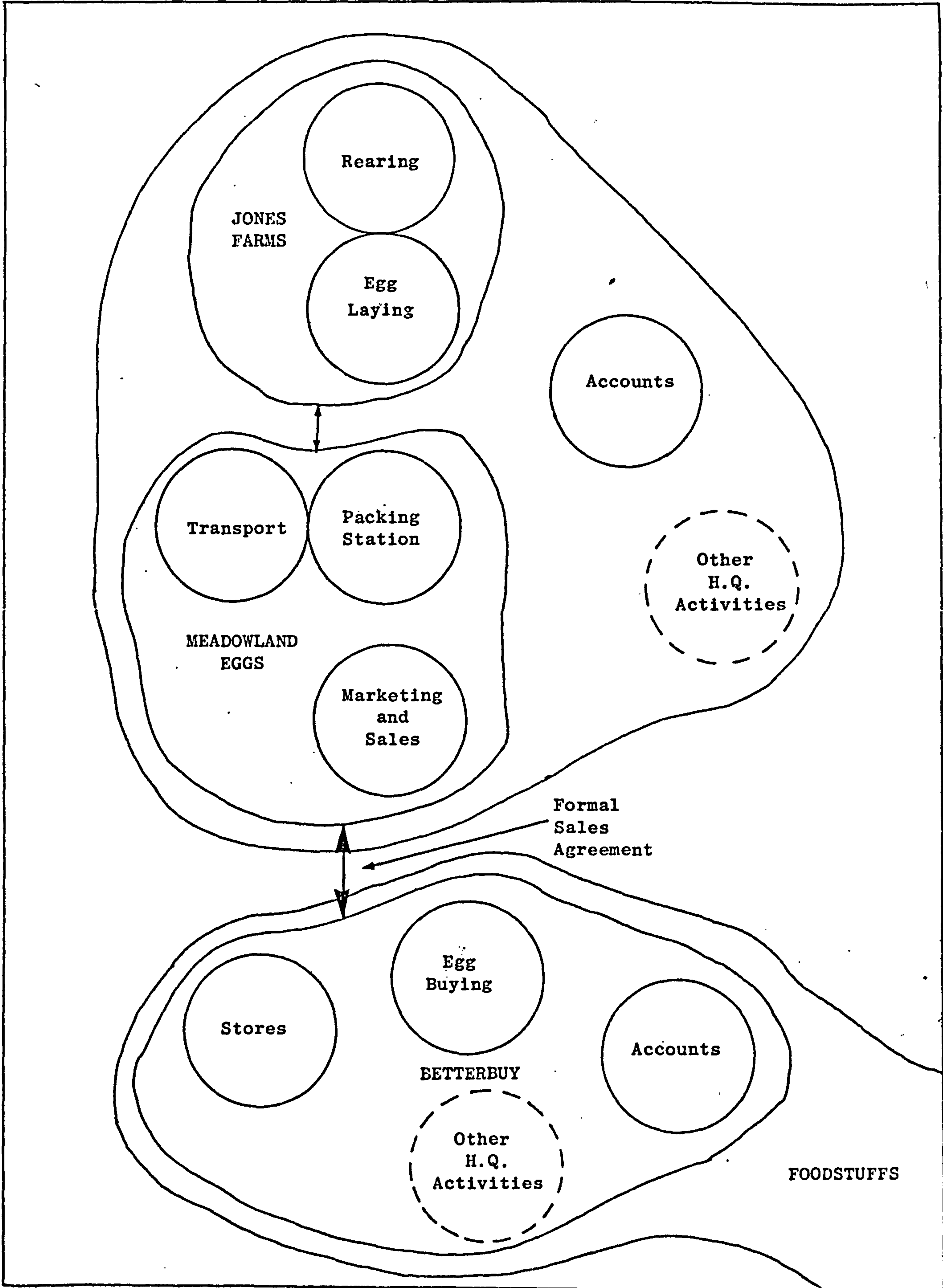
There is an asymmetrical power relationship between Meadowland Eggs and Betterbuy. Betterbuy has power over Meadowland Eggs but Meadowland Eggs has no power over Betterbuy. This is because Meadowland Eggs is only a minor egg supplier to Betterbuy, but Betterbuy is a major customer of Meadowland Eggs, accounting for over 20% of its sales. Betterbuy's areas of influence, however, stay inside the usual realms of egg quantity, packaging, delivery and terms of trade.

(ii) Co-ordination

In 1978, Meadowland Eggs was obtaining a third of its eggs from outside egg suppliers because of a sharp rise in sales that occurred between 1977 and 1978. At the time of interview, the co-ordination of egg supplies with requirements was still suffering from the severe shock to the

* A detailed description of this channel is provided in Appendix E, Section 3.

DIAGRAM 7.5. : CHANNEL C ORGANISATION



system caused by this jump in sales.

The ordering, delivery, invoicing and payment cycle appears to be well-coordinated. This conclusion is supported by the fact that Meadowland Eggs only had to deal with two queries concerning Betterbuy's account in 1977, and because of the lack of complaints received from its stores by the Betterbuy head office concerning the delivery service from Meadowland Eggs.

(iii) Channel Performance

1. Egg Freshness

Meadowland Eggs only supplies Jones Farms produced eggs to Betterbuy, therefore eggs are between 1 and 2 days old when they reach a Betterbuy outlet. The results of a study by Betterbuy suggest that nearly all eggs are sold within 8 days. There is, in any case, a 12 day sell-by date stamp.

2. Egg Prices

Table 7.3 shows that the prices of eggs from channel C were below average in all cases for the week beginning 8 May 1978.

3. % Sales Growth

Between 1977 and 1978 the growth in sales was 34% from approximately 300 to 400 cases per week.

4. Investment

Jones Farms and Meadowland Eggs have invested heavily in laying facilities and in a new purpose-built packing station and an office block. Betterbuy is currently studying the whole area of egg merchandising prior to making a decision on whether or not to invest in special display fittings.

Meadowland Eggs looks for loyalty, an interest in egg merchandising, increasing orders and prompt payment. Betterbuy, and thus channel C, scores highly on all these counts.

TABLE 7.3 : BETTERBUY EGG PRICES FOR EGGS SUPPLIED

BY MEADOWLAND EGGS COMPARED WITH AVERAGE

PRICES^a FOR THE WEEK BEGINNING 8th MAY 1978

EGG SIZES	BROWN			BETTERBUY -AVERAGE (p)
	BETTERBUY PRICE (p)	AVERAGE PRICE (p)		
2	55	55.4		-0.4
3	45	48.8		-3.8
4	43	46.5		-2.5
5	34	40.8		-6.8

a. Average Prices as given by the Eggs Authority Weekly
Report No. 364.

Betterbuy, (through Mr Nailor - see Appendix E Section 3) wants egg suppliers that are willing to try new ideas, that supply consistently high quality eggs, that have a reliable delivery service and that price their eggs competitively. Meadowland Eggs meets these requirements and is recognised to be so doing.

(iv) Channel Member Performance

1. Meadowland Eggs

Sales Growth was as follows :

1975 - 500 cases per week
 1977 - 870 cases per week
 1978 - 1750 cases per week

This represents a 250% increase between 1975 and 1978 and a 101% increase between 1977 and 1978. As already noted, Meadowland and Jones Farms have invested heavily in new facilities.

2. Betterbuy

In recent years, Betterbuy's share of the retail grocery trade has fallen. Its turnover, however, has increased by more than the rate of inflation.

Betterbuy is undergoing a period of rationalisation which is mainly taking the form of small store closures. At the same time, however, new retail ventures are being developed, such as limited line discounting, and new superstores are being opened.

(v) Channel Atmosphere

1. Desire to Work Together

A desire to work together is evident between Meadowland Eggs and Betterbuy. This has been illustrated by the two companies since the study interviews took place, by their co-operation in developing a policy for revitalising egg retailing.

2. Contact Between Channel Members

Contact between Meadowland Eggs and Betterbuy is by post, by telephone and by personal visit. Telephone contact takes place several times a week.

3. Reciprocity of Ideas

Ideas for improving the merchandising of eggs are frequently discussed between Meadowland Eggs and Betterbuy.

4. Mutual Trust and Respect

There is evidence of mutual trust and respect between Meadowland Eggs and Betterbuy. Meadowland Eggs, however, retains some anxiety that Betterbuy may decide to return to its policy of using only national suppliers, despite assurances to the contrary.

5. Intensity of Involvement

Channel C has been operating since 1974. In 1978 Betterbuy accounted for 22.8% of Meadowland Eggs sales, whereas Meadowland Eggs only supplied 7½% of the eggs sold by Betterbuy. This demonstrates the greater comparative involvement of Meadowland Eggs to Betterbuy in channel C.

6. Motivation

Meadowland Eggs and Betterbuy are both keen to increase their sales of eggs.

7.6.2 Channel D*

(i) Vertical Integration

Channel D has a rather complicated structure. The Western Egg Company is an egg producer co-operative. This means that it is owned by those individuals who supply it with eggs. Hence, F.D. Chapman is a part-owner of the

* A detailed description of this channel is provided in Appendix E, Section 4.

Western Egg Company. In Diagram 7.6 this is denoted by the dotted line which encompasses F.D. Chapman and the Western Egg Company.

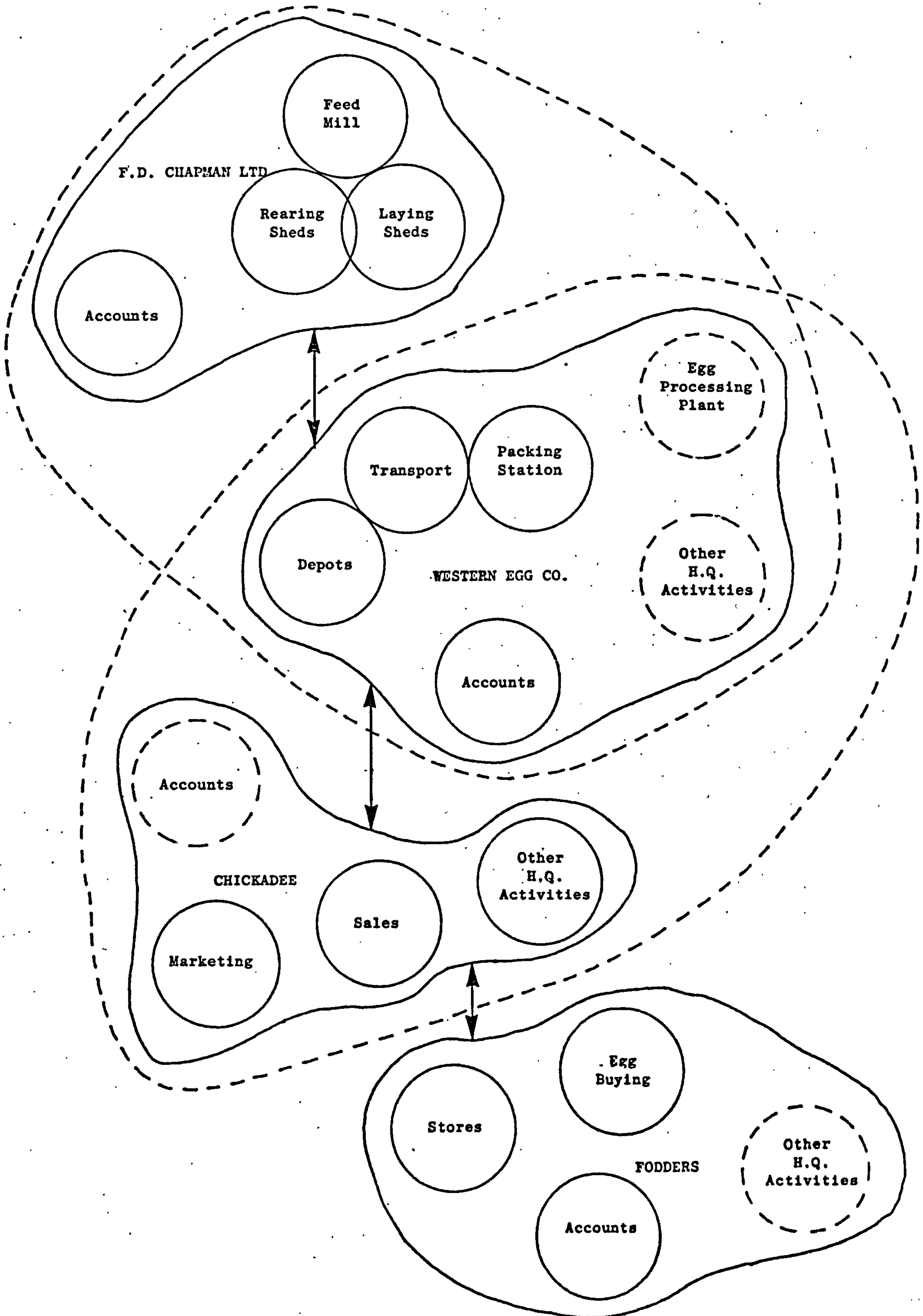
Chickadee is also a co-operative, but an egg marketing co-operative, which serves four egg packers, including the Western Egg Company. Once again, this structural connection is denoted by a dotted line in Diagram 7.6. Hence, of the four channel members comprising channel C, three are connected by ownership.

The power structure of the channel is such that the extent of the power that F.D. Chapman has, as an individual company, over the Western Egg Company, is similar to that which a small shareholder might have over a public company. The power that the Western Egg Company has over F.D. Chapman is also very limited, because the Western Egg Company is obliged to accept, under contract, all the flocks that are offered by a member producer as well as all the eggs that are produced by these flocks. There has only been a single instance when the Western Egg Company influenced F.D. Chapman's egg production policy. This occurred when, in a period of glut, F.D. Chapman agreed to shorten the laying life of a flock by several weeks in return for a guarantee from the Western Egg Company that by so doing there would be no financial loss.

Although the Western Egg Company is a part-owner of Chickadee, the power relationship between these two channel members is not unidirectional. This is because the Western Egg Company is reliant on Chickadee to sell the eggs which it packs. In many ways, the relationship between these two channel members resembles that between a production division and a marketing division of a very large corporation. Certainly there is a strong element of mutual dependency.

The egg retailer, Fodders, has an unusual characteristic in that much more executive power is given to store managers than is general in grocery retailing. Store managers are able, for example, to choose between listed egg suppliers and are also given the authority to select the outer packaging of the eggs that are supplied.

DIAGRAM 7.6. : CHANNEL D ORGANISATION



Fodders is a large account for Chicklay, and it is aware of the power that it holds. Fodders directs this power to the negotiation of highly competitive trading terms and promotional budgets.

(ii) Co-ordination

The matching of egg supplies with packer requirements for fulfilling orders occurs at a local and at a national level. At the national level, Chickadee reconciles the egg availability at its members packing stations with the orders that these packing stations have to fulfil by arranging for eggs to be moved from one packing station to another, as necessary. At the local level, packing station managers compare their existing stocks and expected supplies with the orders to be met the following day, and report the position to Chickadee. The procedure for the reconciliation of supplies was shown to work very well. Paperwork is kept to the minimum and there is little duplication of effort in the organisation of the system. One means of improvement, however, is the need to re-allocate supply areas to packing stations more quickly, as the pattern of supply and demand changes. At present, there are significantly long periods when regular deliveries of eggs are made from one packing station to another.

The ordering, delivery, invoicing and payment cycle in channel D involves a larger number of channel members than in any of the other channels that have been studied. There are four channel members involved, each with a slightly different accounts procedure (although Western Egg Company has begun to reconcile its accounts procedures with those of Chickadee). Inevitably, there is some duplication over the channel as a whole.

(iii) Channel Performance

1. Egg Freshness

An egg of a popular colour/size combination takes from 2 to 5 days to reach a Fodders store. There is no sell-by date stamped on pre-packs, and although most eggs are sold within a few days, Fodders are noted for poor stock rotation.

Some of the eggs may thus stay on the shelves for quite a long time.

2. Egg Prices

Egg prices in Fodders, other than for brown, size 2, were below average in the week beginning 8 May 1978, as shown in Table 7.4.

3. % Sales Growth

This figure cannot be calculated directly; because Chickadee would not provide the necessary information. It is, however, estimated at approximately 20%.

4. Investment

There has been a great deal of investment in new facilities by the Western Egg Company and by Chickadee, but neither F.D. Chapman nor Fodders have invested in any equipment specifically related to eggs.

F.D. Chapman now keeps eggs mainly out of superstition.* Consequently, little effort is expended in this direction. Having traded with Western Egg Company since 1948, F.D. Chapman knows the system and is adjusted to it. In addition, the Western Egg Company is believed by F.D. Chapman to offer the best returns, after accounting for the member bonus.

The Western Egg Company was one of the founder members of the Chickadee co-operative. It was, and still is, very committed to the opinion that the amalgamation of the four regional packers to form a national egg supplier was the only way open to them to compete effectively.

In its egg producers, Western Egg Company looks for loyalty, reliability and flexibility. F.D. Chapman is very loyal (even refusing to sell eggs 'over the gate' because this is against Western Egg Company policy - a policy he voted for), reliable but not flexible. There

*

The comment was made by Mr Chapman that he was not really interested in eggs anymore, but that he maintains egg production because for the two years when he didn't, 'everything went wrong' !

TABLE 7.4 : FODDERS EGG PRICES FOR EGGS SUPPLIED BY

CHICKADEE COMPARED WITH AVERAGE PRICES^a.

FOR THE WEEK BEGINNING 8th MAY 1978

EGG SIZES	WHITE			BROWN		
	FODDERS PRICE (p)	AVERAGE PRICE (p)	FODDERS -AVERAGE (p)	FODDERS PRICE (p)	AVERAGE PRICE (p)	FODDERS -AVERAGE (p)
2	53	54.1	-1.1	57	55.4	+1.6
3	43	47.2	-4.2	46	48.8	-2.8
4	41	44.1	-3.1	45	46.5	-1.5
5	33	37.8	-4.8	36	40.8	-4.8

a. Average Prices as given in the Eggs Authority Weekly Report No. 364.

has been no variation in F.D. Chapman's flock formation since the company began egg production.

Chickadee requires that the egg packers should display a willingness to try out new ideas in the packaging of eggs, that they should support Chickadee in facilitating the availability of eggs when demand is increased by promotional activity and that there should be an absence of 'jealousy' when any re-organisation is necessary of the areas served by each packer. Western Egg Company was praised by Chickadee on all these counts.

Fodders is a customer of Chickadee that meets very many of Chickadee's criteria for identifying the customers it most wishes to keep. Firstly, it is a grocery retailer that is holding its own in the High Street fight for market share. In fact, it is increasing its sales, including the sale of eggs. Secondly, it has increased the proportion of eggs supplied by Chickadee to 80%. Thirdly, it allows Chickadee to merchandise its own egg displays and encourages Chickadee to run its own promotions, providing that Chickadee does not interfere with Fodders own promotions on eggs or the promotional allowance made towards them. One disadvantage with Fodders is that they drive a very hard bargain over quantity and over other discounts.

Fodders criteria for evaluating existing and potential egg suppliers are their ability to meet orders without stretching their resources (this is to ensure continuous supply) and their ability to offer highly competitive discounts. Because of Chickadee's size it is able to meet both of these criteria.

(iv) Channel Member Performance

1. F.D. Chapman Ltd

F.D. Chapman has grown from 1 to 4 farms since 1948, the latest acquisition being in 1974. As previously mentioned, eggs are now very much a sideline, nevertheless, the flock of 59,500 is larger than that of Chicklay in channel B. Overall, F.D. Chapman appears to be a very successful enterprise.

2. Western Egg Company

Between 1973 and 1977, the average weekly output of Western Egg Company increased by 8% to 45,000 cases, in line with their projections. Since the early 1970's, the company has been re-equipping its packing stations, and is now able to handle this greater quantity of eggs with fewer packing machines.

3. Chickadee

Chickadee's performance as a marketing and sales organisation for eggs is illustrated by the sales figures as follows :

1975	-	106,837	cases per week
1977	-	117,521	" " "
1978	-	122,222	" " "

These figures show that sales have increased by 14% between 1975 and 1978.

Since its formation, Chickadee has increased its revenue such that it is now one of the few companies selling eggs that can afford national press advertising. It has used television in the past, but has now changed to commercial radio.

4. Fodders

Fodders is one grocery multiple that is benefiting from the competitive climate of the grocery trade. Sales, generally, have increased and egg sales have improved by 14% between 1977 and 1978 - a much larger increase than has occurred in the size of the market for eggs.

(v) Channel Atmosphere

1. Desire to Work Together

F.D. Chapman expressed the opinion that producers should co-operate with the Western Egg Company because in this way only would the producers, themselves, benefit. On the other hand, the opinion was expressed that unnecessary interference by packers was undesirable.

The Western Egg Company and Chickadee are both very committed in principal and in practice to the idea of working together. They would also like to co-operate more closely with the egg producers in order to regulate supplies. Chickadee expressed the additional desire for greater co-operation with retailers on all aspects of egg retailing and promotion.

Fodders professes that it works closely with its suppliers, but has a reputation to the contrary. Indeed, when asked, the interviewee could not quote a single instance where Fodders and an egg supplier had worked together to solve a common problem.

2. Contact between channel members

There is regular direct and indirect contact between all adjacent channel members, and especially between F.D. Chapman, Western Egg Company and Chickadee.

3. Reciprocity of Ideas

Ideas are exchanged frequently between the Western Egg Company and Chickadee concerning all aspects of the marketing of eggs. The Western Egg Company also discusses ideas with member producers informally as well as formally at the producer meetings.

There is very little discussion between Fodders and Chickadee outside the questions of prices and promotional activity allowances.

4. Mutual Trust and Respect

A great deal of mutual trust and respect exists amongst the three channel members which comprise the egg supply sector of the channel.

The nature of the trust and respect between Chickadee and Fodders is interesting because there is plentiful evidence of mutual respect for each others trading ability, but Chickadee does not seem to trust Fodders, either to maintain its business or to play fair in negotiating terms.

5. Intensity of involvement

The involvement with channel D of F.D. Chapman, the Western Egg Company and Chickadee* is readily apparent. Fodders, however, seems to feel no commitment, despite obtaining 80% of its supplies from this source.

6. Motivation

F.D. Chapman is content with the existing income from eggs, as it is only a sideline to its main business. All the remaining channel members are committed to growth.

7.6.3 Channel E**

(i) Vertical Integration

Channel E is comprised of three channel members that have no ownership nor contractual ties, merely, 'gentlemen's agreements'.

Each channel member is small, and the centralisation of control within each one is high, as illustrated in Diagram 7.7. There is, however, no centralisation of control across the channel member boundaries. Gransden Egg Packers, for example, exercises no power on the quality or quantity of eggs produced by West Farm and neither does it try to influence the merchandising or the pricing*** of eggs sold by Whites.

(ii) Co-ordination

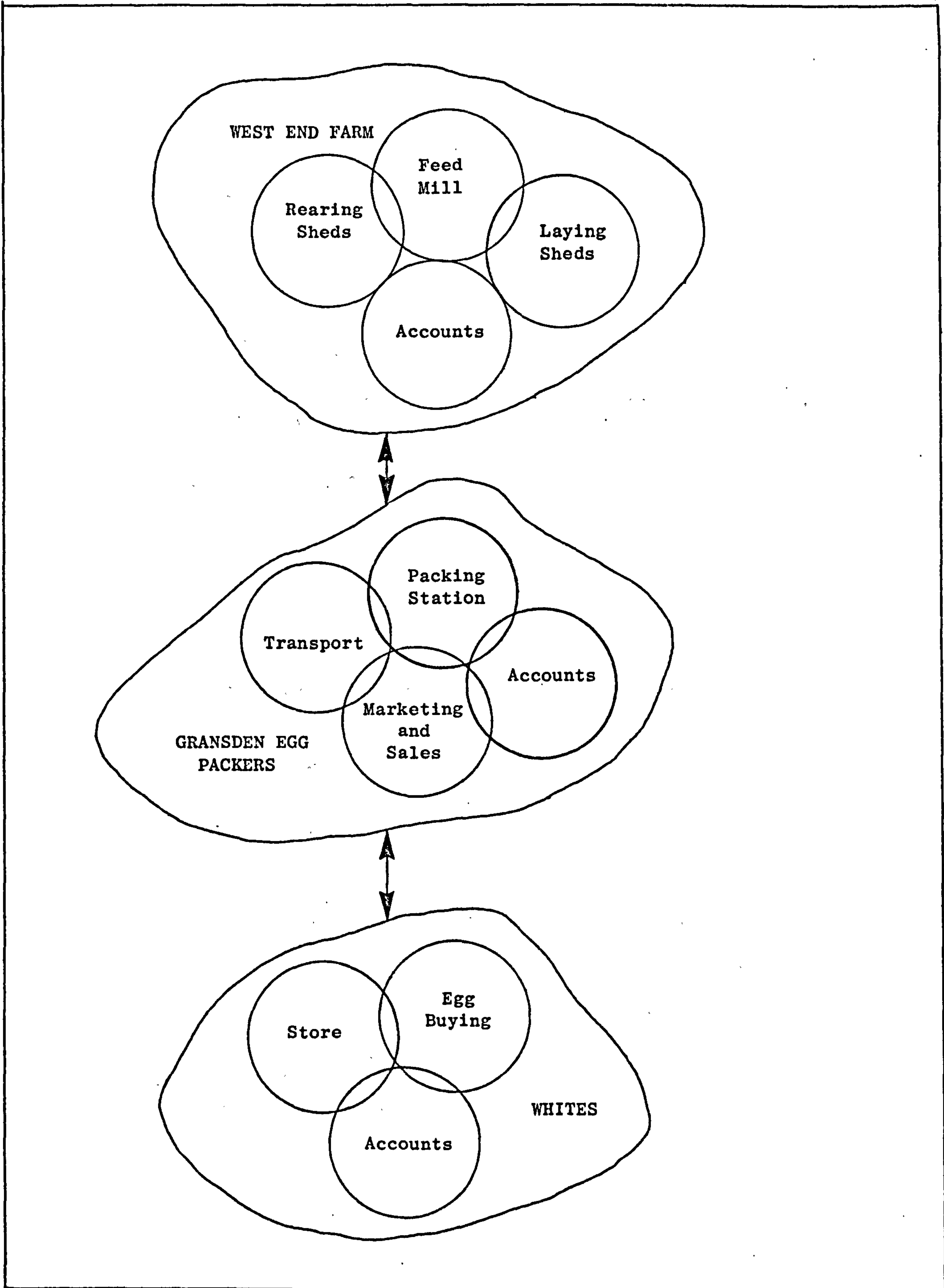
Gransden Egg Packers has the task of reconciling the number and type of eggs coming in from egg producers with the orders it has for eggs. There is no formalised procedure for this reconciliation, but because Gransden Egg Packers receives regular supplies and regular orders from its producers and its customers it is rarely a problem to match the supplies of one day with the orders of the next.

* F.D. Chapman sends all its eggs to the Western Egg Company, which sells all its eggs through Chickadee. 25% of the eggs sold by Chickadee come from the Western Egg Company.

** A detailed description of this channel is provided in Appendix E, Section 5.

*** Gransden Egg Packers simply informs Whites of Average Retail Prices and expected movements taken from published sources.

DIAGRAM 7.7. : CHANNEL E. ORGANISATION



The ordering, delivery, invoicing and payment cycle is well co-ordinated, with the exception of some unnecessary duplication at Gransden Egg Packers. This duplication is mainly inherent in the rather dated manual accounts ledgers which are used.

(iii) Channel Performance

1. Egg Freshness

When delivered to Whites the eggs may be from 2 to 7 days old.

Whites has a weekly delivery and aims to buy just enough eggs for one week at a time to avoid having problems with stale eggs.

There are no sell-by dates on the pre-packs, only week numbers.

2. Egg Prices

Table 7.5 shows the prices of eggs from channel E for the week beginning 8 May 1978. It can be seen that they are all near or above average.

3. % Sales Growth

Between 1977 and 1978 the growth in sales has been 10%. from about 5½ to 6 cases per week.

4. Investment

The only capital investment in channel E has been the replacement of some aged delivery vans by Gransden Egg Packers.

Channel E suits West End Farm admirably because it pays a fair price for the eggs it produces and allows the Farm to produce whatever eggs it wants. Channel E also suits Gransden Egg Packers in so far as West End Farm is a long-standing producer that can be relied on to send a particular mix of eggs to the packing station, and in that Whites, although a small customer, is a loyal one that pays promptly.

TABLE 7.5 : WHITES EGG PRICES COMPARED WITH
AVERAGE PRICES^a FOR THE WEEK BEGINNING

8th MAY 1978

EGG SIZES	WHITE			BROWN		
	WHITES PRICE (p)	AVERAGE PRICE (p)	WHITES -AVERAGE (p)	WHITES PRICE (p)	AVERAGE PRICE (p)	WHITES -AVERAGE (p)
2	56	54.1	+1.9	60	55.4	+4.6
4	44	44.1	-0.1	47	46.5	+0.5

a. Average Prices as given by the Eggs Authority Weekly Report No. 364.

Finally, channel E suits Whites because Gransden Egg Packers continually prove to offer the most competitive prices. Whites would, however, like more promotional material to be supplied for point-of-sale display.

(iv) Channel Member Performance

1. West End Farm

West End Farm is basically an arable farm. The farm has always been prosperous and it continues to be so. In recent years nearly all the investment on the farm has been in new equipment for the arable side. Eggs are, in fact, only a minor income earner.

2. Gransden Egg Packers

In the early 1970's, Gransden Egg Packers business contracted from 1500 cases a week in 1970 to 1000 cases a week in 1975. Between 1975 and 1978 sales stabilised at the 1975 figure.

As previously noted, there has been no recent investment by Gransden Egg Packers other than the purchase of delivery vans.

3. Whites

In 1976 Whites shop was extended and refitted. This work was mainly paid for out of profits. Since 1976 the business has continued to thrive, especially since the cut backs in rural transport.

(v) Atmosphere

1. The Desire to Work Together

None of the channel members wanted closer working relationships than already existed. In various ways, the opinion was expressed by all the channel members that they wanted 'to run their own concerns' and 'not be in each others pockets'.

2. Contact Between Channel Members

Contact between West End Farm and Gransden Egg Packers is indirect, by post, and direct, by telephone calls and by face-to-face contact between the farmer and the regular collection van driver. The contact between Gransden Egg Packers and Whites is of a similar nature.

3. Reciprocity of Ideas

There is no real exchange of ideas between the channel members.

4. Mutual Trust and Respect

The mutual trust in Channel E is demonstrated by the reliance on 'gentlemen's agreements'. Mutual respect was also apparent. The respect of West End Farm and Whites for Gransden Egg Packers seemed to be based on the feeling that any other small independent packer would have gone out of business by now.

5. Intensity of Involvement

100% of West End Farms eggs go to Gransden Egg Packers and 100% of Whites eggs are supplied by Gransden Egg Packers. As far as Gransden Egg Packers is concerned, West End Farm supplies 9.5% of its eggs and Whites takes just under 1% of its sales.

Channel E has been trading since the late 1960's and this, more than the economics, may account for the sense of involvement Gransden Egg Packers appears to feel with Whites.

6. Motivation

West End Farm does not wish to increase its egg production and is, therefore, content with the status quo. Gransden Egg Packers does not want to lose any more business but neither is it concerned to reclaim its lost business. Only Whites wants to increase its sale of eggs - in line with its sales overall.

7.7 A COMPARISON OF CHANNELS C, D and E

In this section, the three channels that have just been described are discussed and compared in relation to each other.

7.7.1 Vertical Integration

The evidence suggests that the degree of vertical integration is highest in channel C and lowest in channel E, with channel D somewhere between the two. This conclusion can be drawn from a consideration of the channels in terms of the different sectors of egg supply and egg retailing and the power relationship between these two sectors. The centralisation of control within the egg supply sector is greatest in channel C but channel E has the greater centralisation of control within egg retailing. This latter point applies by virtue of the fact that Whites is a single shop retailer and not a multiple as the retailers are in channels C and D. Across the two channel sectors the strongest and widest scope of influence is exercised by Betterbuy over Meadowland Eggs.

7.7.2 Co-ordination

It is very difficult to compare the relative degrees of co-ordination in the channels because of the different structures of the channels, and the different sizes of the channel members. This is because the tasks of matching egg production with packer requirements and of co-ordinating the ordering, delivery, invoicing payment cycle are very dissimilar in all three of the channels.

If these particular problems are set to one side, however, then it would appear that co-ordination is greatest in channel E. This conclusion draws on the factor of the small size of the channel members and the lack of any requirement to make sudden and unplanned adjustments to egg requirements.

7.7.3 Channel Performance

1. Freshness

Fresher eggs are more likely to be available from channel C than from channels D or E. Channel D scores lowest on this performance measurement because of the factor of poor stock rotation in Fodders.

2. Price

Only brown eggs, sizes 2 and 4 are sold by all the three channels. On the basis of a comparison of these categories, channel C has the lowest prices. The validity of this comparison is questionable, however, because channel C specialises in the production of brown eggs whilst channel D concentrates on producing white eggs and thus offers, comparatively, far cheaper prices on its white eggs than its brown ones.

3. % Sales Growth

Taking into account the estimated figure for channel D, percentage sales growth is greatest in channel C. This increase in sales growth, however, is mainly accounted for by Betterbuy buying a greater proportion of its egg requirements from Meadowland eggs, rather than an increase in Betterbuy's sales to consumers. It should be noted therefore, that as Gransden Egg Packers already supply 100% of the eggs to Whites, then the only increase in sales that can be experienced is through an increase in the sale of eggs to the consumer.

4. Investment

Once again, the difference in the scale of operations makes this comparison a difficult one. Some factors, however, are worth noting. Investment in egg production has only occurred in Channel C, and there has been comparatively more investment in egg marketing in channel D. There has also been comparable investment in egg packing (having accounted for size differentials) in both channels C and D.

Finally, in this section, it is interesting to record that the requirements of all the channel members seem to be adequately met by the channel to which they belong.

7.7.4 Channel Member Performance

There are wide variations in the degree and extent of successful performance amongst the channel members. In channel C, the egg producer-packer appears to be successful; in channel D, all channel members appear successful in their chosen fields; on a more modest scale, the farmer and retailer in channel E seem to be successful. The retailer in channel C is suffering from the same pressure of competition as the retailer in channel D.

The packer in channel E is fighting the competition of small producer packers as well as the demise of small flocks of laying birds on general farms.

7.7.5 Channel Atmosphere

1. Desire to work together

The desire to work together was well-developed in channel C and existed throughout most of channel D. The exception in channel D was provided by Fodders, which seemed to have only a minimal desire actually to work with suppliers.

In channel E, all channel members seemed to be of the one opinion that working together was acceptable, even desirable, but only within narrow limits.

2. Contact between channel members

All three channels demonstrated frequent direct contact between channel members. It appears, however, that the nature of the communication effected within the contact varies considerably. This, however, was not examined in any great detail at the interview stage.

3. Reciprocity of Ideas

The reciprocity of ideas was a feature of channel C and was also important in the egg supplier sector of channel D. In channel D the reciprocation of ideas fails between Chickadee and Fodders.

4. Mutual trust and respect

There is mutual trust and respect throughout channel E and within the egg supplier sector of channel D. Interestingly, the egg suppliers in both channels C and D seem apprehensive about the trust that they can place in their retail members of their respective channels.

5. Intensity of Involvement

In both channels C and D, the sense of involvement of the retailer was less than that of the supplier.

In channel E, all channel members displayed a sense of involvement despite expressing little desire to work together.

6. Motivation

The motivation to improve performance is found in both parties of channel C. In channel D, all but the egg producer are committed to growth, but in channel E only the retailer wishes to increase its trade in eggs.

7.7.6 Summary

The pattern which emerges from the comparison of channels C, D and E is as follows :

Channel C has the highest degree of vertical integration, sells the freshest and cheapest eggs, has experienced the biggest % increase in average weekly sales and has had the most invested in it . Channel E, however, is the best co-ordinated and channel D contains the channel members with the best performance records.

Turning to channel atmosphere it may be noted that the desire to work together, the frequency and quality of direct contact, the reciprocity of ideas and the motivation of individual channel members are all higher in channel C. It is channel E, however, which has the best developed mutual trust and respect and the greatest overall intensity of involvement.

7.8. COMPARISON OF THE FIVE CHANNELS

In this section the five channels are compared in two ways. Firstly, the pattern to emerge from the comparison of channels A and B is set against the results from the comparison of channels C, D and E. Secondly, all five channels are treated as comprising a single universe and comparisons are made accordingly.

7.8.1 A Comparison of the Sub-Group Comparisons

In the following table, the results of the two sub-group comparisons are juxtaposed.

	<u>Channels A and B</u>	<u>Channels C, D and E</u>
Highest degree of vertical integration	B	C
Highest level of co-ordination	B	E
Freshest eggs	A	C
Cheapest eggs	A	C
Greatest % increase in sales	B	C
Greatest level of channel member satisfaction	B	C/D/E
Channel members with best performance records	B	D
Strongest desire to work together	A/B	C
Most frequent, direct contact	B	C
Greatest reciprocity of ideas	B	C
Greatest mutual trust and respect	A/B	E
Greatest intensity of involvement	A	E
Greatest motivation of channel members	A/B	C

As may be seen, the two sets of results correspond in some respects, but differ in others. They correspond, for example, in that in each sub-group the channel with the most frequent, direct contact and the greatest reciprocity of ideas is the channel with the highest degree of vertical integration and the greatest percentage sales growth. Another example of congruency is that in each sub-group the channel supplying the cheapest eggs also supplies the freshest eggs.

The principal disparity concerns channel co-ordination. The comparison of channels C, D and E yields channel E as having the highest level of co-ordination together with

the greatest mutual trust and respect and the greatest intensity of involvement. Channel B emerges from the comparison of channels A and B as the channel with the higher level of co-ordination, but not as the channel with either the greater intensity of involvement or the greater mutual trust and respect (the latter being considered comparable in both channels). Instead channel B combines its higher level of co-ordination with the most frequent, direct contact, the greater reciprocity of ideas and the higher degree of vertical integration.

It is, in fact, the above variation in the results of the two sub-group comparisons which has precluded the identification of a single, common pattern connecting the various measures of channel atmosphere, co-ordination, performance and vertical integration.

7.8.2 A Comparison of the Five Channels

The comparison of all five channels gives the following results :

Highest degree of vertical integration	B
Highest level of co-ordination	B
Freshest eggs	C
Cheapest eggs	C
Greatest % increase in sales	C
Greatest level of channel member satisfaction	B
Channel members with best performance records	B
Strongest desire to work together	A/B/C
Most frequent, direct contact	B
Greatest reciprocity of ideas	B
Greatest mutual trust and respect	A/B
Greatest intensity of involvement	E
Greatest motivation of channel members	C

These results form a pattern which in most respects conforms to the pattern of results produced by the comparison of channels A and B, but which also incorporates the apparent connection between the motivation of channel members, percentage sales growth and the freshness and price of eggs, from the comparison of channels C, D and E. The comparison table thus points to positive links between the four factors of channel atmosphere, co-ordination, performance and vertical integration.

Referring back to the individual analyses of the channels, it may be noted that in many instances channel atmosphere seems to be a more subtle and comprehensive indicator of co-ordination than vertical integration. In particular this is indicated by the fact that within the channels studied the levels of co-ordination and types of atmosphere vary, apparently concomitantly.

7.9 THE CONTRIBUTION OF THE CASE STUDIES

The results of the case analyses and comparisons have to be treated with caution, especially when drawing inferences for the model of channel atmosphere, co-ordination, performance and vertical integration which has been postulated. There are several reasons why caution is necessary. Firstly, the number of channels studied is too small for anything more than very tentative statements to be advanced. Secondly, the measures of channel vertical integration, co-ordination and performance have been affected by channel member size. And thirdly, it has been necessary to use an incomplete set of performance measures because the information needed to use the full set was not forthcoming. Indeed, the performance measures which it has been possible to use are not a balanced set as they emphasise relatively minor facets of channel performance but do not cover channel efficiency, profitability or flexibility.

Notwithstanding the above, the results of the case analyses and comparisons have contributed substantially to this study of the relationship between vertical integration and performance in marketing channels. They have done this by supporting the contention that there is a positive relationship between the four elements comprising the postulated model, and by providing evidence of instances where channel atmosphere may be seen to be a better indicator of co-ordination than vertical integration.

The case studies have, in addition, indicated the contribution which may be made to the understanding of channel activity by including behavioural factors in channel analysis. They have also demonstrated the feasibility of constructing empirical measures for behavioural factors.

Finally, the case analyses have identified the refinements to the measures of the four elements of the model which would be desirable before proceeding to test the model using a sample survey, or any other mass-data validation technique.

CHAPTER 8IN CONCLUSION

This study is concerned with the development of a model to examine the relationship between vertical integration and performance in marketing channels. The need for a re-examination of this relationship was demonstrated by the shortcomings of the existing literature and by the views expressed in a series of exploratory interviews, which were contrary to those expressed in the literature.

A social systems approach has been adopted to build the model because of the benefits that a social systems characterisation of the marketing channel has over an economic system characterisation. This is discussed in Chapter 2, where the marketing channel is identified as a particular type of social system termed the 'Interorganisational Collectivity'. This conceptualisation of the marketing channel places the study firmly in the interorganisational school of thought.

The model of vertical integration and performance in marketing channels, which has been developed, is presented in Chapter 5. That a totally fresh approach to the study of this area has been adopted is apparent in several ways. This is seen not only in the redefinition of vertical integration, co-ordination and performance (factors which are already accepted in the existing literature on this subject), but also in the introduction of an innovative variable, channel atmosphere, as the fourth element in the model.

The proposed model draws on a wide range of behavioural concepts. In so doing, the model illustrates the pertinence of these concepts to a field of channel study in which they are not usually included. Indeed, power, control, co-operation and conflict are concepts of central importance in the model.

Basically, the model postulates that channel atmosphere is a more reliable indicator of channel co-ordination, and thus channel performance, than is vertical integration, despite the redefinition of this factor. This is argued because channel atmosphere, by its very definition, is able to account for the influence of many more factors that affect the level of co-ordination in a

marketing channel than can vertical integration. The implication which may be drawn from the model is, therefore, that marketing channels, in any given product market, may have differing structures and even differing degrees of centralised control, but providing that they have similar atmospheres they will have similar levels of co-ordination and thus comparable records of performance.

A case study approach was adopted for the examination of the model because of the number of innovatory elements that are constituted within the model. These elements include one which is an original concept in itself, and three which are 'fundamental redefinitions of existing factors.' In addition, the model postulates a particular relationship between these elements.

Case study analysis is appropriate because it is the only empirical methodology which allows the researcher to investigate, in detail, why a given operational measure is, or is not, an appropriate surrogate for a given concept or theoretical factor. It was contended that the application of sample survey techniques to a model containing so many operationally untried concepts would have been premature. This contention is confirmed by the results of applying case analysis to the five egg marketing channels.

The results of the case study analyses neither support nor refute the relationship between vertical integration, co-ordination, atmosphere and performance postulated by the model. There are a variety of reasons why this is so, not the least of these being the problems that were encountered during the course of the data collection due to disruption within the egg industry itself. As a result of this, some of the information that was critical to the empirical analysis was unobtainable.

Nevertheless, several interesting implications concerning the proposed model, can be drawn from the results. There are three principal factors which can be summarised as follows.

Firstly, it should be noted that it has not been possible to measure the performance of the five egg marketing channels in accordance with the indicators suggested in the model. This is because most of the measures relied on information that channel members refused to divulge and because a few required information that was not available in the appropriate form. It has been necessary therefore, to avoid any specific emphasis concerning the

results of the application of the performance measures which would be used. This indicates that the model needs to contain performance measures that require far less sensitive data than is suggested in Chapter 5.

The second point is that the measures of vertical integration, co-ordination and performance used in the analyses are found to be materially affected by channel member size. This effect can give an advantage to channels which are comprised of small channel members. This suggests that the influence of channel member size on the relationship between vertical integration and performance in marketing channels should be formally recognised by the model and that the measures of vertical integration, co-ordination and performance should be adjusted accordingly.

Thirdly, channel atmosphere emerges as a factor which may be anticipated to be a better indicator of channel co-ordination than vertical integration, when the measurement of these last two factors has been adjusted. It is suggested, however, based on the results of the channel analyses, that all dimensions of channel atmosphere should be related within as well as between channel members, and that the measure of the dimension of intensity of involvement should be supplemented by a more definitive attitudinal content.

The aims of the research are stated to be the construction of a model of the relationship between vertical integration and performance in marketing channels and the consideration of the usefulness of behavioural concepts in addressing a channel problem.

A conceptual model has been developed and subsequently subjected to case analysis. The results of this analysis have indicated the need for, and the nature of, several modifications which enable the model to go forward for sample survey validation.

Whilst the behavioural concepts contributed to the conceptual development of the model they also created most of the operational difficulties. This is because surrogate measures of behavioural factors are less clear cut and more sensitive to noise than non-behavioural ones.

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CHAPTER 2

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CHAPTER 3

VERTICAL INTEGRATION AND PERFORMANCE
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They are :

- Marketing Channels
- Interorganisational Systems
- Power and Control
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APPENDIX ADEFINING THE TERM MARKETING CHANNEL1. INTRODUCTION

It is unfortunate, but true, that the channel literature is unable to supply a definitive answer to the question : 'what is a marketing channel?' The reason for this shortcoming is the lack of consensus among writers on the exact meaning of the term.

Not only are the definitions of 'marketing channel' variegated, so too are the terms used to refer to the same phenomenon. There can be some sympathy for Clewett, who commented :

"Especially troublesome are the terms 'distribution channel', 'marketing channel', 'marketing channel network', 'vertical marketing structure' and 'vertical marketing system'. Some authors seem to use them as synonyms, yet a case can be made for each term in the above sequence as being more inclusive than the preceding one ." (1)

In this appendix, existing definitions are reviewed, definitional issues are discussed, and an explicit statement of the meaning attached to the term 'marketing channel', which is used throughout this thesis, is provided.

2. A REVIEW OF CHANNEL DEFINITIONS

Some marketing scholars give a definitional statement for the marketing channel; others define the term by describing the functions and institutions that comprise marketing channels; a few do both and still others do neither. However presented, it is generally possible to categorise the definitions according to the functions and institutions that are incorporated as belonging to the marketing channel. Narrow definitions restrict channel activities to those directly related to the transfer of title and only include, as channel members, units which actually take title. Broad definitions cover the transfer of title, physical distribution and facilitating functions and hence include agencies that take neither title nor physical possession.

Of course, not all scholars use the term 'marketing channel', and where an alternative term is used it is necessary to try and establish why. The use of a different term can represent a real attempt to distinguish between the phenomenon being studied and any other which may have similar, but different, characteristics. Scholars employing different terms for this reason generally subscribe to the view that some channel terms are more inclusive than others. In many cases, however, the use of one channel term rather than another is simply a demonstration of personal preference and has no real significance.

A narrow view of marketing channels is taken by Stanton. He contends that the title flow from producer to consumer composes a channel and that only units that take title may be considered to be channel members. (2)

Davidson acknowledges that to market a product requires more than the transfer of title. He also argues, however, that functions of exchange are paramount (because without an opportunity for profitable exchange, physical distribution and facilitating functions have no relevance) and that for this reason it makes sense to define the channel in terms of exchange. Davidson, thus, adheres to the definition of a channel of distribution as being "the course taken in the transfer of title to a commodity" (3) which he expands in the following manner :

"It is the route taken in transferring the title of a product from its first owner (usually a manufacturer) to its last owner, the business user or ultimate consumer. Such a route necessarily includes both the origin and the destination; hence, it should be viewed as including the manufacturer and the ultimate consumer, as well as any intervening middlemen, inasmuch as all three are originators and performers of much marketing activity. Middlemen in the channel include both merchants, who assume title and resell on their own account, and various kinds of agents or brokers, who do not take title but are nonetheless instrumental along the route taken to effect transfers of ownership. Broadly speaking, the channel also includes marketing establishments owned by vertically integrated companies, that is, those performing marketing functions on more than one plane or level of distribution." (4)

Although both Stanton and Davidson define the channel narrowly, in terms of title transfer, it should be noted that whereas Stanton excludes all agencies that do not take title, Davidson includes, as channel members, all agencies actively involved in effecting changes in owner-

ship irrespective of whether or not they actually take title.

Advocates of narrow definitions defend them on the grounds that the inclusion of too many activities can render a channel definition meaningless because it becomes so broad it no longer refers to anything specific. They argue that functional definitions of the marketing channel can become so inclusive that they are almost indistinguishable from marketing definitions ; and that institutional characterisations of the marketing channel can eventually expand to include so many economic institutions that they resemble institutional definitions of the economy.

Proponents of a broad definition of the marketing channel criticize narrow definitions for being over-simplified and inadequate reflections of reality. They also argue that few who propose narrow definitions stay within the limits imposed by them in ensuing discussions. To quote Bucklin :

"Indeed, most marketing texts giving restrictive definitions do not adhere to them; their developmental discussions of channel problems go far beyond the limited area of title movement." (5)

The case for broad definitions of the marketing channel is clearly presented by McCammon and Little in the following extract :

"A marketing channel should include all firms and individuals that perform one or more of the functions required to market the goods in question. Buying and selling are only two of the activities needed to move goods from points of production to points of use; merchandise must also be transported, stored, (re) packaged, and financed. In addition, prospective buyers must be notified that the merchandise is available and their desire to purchase it must be stimulated. Firms undertaking these 'facilitating' functions are as necessary as the buyers and sellers. Consequently, facilitating agencies (financial institutions, common carriers, public warehouses, advertising agencies, factors, advertising media and other providers of business services) should be included when describing the marketing channel for a specific product Conventional definitions of marketing channels, in addition to excluding facilitating agencies, also exclude 'influentials'. Research undertaken among farmers, physicians, consumers, and purchasing agents indicates that buying decisions are heavily influenced by the opinions of informed individuals within the affected group. Because this is a structural characteristic of the marketing process, the channel should be defined to include influentials as well as original sellers, facilitating agencies, middlemen and ultimate buyers." (6)

McCammon and Little do, however, go further that most proponents of broad definitions in their inclusion of 'influentials'.

An example of a broad definition is provided by Vaile, Grether and Cox. Back in 1952, these notable scholars identified eight functional flows between producers and consumers as being necessary for marketing a product :

1. Physical possession
2. Ownership
3. Promotion
4. Negotiation
5. Financing
6. Risking
7. Ordering
8. Payment

They then defined the marketing channel as being :

" the combination and sequence of agencies through which one or more of the marketing flows move In its simplest form, a channel is limited to the movement of one unit of goods in one flow In its more complicated forms, the channel includes all combinations and sequences of all the agencies used in all the flows, possibly with an indication of the quantitative importance of each. It may apply to a whole class or type of goods and to a company, a trade or an industry. In its most complex form, it describes typical or actual flows of broad classes of goods (say consumers' or industrial goods) or charts the marketing structure as a whole." (7)

Most channel definitions come 'somewhere' in the middle of the narrow-broad continuum, rather than at either end. Many, in fact, share the position taken by Bucklin. Bucklin, a marketing scholar who has paid particular attention to the problems associated with channel definitions, is one who provides a definition of the marketing channel which is to the broader side of centre on the narrow-broad definitional continuum.

Bucklin's definition, which is based on the acceptance of three 'traditionally accepted notions',* is :

"A channel of distribution shall be considered to comprise a set of institutions which performs all

* These are (a) a channel is defined by the institutions linking production and consumption (b) the link relates to some specific product or products (c) included are the institutions which create the product and those which consume it, consumption may be taken to include further changes in product form.

the activities (functions) utilized to move a product and its title from production to consumption." (8)

The activities, or functions, involved in moving a product and its title from production to consumption are given as:

1. The Communication Function - the transmission of information regarding offers to buy or to sell and acceptance of these offers.
2. The Ownership Function - the activities and costs of holding title.
3. The Transit Function - the physical movement of goods between locations.
4. The Inventory Function - the physical control of a product at a particular location.
5. The Production Function - the creation of the product.

Mallen suggests that the ideal definition of the marketing channel would be one that accommodates both narrow and broad definitional positions. He bases this conclusion on the observation that for some purposes a narrow definition is preferable whilst for other purposes a wider, more comprehensive definition is required. (9)

Breyer, who distinguishes between the trading and non-trading elements of the marketing channel, possibly comes closest to what Mallen regards as being the 'ideal' definition. In an article, which only considers the trading channel, Breyer states that

"In the broadest sense of the term, not only trading concerns engaged primarily in selling and buying - producers, wholesalers, retailers, brokers, selling agents, commission houses, etc., - but also non-trading concerns engaged principally in other types of marketing activity - commercial banks, transportation and storage companies, insurance companies, and so on - are found in a marketing channel." (10)

No review of channel definitions would be complete without reference to McVey. According to McVey, the marketing channel is principally an academic concept with little meaning for businessmen, because businessmen think in terms of suppliers and customers, not channels and flows. Hence

his opinion that :

"Perhaps Wroe Alderson said as much as it is safe to say when he described a marketing channel as a group of firms which 'constitute a loose coalition engaged in exploiting a joint opportunity in the market'." (11)

3. CONSIDERATIONS IN DEFINING THE MARKETING CHANNEL

The channel definitions which have been reviewed focus on the functions and institutions of the marketing channel. However, although important, these two factors are not the only ones pertinent to defining the term 'marketing channel'. Channel length, channel width and the criteria for channel existence, are other aspects of the channel which should be, but seldom are, explicitly considered.

3.1 Functions and Institutions

Functions which may, or may not, be designated channel functions fall into three categories :

- (a) Functions concerned with changes in ownership - that is negotiation, buying and selling.
- (b) Functions dealing with the physical supply of the product - including transportation, storage, handling and control.
- (c) Facilitating and auxiliary functions - such as collecting and disseminating information, risk-taking, financing and promotion.

It is universally agreed that effecting title transfer is a function of the marketing channel. The contentious issue, as illustrated in the previous section, is what other functions, if any, associated with this passage of title should be classified as channel functions.

Once a decision has been made on the allocation of functions of the marketing channel, undoubtedly a most difficult task, identifying which institutions belong to the channel is comparatively straightforward. This is because they are, quite simply, the institutions performing one or more of the identified channel activities.

3.2 Channel Length

Here the question addressed is : 'where does a marketing channel start and finish?' As expected, channel length is largely determined by the functions and institutions allocated to the channel and partly determined by the 'gap' the channel is expected to fill.

Some channel definitions start with raw materials and end with the ultimate consumer, which means all intermediate changes in form are included. Other definitions, the majority, adopt the view that one channel ends, and another begins, whenever there is a 'substantial' form utility. The difference between these two approaches is probably best explained by illustration. Take the wheat-flour-bread industries. If a 'long' interpretation of the channel is adopted all three would be considered to comprise one channel, but if the latter approach is applied three marketing channels (one each for wheat, flour and bread) would be identified.

One of the most debated issues regarding channel length concerns the inclusion of the ultimate consumer. Bucklin, in a refinement of his channel definition, draws a useful distinction between the total channel, which includes the consumer, and the commercial channel, which does not. (12) This distinction has provided common ground for most members of the two schools of thought.

Nearly all the channel literature is based on the distribution of unused products to first users/consumers ; which means it tends to overlook the definitional complications arising from the sale of secondhand goods and the recycling of waste. One such complication is identifying the ultimate consumer. Another is deciding whether the secondhand product is a different product from its new equivalent, and if waste is a different product from that which generates it.

If a 'long' interpretation of the channel is adopted, then the channels of products which generate recycled waste may be thought of as never-ending or circular. Many secondhand products fall into this category because they eventually become scrap which is recycled. Those secondhand products that do not have waste which can be recycled, have the last person, or organisation, to use the product as their ultimate consumer.

If a 'short' definitional position is used, the issue turns to one of deciding when one product becomes another product. The reason for this is that each product is considered to

have its own channel and, hence, its own set of ultimate consumers. Taking the case of recycling, it may be argued that the waste sent back to producers by consumers is essentially a different product to that bought by the consumer in the first place. Hence, rather than a circular channel, there are two separate channels - one flowing forwards and one backwards.

"Recycling waste materials is essentially a 'reverse-distribution' process. Reverse distribution is facilitated by a 'backward' channel which returns the reusable packaging and other waste products from the consumer to the producer ; it reverses the traditional physical flow of the product. Conceptually, reverse distribution is identical to the traditional channel of distribution. The consumer has a product to sell and, in essence, he assumes the same position as a manufacturer selling a new product. The consumer's (seller's) role is to distribute his waste materials to the market that demands his product." (13)

3.3 Channel Width

In this case width does not refer to the range of functions to be included, but to the number of different routes followed by a product*.

In the literature the term 'marketing channel' has been used to refer to :

- a single route, of specific participants, taken by one product (e.g. Jones → Barkers → Brins → Consumer).
- all the routes of one type taken by one product or product group (e.g. Manufacturers → Wholesaler → Retailer → Consumer).
- all routes of one type used by an industry
- all routes of one type used by a particular producer.

Breyer appears to be alone in giving this aspect of the channel any serious thought. Within the, somewhat limiting, context of the trading channel he distinguishes between a

* Stated in terms of institutions it refers to the number of channel members to be included at each level.

single channel and a channel group, as follows :

single channel : a one to one trading relationship
 channel group : two or more single channels (14)

According to Breyer the single channel is a highly abstract concept but nonetheless a useful and important building block for analysing channel groups. McVey, on the other hand, would argue that the single channel comes closest to what a businessman understands by the term 'marketing channel'. (15)

With so little work on this area in the literature the whole question of channel width is very open.

3.4 Conditions for Channel Existence

Finally, it is necessary to decide when a channel may be said to exist.

Does functional activity have to be undertaken before a channel is said to have been formed or is an understanding that such activity will take place sufficient? For how long must there be an absence of functional activity before a channel is said to exist no longer? Is, in fact, functional activity a sound basis for establishing channel existence? These are just some of the questions requiring consideration in the course of determining the criteria for channel existence.

Breyer, again apparently the only scholar to consider this issue, comes to the conclusion that :

"One can maintain that a channel exists when and only so long as goods actually flow. It appears more useful, however, to view a channel system as being formed as soon as new trading relations are established and as continuing to exist so long as these trading relations hold." (16)

For channels where trading relations continue to hold, but where no goods have actually flowed for a long time, Breyer applies the term 'passive channel system'. 'Active channel system' is used for channels where the flow of goods is 'reasonable' or 'normal'.

4. THE MARKETING CHANNEL DEFINED

The definition of the marketing channel used throughout this thesis draws on, and builds upon, existing definitions. In this way, an attempt is made to formulate a universally acceptable definition. Recently such attempts have been few. It appears that the lack of consensus is increasingly accepted as a fact of life, hardly worthy of comment, to be overcome by every scholar independently defining the term. Two late 1970's text books provide examples of this (17) (18), both give their own channel definitions without either indicating how they relate to existing definitions or explaining why existing definitions are not used.

4.1 Marketing Channel Functional Flows* and Members

In this thesis the marketing channel is defined in a way that incorporates all three categories of functions identified at the beginning of Section 3.1. This is because :

1. It seems logical to apply the term 'marketing channel' to the channel in which the full range of marketing activities are performed - and marketing activities extend beyond title transfer and physical distribution.
2. Other channel terms exist which are more appropriate labels for the narrower interpretations of the channel. For example, using the categories in 3.1, 'trading channel' is a suitable descriptive label when considering (a) only. Similarly, when examining (a) and (b) together, the term 'distribution channel' may be used.

In other words, the validity and usefulness of analysing 'narrow' channels is accepted, but the labelling of such channels as 'marketing channels' is rejected as is the labelling of 'broad' channels as anything other than 'marketing channels'.

* 'Functional flow' is used in preference to 'function' because it gives the feeling of movement which is descriptive of the functional activity in the channel. Each functional flow is comprised of several activities such that the total achievement of each functional flow is the sum of the activities performed.

The functional flows regarded as belonging to the marketing channel are as follows :-

1. Transfer of ownership and commercial risk.
2. Physical distribution - transportation and storage.
3. Negotiation of trading terms.
4. Information transmission - up and down the channel.
5. Promotion - including point-of-sale display.
6. Pricing - including standard discounts.
7. Commercial cycle - ordering/invoicing/payment/credit.
8. Product creation - development of the product package.

The first two functional flows are those that 'effect' the movement of a product, and its title, to the final purchaser. Frequently these two flows follow very different routes until the final point of sale, where they usually come together. This is because customers expect both ownership* and physical possession** when they buy a product - if not immediately then at least within a short time.

The remaining five flows are 'facilitating flows' which are just as necessary as the effecting flows in getting a product from production to consumption. Communication flows are particularly important in this respect ; orders, for example, enable the right quantity of the right product to be moved to the right selling point.

Not all definitions of the marketing channel that include facilitating flows include the same ones, or even the same number of flows. The problem is that if too many facilitating flows are included the definition becomes unwieldy and if too few are included the definition becomes simplistic. The decision was taken to include only those functional flows directly involved in making products available for consumption - hence the exclusion of 'influentials'.

* Which they may sign over to a third party for finance.

** Unless the product is intangible or not for physical use by the purchaser.

Product creation is the only real departure of the present functional allocation from those previously published. Product, as used in 'product creation', means the total package presented to the final customer - that is, the 'original good plus'. 'Plus' factors include pricing, promotion, branding, packaging and modifications to the original form. As promotion and pricing are considered separately, 'product creation' is restricted to branding and the development of the physical product package offered for sale.

Product changes en route from the producer to the consumer are mostly in the presentation of the product (packaging and unit size) but sometimes there is an alteration in the physical form of the product (for example Pepsi Cola leaves the manufacturer as a concentrate, it is carbonated by intermediary bottler-wholesalers). When a change in physical form does occur, it presents the problem of determining how many changes, and how much change, can take place before one product becomes another product.

From the above allocation of functions, it follows that an institution is a channel member if it is involved in one or more of the functional flows listed.

4.2 Marketing Channel Length

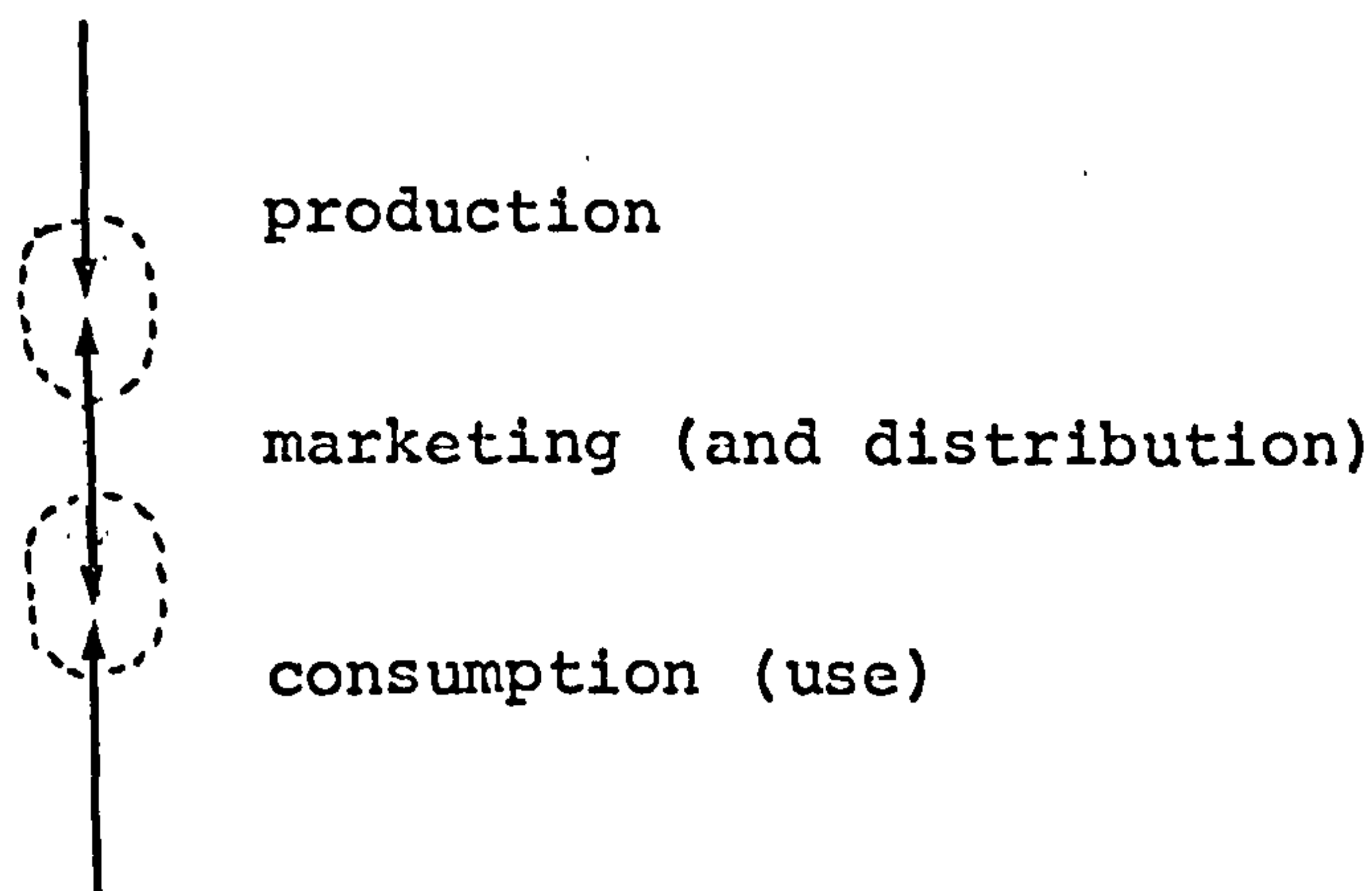
In section 3.2 it was noted that it is generally assumed that a new channel is formed whenever there is a substantial form utility. Here, this is modified so that a 'change in character of a product, sufficient to render it an essentially different product' sees the start of a new channel*. This modification is made because it removes the ambiguity associated with form utility, especially in the case of secondhand goods.

Sometimes it is desirable, even essential, to analyse the functional flows associated with a product from raw material through to ultimate consumption. This is achieved by identifying all the products involved and then forming a channel sequence from the channels of the identified products.

Given that each product has its own channel, where does the marketing channel of a product start and finish? In the literature, channel participants tend to be used to identify where a channel starts and ends. Here this institutional approach is replaced by a functional one.

* The term 'channel' is used rather than 'marketing channel' because these conditions are considered appropriate for application to all channels, irrespective of their functional inclusiveness.

The marketing channel of a product may be conceived as being the vehicle which closes the gap between production and consumption. This may be depicted thus :



As the above diagram shows, the exact points where marketing starts and finishes are indistinct. They even vary with the idiosyncrasies of individual products, which means that it is impossible to devise general rules that are always capable of pinpointing when production ceases and marketing starts, or when marketing/distribution finishes and consumption starts.

In this thesis the delimitations of marketing channel length are as follows :

starting point : where the basic physical good has been produced but before it is sorted or packaged in any way

finishing point : where the product is sold to the final purchaser.

There is a case for extending the marketing channel beyond the finishing point that is suggested. Firstly, the final purchaser may not be the consumer, in which case it may be argued that the purchaser undertakes activities belonging to the marketing channel in getting the product to the consumer. Secondly, even if the final purchaser is also the consumer, he may undertake activities, such as transportation and storage, which have been defined as belonging to the marketing channel. A consumer doesn't necessarily just consume.

Drawing on the work of Bucklin (19) it is possible to accommodate both opinions as to where the marketing channel ends. The finishing point given, and used in this thesis,

refers to the commercial, marketing channel*, whilst the extension to the actual point of consumption is regarded as applying to the total marketing channel.

4.3 Marketing Channel Width

For the purpose of this thesis, a marketing channel is defined as being a specific (single) route taken by a product from production to consumption. This interpretation is adopted because it is the most meaningful and analytically useful, both in its own right and as a building block.

Based on this interpretation the following terminology is suggested :

Marketing Channel Network - all the routes employed to market/distribute a product.

Marketing Channel Segment - any subset of routes from the whole network.

Marketing Channel Type - characterisation of one particular type of route taken by a product.

It may be anticipated that many, possibly most, investigations into marketing channel behaviour will use one of these wider configurations as the unit of study rather than the single route configuration of the marketing channel.

4.4 Marketing Channel Existence

For this aspect of the marketing channel definition, Breyer's conditions for existence are used together with his concept of active and passive channels. (20)

4.5 A Definitional Statement

The final step in the definitional process is to provide a concise definitional statement. This is, as follows :

"A marketing channel is a series of institutional units engaged in performing the functional activities required to move a product, and its title, from production to the final point of sale ."

* The prefix 'commercial' is not used in the thesis because the marketing channel is, by definition, the commercial marketing channel.

In common with most definitional statements the one presented here gives only the broadest indication of the meaning attached to the term marketing channel. Hence the need for the preceding, more detailed, examinations of the various aspects of the marketing channel.

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APPENDIX BTHE EGG INDUSTRY1. HISTORICAL BACKGROUND

Before the 2nd World War farmers paid little attention to egg production. Typically, the farmer's wife would look after the poultry for 'pin-money' from the sale of eggs and table birds.

This situation changed when, during the war, eggs became profitable under the Government's fixed prices scheme. Farmers began to show a real interest in egg production and took over the responsibility for laying flocks from their wives. In order to benefit fully from the profit opportunity that eggs offered, most farmers expanded their laying flocks by as much as feed availability would allow.

Since the war, the trend towards intensive farming has been the major factor in determining the character of the egg industry. The battery system, which replaced deep-litter and free-range systems, has resulted in the growth of specialised egg units and the decline of small flocks on general farms. It is this emergence of egg specialisation which has led to greater integration of egg production, packing and marketing.

There is a history of government intervention in the egg industry dating back to the Linlithgow Report of 1923. Most of this intervention has aimed at improving egg marketing by attempting to alleviate the problems caused by the combination of an elastic supply and an inelastic demand.

Each period of government intervention has been marked by a different organisational structure, the present one being the Eggs Authority. Five such organisational periods may be identified since the 1920's - six if accession to the EEC is considered separately. They are :

1.1 The National Egg Mark Scheme (1929)

This scheme was set up in accordance with the recommendations of the Linlithgow Report (1923) and the MAFF Report of 1926, and within the terms of the Agricultural Produce (Grading and Marketing) Act of 1928.

In the 1920's, when there was a surplus of eggs, 'higglers' would buy eggs cheaply, keep them until prices rose, and then resell them. Needless to say, egg quality suffered. Against this background, the aim of the scheme was to improve the quality of eggs supplied to consumers by standardising grading and packing.

Under this scheme, packing stations registered with, and became members of, the National Egg Mark Central Limited. This body imposed a levy on members, based on throughput, to finance a minimum price scheme and the distribution of surplus eggs between markets. All eggs passing through National Egg Mark packing stations were sold as National Egg Mark Eggs.

The Egg Mark scheme has been credited with improving the image of the home produced egg at a time when 29% of eggs consumed were imported. In more general terms, however, the scheme failed because it was a voluntary co-operative scheme and farmers were not co-operatively minded.

1.2 Wartime Rationing (1939-52)

During the war the government assumed complete control of the egg industry. All eggs not consumed on the farm had to be sold to licensed packing stations at a price set by the Ministry of Agriculture. From the packing stations, eggs passed through registered wholesalers and retailers to consumers, whose purchases were controlled by ration books.

Administration and control of egg distribution was undertaken by N.E.D.A.L. (National Egg Distributors Association Limited), a central body formed by the Government for this purpose.

1.3 The Interim Period (1953-58)

In 1953, egg rationing and government control over egg supplies ended.

Before the outbreak of war, the need for control over egg production and marketing had been recognised and discussions on the form it should take resumed with the end of wartime controls.

Whilst these discussions concerning the future of egg production and marketing were taking place, temporary marketing arrangements operated through N.E.P.A.L.

(National Egg Packers Association Limited). N.E.P.A.L.'s main concern was promoting the use of eggs among the generation of housewives which had grown up during and after the war in a period of limited egg supplies. Recognising the need for educational publicity on the uses of eggs, N.E.P.A.L. appointed W.H.T. Taylor (Publicists) Limited which, established the National Egg Information Scheme.

During this interim period the National Egg Marketing Organisation administered the provisions of the 1947 Agriculture Act. This Act provided for guaranteed prices and assured markets. It also introduced a transport subsidy between farm and packing station. Only eggs going through packing stations were eligible for subsidy and so, to protect the exchequer, all eggs that received a subsidy had to be stamped.

1.4 The British Egg Marketing Board (1958)

In 1956, the British Egg Marketing Scheme, proposed under the terms of the Agriculture Marketing Acts of 1931-49, was submitted to the Ministers of Agriculture for England and Wales, Scotland and Northern Ireland, by the National Farmers Union. The scheme was eventually accepted but only after significant amendments resulting from pressures at the public inquiry. Formed in 1957, the British Egg Marketing Board (B.E.M.B.) began operating in 1958.

The B.E.M.B. was given the tasks of stimulating demand, through advertising, and stabilising supply, by using a guaranteed market and subsidised price. The overall objective was to equate the supply and demand for eggs.

Under the terms of the scheme, all producers, with over 50 hens, and packing stations, with a minimum throughput of 300 cases* a week, were registered with the B.E.M.B. By law the B.E.M.B. had to accept all first quality eggs offered to it by registered producers. Producers, however, were under no obligation to sell their eggs to the B.E.M.B. - if they wished they could sell them elsewhere. The inevitable result was that the B.E.M.B. became a dumping ground for surplus eggs.

* 1 case = 30 dozen

The guaranteed market and subsidised prices meant there was no incentive for producers to regulate their output to market conditions. Even when the market was over-supplied, and the B.E.M.B. was sending thousands of cases of eggs to the breakers, producers remained in pocket.

In addition, the B.E.M.B. was not helped in trying to equate supply and demand by having to market a stamped egg. Consumers retained the notion that stamped eggs were not as fresh as unstamped eggs, and proved willing to pay a premium for unstamped eggs. This attitude prevailed despite all the promotional back-up for 'lion' stamped eggs.

1.5 The British Eggs Authority (1971)

The British Eggs Authority was set up on 1st April 1971, in accordance with the recommendations of the 1968 Roland Wright Report. This report suggested the Authority's present objective which is 'the improvement of the marketing of eggs'. To meet this objective the Eggs Authority undertakes general advertising and promotions, provides a detailed market intelligence service, and allocates funds for research. It also has responsibility for representing the interests of the industry and, in special circumstances, for getting involved in limited support buying.

Originally the Eggs Authority had 12 Government appointed members - today it has 13, the addition being a trade union representative. Financial support is raised by a statutory levy imposed on day old chicks. Other than the right to demand payment of this levy, the Eggs Authority has no statutory control over the market.

At present the role of the Authority is being questioned by some producers who feel they are paying for a service from which they benefit little.

1.6 Accession to the EEC (1973)

Membership of the E.E.C. has had a significant impact on the egg industry and its customers. The most visible effect has been the change-over to metric egg sizes.

E.E.C. regulations on the registration of packing stations, sales to retail outlets, packaging and labelling have all been adopted ; subsidies on eggs have been phased out and trade barriers between countries lifted. It was, however the free trade between member countries which caused most anxiety in the British egg industry.

2. EGG PRODUCTION

The adoption of factory farming methods, encouraged by narrowing profit margins, has been the single most important factor in shaping U.K. egg production.

The first semi-intensive system of egg production was the deep litter system. Introduced from America in the 1950's, the deep litter system was soon superseded by the battery system, which offered better economies and more control of production. Through its use of controlled environments and feeding, the battery system also de-seasonalised egg supplies, something no other system had achieved.

Egg batteries are well suited to mechanisation, and labour requirements have been cut substantially as a result. Today, for example, equipment is available for automatic feeding, egg collection and manure removal.

That egg production is increasingly a science is reflected in the rapid developments in genetics and disease control. Breeding companies are always working on producing new strains of birds that lay more eggs but require less feed, and progress in this sphere has been considerable. In the period 1970-77, for example, the average yield of a battery hen increased from 215 eggs to 240.5 eggs. (See Table B1).

Disease has always been one of the biggest potential dangers for egg producers, but today vaccines are available against, among others, fowl pest and infectious bronchitis. The importance of these new vaccines may be appreciated by recalling that a full slaughter programme had to be introduced during the 1970 fowl pest epidemic.

The narrowing profit margins, already referred to, have resulted from the combination of rapidly rising costs and falling real prices. The squeeze of margins has hit the 'middling' size flocks the hardest. These flocks can

TABLE B1 : YIELD PER LAYING BIRD - 1970-77

YEAR	1970	1971	1972	1973	1974	1975	1976	1977
U.K. Yield Per Bird (eggs)	215.0	219.5	225.5	228.5	229.5	229.0	238.5	240.5

Source : M.A.F.F.

neither achieve the high economies of scale nor enjoy the nil labour and depreciation costs of many small flock producers.

Table B2 gives the Eggs Authority's detailed estimate of costs of production for September 1977. The main value of this table is that it shows the basic cost structure of egg production and the relative importance of each element. Obviously, actual costs will vary from producer to producer.

Feed is the main cost and accounts for 70-75% of total costs. This compares with 61% in 1970. The percentage has risen because feed costs have increased faster than other costs. Bird depreciation, however, has fallen in real terms since 1970 when it made up 25% of costs, (15% in 1977). Labour costs have remained around the 1970 figure of 6-7%. They might have been expected to fall with the developments in labour saving machinery, but against this there has been rapid rises in wages due, partly, to the Equal Pay Act.

Since the demise of the B.E.M.B. there has been a return to a free market. Under free market conditions the prices received for eggs have fluctuated widely and there have been periods, sometimes lasting several months, when production costs have exceeded returns. Much of 1978 through to the summer of 1979 was one such period. Table B3 shows the relationship between costs and returns using Eggs Authority estimates for the same month, October, over the last three years. The negative margin of 11.9p per dozen in October 1978 was not the highest that year; in August and September the respective negative margins were 13.3p and 12.6p.

Technical innovations have, thus, provided the means to achieve substantial economies of scale, and diminishing profit margins have provided the incentive for producers to take advantage of the available economies. Expansion has become as much a means of maintaining income as increasing it.

The trend towards fewer, but larger, laying flocks is clearly shown in Table B4.

In 1967 there were 202,233 laying flocks in the U.K.; 10 years later, in 1977, this had fallen by 63% (or 126,867) to 74,356. As would be expected the biggest drop in numbers, 117,851 from 1967 to 1977, has been for flocks

TABLE B2 : ESTIMATED COSTS OF PRODUCTION - SEPTEMBER 1977

	White Eggs		Brown Eggs	
	Pence per bird	Pence per dozen	Pence per bird	Pence per dozen
Feed	493.49	24.07	524.32	26.33
Bird Depreciation	112.61	5.49	104.32	5.24
Labour	33.54	1.63	33.54	1.68
Deadstock Depreciation	30.00	1.46	32.50	1.63
Electricity	8.05	0.39	8.05	0.41
Water	0.95	0.05	0.95	0.05
Medication/Vaccination	3.30	0.16	3.30	0.17
Insurance	1.50	0.07	1.50	0.07
Miscellaneous	3.50	0.17	3.50	0.18
Total	686.94	33.49	711.98	35.76

- Notes 1. Production has been assumed to be 246 white eggs and 239 brown eggs in a 52 week period.
2. Food intake has been taken as 113.4 gms per bird per day for white egg layers with a compound feed cost of £119.20 per tonne. The comparable figures used for brown egg layers are 123.9 gms per bird per day and £116.00 per tonne for feed.
3. Mortality has been assumed at 9.4% for white and 6.1% for brown.
4. Point of lay bird costed at £1.46 for white strains and £1.56 for brown strains with cull values taken as 36.9p and 55.0p respectively.
5. Deadstock depreciation is based on historical values.
6. No account is taken of bank interest or interest on capital.

Source : Eggs Authority

TABLE B3 : COSTS OF PRODUCTION AND RETURNS

	OCT 1977	OCT 1978	OCT 1979*
FEED	25.3	24.9	27.6
TOTAL COSTS	34.8	34.8	39.0
AVERAGE PACKER/ PRODUCER PRICE	30.9	22.9	34.2
MARGIN	-3.9	-11.9	-4.8

*Provisional

Source : Eggs Authority

TABLE B4 : THE DISTRIBUTION OF U.K. HOLDINGS WITH LAYING BIRDS BY SIZE OF FLOCK

Size of Flock	No. of holdings with laying flocks			% of total laying flock		
	1967	1971	1977	1967	1971	1977
Under 500	187,004	114,668	69,153	24	11	5
500 - 999	6,295	2,993	954	8	4	1
1000 - 4999	7,118	5,326	2,341	28	22	12
5000 - 9999	-	1,281	876	-	17	12
10,000 - 19,999	1,806	634	566	40	15	16
Over 20,000	-	356	466	-	31	54
TOTAL number of holdings	202,223	125,258	74,356	100	100	100
TOTAL layers (000's)	51,887	53,855	48,518	-	-	-

Source : Eggs Authority from M.A.F.F. June Returns

of less than 500 birds. The largest proportional decline, however, is among flocks of 500-999 layers where, between 1967 and 1977, numbers fell by 85% from 6,295 to 954. This is because, in any move towards larger units, it is normally the middle units which suffer the most, having the disadvantages of both large and small but the advantages of neither.

Further evidence of the increase in the size of flocks is given in Table B4 by the figures for the percentage distribution of the national flock. It is particularly interesting to note that in 1967 no flocks of 20,000 or more are recorded, yet in 1977 there are 466 accounting for 54% of the national flock. It is also interesting that 93% of the laying flocks only contained 5% of the national flock in 1977.

A breakdown of the 'over 20,000' category for 1976 and 1977 is given in Table B5. This table does not show, however, that the average size of flock in this category rose from 47,000 in 1971 to 56,100 in 1977.

In 1967 an egg producer was one of the biggest with 15,000 layers; today a laying flock needs to be around 75,000 to be large. Such is the speed and scale of increase in flock sizes.

3. EGG PACKING

In the days of the B.E.M.B., only registered packing stations received egg subsidies and to register, the packing station had to have a minimum throughput of 300 cases a week. A packing station was thus defined as an organisation with grading and packing facilities capable of handling a throughput of over 300 cases a week.

Under EEC regulations only registered packing stations may sell eggs to shops or other traders, but there is no minimum throughput to qualify for registration. The only exemption from registration is the producer who sells direct to the consumer - and he is not allowed to use standard quality and grade descriptions. This means that a packing station is now officially defined as any organisation with grading and packing facilities.

The changes in official definitions make a straight comparison of packing station numbers, pre-and post-EEC, meaningless. However, considering only those packing

TABLE B5 : DISTRIBUTION OF U.K. HOLDINGS WITH MORE THAN
20,000 LAYING BIRDS BY SIZE OF FLOCK

Size of Flock ('000. Birds)	No. Holdings with Laying Birds	
	June 1976	June 1977
20 and below 30)	303	199
30 and below 50)		135
50 and below 100	90	83
100 and below 250)	42	49
250 and over)		

Source : Eggs Authority from M.A.F.F. June Returns

stations which would have been able to register under the B.E.M.B., it may be seen that numbers are declining whilst average throughput is increasing (Table B6). This trend is apparent in the membership of N.E.P.A.L. (National Egg Packers Association Limited) and echoes production and retailing patterns.

The structure of packing has been significantly altered by the move towards vertical integration of production and packing as identified in the 1974 Price Commission Report (1). Out of the sample of packing stations studied by the Commission, 45% owned egg production units with 35% having 50% or more of their egg requirements supplied by their own egg production units. Packing stations are also increasingly acting as their own wholesalers and selling direct to retailers.

The overall structure of egg packing is probably best understood by using the classifications of national, regional and local packers. The geographic basis is historical. Using this classification, statistics are given for 1976 in Table B7. National and regional packers tend to have more than one packing station and concentrate on serving multiple retailers, whereas local packers are normally single packing station operations selling direct to the consumer and to independent retailers.

The latest figures available on numbers of packing stations refer to 1978 and use the EEC classification. From these figures the Eggs Authority has estimated that there are 230 main packing stations handling around 50% of all eggs and 3,470 smaller producer/packers supplying 40%.

4. THE RETAIL DISTRIBUTION OF EGGS

Changes in the pattern of egg retailing are following the general trends in food, and particularly grocery, retailing. These general trends are the predominance of multiples, the adoption of self-service and the move towards larger, but fewer, outlets with broader product ranges.

The growth of multiples at the expense of other retail sectors, namely co-operatives and independents, has been the main feature of grocery retailing. The results of this are shown in Table B8, which also demonstrates how

TABLE B6 : U.K. PACKING STATIONS BY SIZE OF CLASS A THROUGHPUT

Cases per Week	Oct/Dec 1967		Oct/Dec 1970		Oct/Dec 1971*		Oct/Dec 1977*	
	No. of Packing Stations	% U.K. Throughput	No. of Packing Stations	% U.K. Throughput	No. of Packing Stations	% U.K. Throughput	No. of Packing Stations	% U.K. Throughput
Up to 500	174	43	115	38	120	7	82	4.3
501 - 1000	75	19	59	19	60	12	39	7.1
1001 - 1500	95	21	45	15	38	12	20	6.1
1501 - 2000			26	9	18	8	17	7.6
2001 - 2500			16	5	15	9	12	6.8
2501 - 4000	61	17	26	9	32	25	29	24.4
Over 4000			17	5	19	27	28	43.7
TOTAL	405	100	304	100	302	100	227	100

*An individual week was chosen to represent the periods October/December in 1971 and 1977.

Source : B.E.M.B. and Eggs Authority

TABLE B7 : A CLASSIFICATION OF PACKERS

	National Packers	Regional Packers	Local Packers
Market Share	28%	12%	60%
Number	4	6	2000+
Size (cases/week)	20,000	5000-20,000	5000

Source : May (1976)

TABLE B8 : SHARES OF U.K. GROCERY TRADE

		Multiples	Co-operatives	Independents
Dept. of Industry	1950	20	23	57
	1957	22	23	55
	1961	27	21	53
	1966	36	17	47
	1971	43.5	15	41.5
	1977	50.2	15.5	34.2
	1978	52.1	15.4	32.5
			(£4987m)	(£1751m)
Nielsen	1971	44.3	13.2	42.5
	1972	46.4	13.0	40.6
	1973	47.6	13.0	39.4
	1974	48.4	13.3	38.3
	1975	48.9	13.7	37.4
	1976	49.4	14.0	36.6
	1977	51.2	13.8	35.0
	1978	51.3	13.6	33.1

Sources : As given

the growth of the multiple's market share has slowed down in recent years. This is because co-operatives have improved their competitive position and surviving independents tend to be situated in locations unsuitable for multiple operation.

Multiples have found it more and more difficult to achieve growth by eroding co-operative and independents' market shares, so competition between multiple chains has heightened and taken the form of price cutting.

Table B9 shows the market shares of the various types of outlets selling eggs for the three years up to 1977/78. It should be noted that whilst most attention is paid to the distribution of eggs through shops, especially multiple grocers, almost as many eggs reach the consumer by outlets other than shops. Furthermore, a greater proportion of eggs are bought direct from producers than from multiple grocers (26.2% and 21.8% for 1977/78 respectively) despite the latter's growth of market share. Another interesting development is the increase in the market share of mobile shops, market stalls and other outlets.

Table B10 illustrates an alternative method of breaking down the retail distribution of eggs, that is, by the percentage of households using each outlet type. The increasing importance of the grocery multiple as an outlet for eggs is evident from the figures which show that 25.8% of reporting households bought eggs from multiple grocers in 1978, as opposed to 20.4% in 1975. The figures also show a switch away from 'other shops' and 'other grocers' to multiple grocers.

A comparison of tables B9 and B10 indicates that the average number of eggs bought by the consumer varies between outlet type. Multiple grocers, for example, have 25.8% of households buying eggs from them (though not necessarily as a sole source) with a volume throughput of 21.8%, whereas eggs are bought direct from the farm by 22.1% of households but they account for 26.2% of the volume throughput. Taken together, this implies that consumers buying direct from the farm purchase, on average, more eggs than those buying eggs from multiples.

In looking at national averages, regional variations are submerged. As may be seen from Table B11, in the case of the egg market there are notable departures from the national purchase pattern for eggs. Co-operatives in the Scotland/Border television region, for instance, sell 23.1% of eggs; a large increase on the 9.1% national average. Also significant is the dominance of grocery multiples in London (34.8%) compared with Lancashire (14.6%) and the importance of 'farm direct' sales in the Anglia and Southern television regions.

TABLE B9 : % DISTRIBUTION OF HOUSEHOLD SHELL EGGS - BY VOLUME THROUGHPUT

OUTLET TYPE	1975/76* %	1976/77* %	1977/78* %
Multiple Grocers	19.9	18.6	21.8
Co-ops	10.3	9.6	9.1
Other Grocers	7.1	6.4	6.2
Other Shops	14.9	15.9	13.8
Retail Shops Total	52.2	50.5	50.9
Milkmen	7.4	7.3	6.8
Farm Roundsmen	9.3	8.4	8.4
Farm Shops)	17.3	18.0	17.8
Other Farm Direct)			
Market Stalls : Mobile)	13.8	15.8	16.1
Shops and Other Outlets)			
	100	100	100

*April/March years

Source : Eggs Authority/Attwood

TABLE B10 : % DISTRIBUTION OF HOUSEHOLD SHELL EGGS BY HOUSEHOLDS BUYING

OUTLET TYPE	% HOUSEHOLDS REPORTING BUYING EGGS FROM	
	June 1975	June 1978
Defined Multiple Grocers	20.4	25.8
Co-ops	12.1	12.1
Other Grocers	8.8	7.3
Other Shops	16.7	15.1
Mobile Shops	0.9	0.7
Milkmen	8.9	9.1
Farm Roundsmen	9.9	8.0
Farm Direct/Shop	15.1	14.1
Market Stalls	8.5	8.4
All Other Outlets	5.7	6.7

Source : Eggs Authority/Attwood

N.B. The columns do not equal 100% because of households buying from more than one outlet type.

TABLE B11 : REGIONAL HOUSEHOLD EGG PURCHASES BY OUTLET TYPE - APRIL TO MARCH 1978

OUTLET TYPE	TOTAL	SCOTLAND/ BORDER	YORKSHIRE/ TYNE TEES	LANCASHIRE	MIDLANDS	LONDON	HARLECH/ WESTWARD	SOUTHERN/ ANGLIA
Defined Multiple Grocers	21.8	20.8	16.6	14.6	17.9	34.8	19.0	20.6
Co-op	9.1	23.1	6.4	6.4	7.7	8.6	8.6	7.4
Other Grocers	6.2	8.5	6.5	6.5	6.5	5.0	5.8	6.1
Others Shops	13.8	12.5	17.7	13.3	15.3	10.4	12.0	12.4
Farm Roundsmen	8.4	8.2	9.4	8.7	9.2	7.0	10.5	6.3
Farm Direct	17.8	15.4	13.0	16.1	19.2	15.3	22.1	28.7
Milkmen	6.8	3.1	11.2	10.8	5.7	5.2	6.5	4.2
Others	16.1	8.4	19.2	23.6	18.4	13.5	15.4	13.8

Source : Eggs Authority/Attwood

5. EGG MARKETING CHANNELS

Egg Marketing channels are the routes by which eggs move physically and commercially from production to consumption. Diagram B1 charts the various channels and gives an estimated breakdown of percentage throughput for 1974/75.

Although dated, these figures provide a useful indication of the relative importance of different routes. In fact, in broad terms the figures are still applicable. The split between sales to household and sales to catering, export, and processing, for example, was in the region of 74% : 26% in both 1975 and 1978.

Diagram B1 does not, however, show the different types of structural organisation to be found in marketing channels.

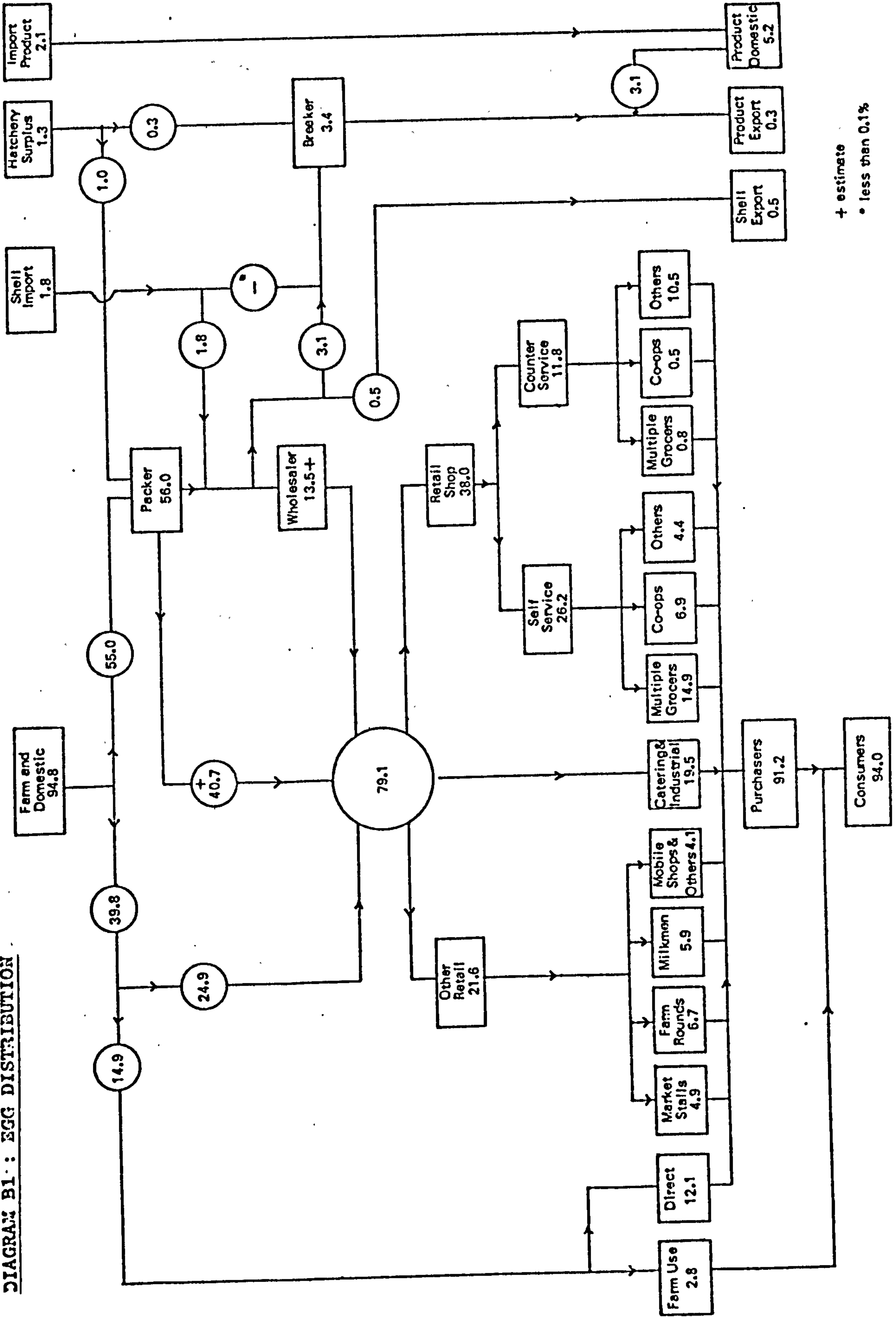
Producers, packers and retailers have all tended to become larger and more integrated both horizontally and vertically. Wholesalers have, to a large extent, been made redundant, but where they still play a role they have also expanded their traditional operations. The structure of marketing channels reflects these changes, especially those concerned with the degree and type of vertical integration.

With the exception of producer-retailers selling direct to the consumer, the marketing of eggs falls naturally into two parts : egg suppliers and egg resellers. This division is not inflexible. In recent years functions previously undertaken by resellers have been pushed back to suppliers, and vice-versa ; there are also contractual and ownership connections between some suppliers and resellers. Despite this, the division is prominent and signifies the difference in the importance of eggs to the survival and prosperity of the participant units. In the case of the egg suppliers, eggs tend to be the only product handled (or, if not the only product, one of a very few) whereas, for resellers, eggs are generally just one of the many lines that are carried. Diagram B2 shows the various ways the functions undertaken in egg marketing channels are currently structurally organised.

6. THE SUPPLY AND DEMAND FOR EGGS

The egg market is inherently unstable owing to the combination of a price sensitive supply with a price insensitive demand.

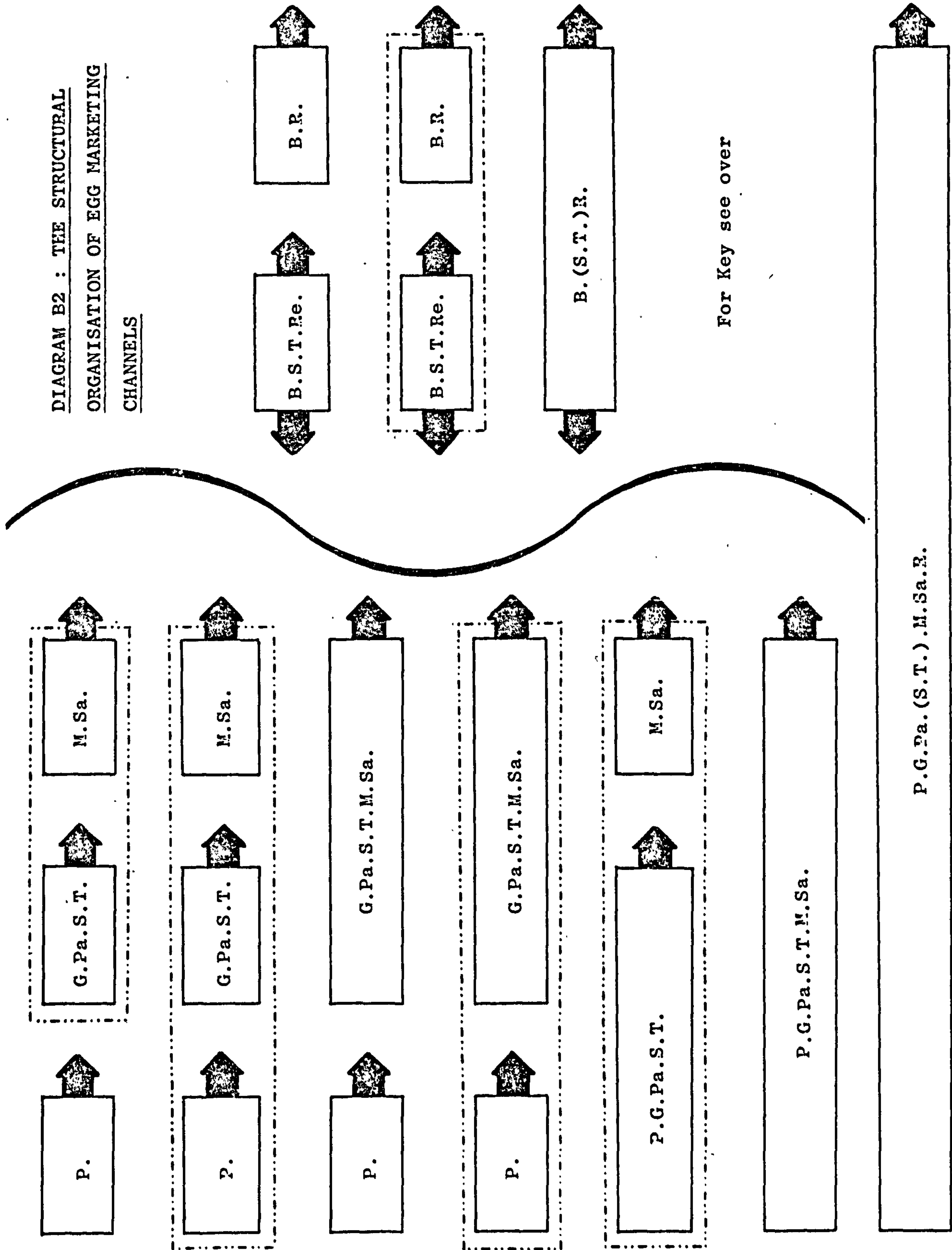
DIAGRAM B1: EGG DISTRIBUTION



+ estimate
 • less than 0.1%

C O N S U M P T I O N

DIAGRAM B2 : THE STRUCTURAL ORGANISATION OF EGG MARKETING CHANNELS



For Key see over

Key : contractual tie

———— company/business
boundary

p - Production

G - Grading

Pa - Packing

S - Storage

T - Transport

M - Marketing

Sa - Sales

B - Buying

Re - Reselling

R - Retailing

() - not in all cases

6.1 Supply

There are no precise figures giving the total supply of eggs. Packing station throughput gives an indication but does not include imports, exports or farm direct sales. M.A.F.F. and the Eggs Authority estimate supply by taking national laying flock figures, multiplying them by the average yield and then making allowances for hatchery surpluses and backyard egg production. The results are nothing more than crude output figures but are nonetheless the 'best' estimates available.

Since the mid 1960's, the overall trend for the supply of eggs has been one of decline. This is demonstrated by the selected indicators of supply given in Table B12.

Detailed modelling of the factors influencing supply has been undertaken in attempts at forecasting supply, by both the B.E.M.B. and the Eggs Authority. Diagram B3 is a detailed flow chart of factors affecting egg supplies prepared by Filmer (2). Data on many of the factors included are not available nationally, hence a simplified model of quantifiable factors in the egg cycle has been distilled from the core of the detailed flow chart.

The simplified model (Diagram B4) is based on the knowledge that the single most important factor in determining supply is the profit margin received by producers. Because profit margins are closely related to prices, the model also demonstrates the sensitivity of supply to prices.

High margins increase chick placings due to expectations that prices will remain high. In practice the reverse happens because high chick placings lead to over-production in the next period and hence low prices and low margins. Low margins discourage chick placings with the net result of under-production in the next period and the consequent high prices and margins. The time lag between market change and reaction averages a year - six months of this is the technical lag of a placed chick becoming a laying bird.

This demonstrates that supply is price elastic, a characteristic facilitated by over 80% of production costs being variable.

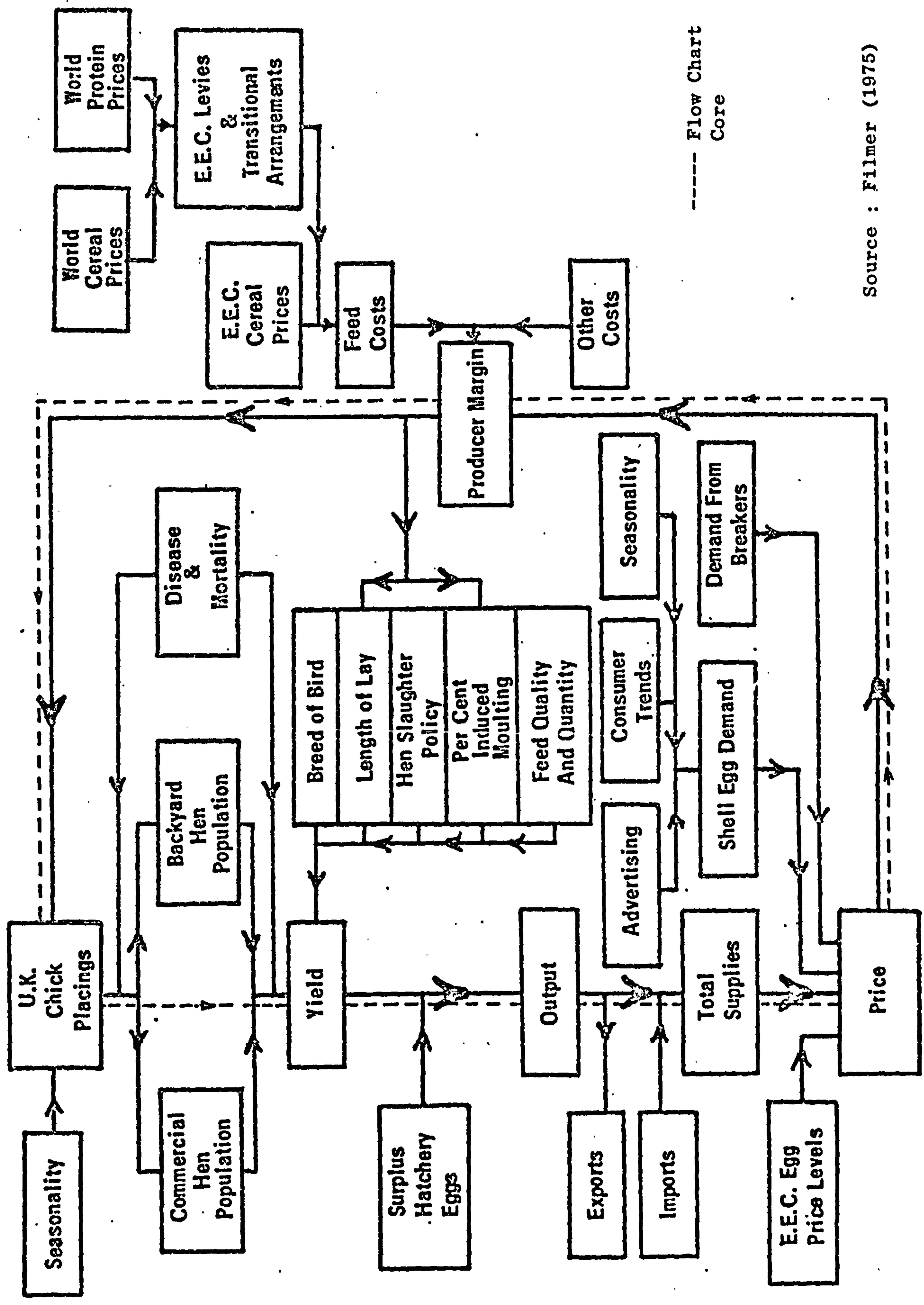
TABLE B12 : INDICATORS OF THE SUPPLY
OF EGGS - 1967-78

YEAR	CHICKS PLACED (MILLIONS)	EGG DISPOSALS (MN. DOZ.)	ESTIMATED PER CAPITA SUPPLIES
1967	59.30	104.7	249
1968	59.65	104.2	250
1969	63.96	103.3	248
1970	59.82	106.7	251
1971	56.93	104.7*	254
1972	48.38	104.4	253
1973	50.82	99.5	244
1974	50.83	98.1	240
1975	47.47	94.7	232
1976	48.08	96.5	237
1977	48.18	96.9	236
1978	46.91	99.6	

*53 week period

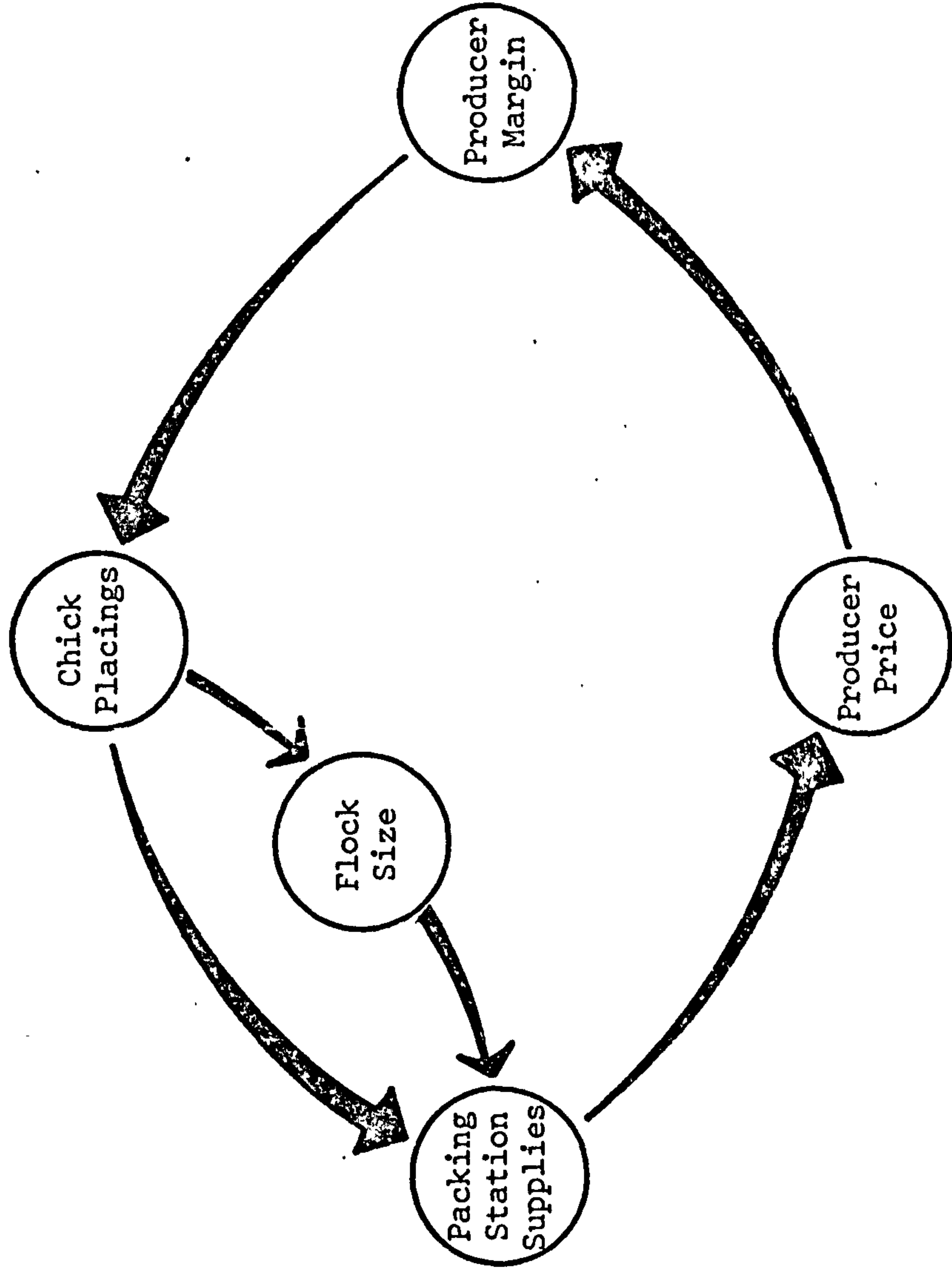
Source : M.A.F.F.

DIAGRAM B3 : FLOW CHART FOR FORECASTING



Source : Filmer (1975)

DIAGRAM B4 : QUANTIFIABLE FACTORS IN THE EGG CYCLE



6.2 Demand

Having reached a peak in the mid-1960's, the demand for eggs is now falling. The main reason for this is the reduction in per capita egg consumption. Between 1966 and 1978, for example, the consumption of eggs per person, per week fell from 4.77 to 3.96. Added to this, since 1974 there has been a declining population in the U.K. (see Table B13). In 1978 the downward trend in egg purchases was arrested undoubtedly because of the give-away prices resulting from a heavily over-supplied market. 1979, however, saw the return of a declining demand (Diagram B5).

The Eggs Authority estimates that in 1978, 74% of eggs went to households, 17% to caterers and the remaining 9% for export and processing.

During the days of the B.E.M.B. the proportion of eggs going to breakers was much higher than today because the B.E.M.B. used breakers to dispose of surplus eggs. Now breakers have only to meet the demand from food processors, mainly bakeries. Breaker egg demand depends on the demand for products made using eggs (such as cakes and pastries) and the cost, availability and feasibility of alternative extenders. This market is completely separate from the shell egg market.

There are many factors affecting the demand for a food product ; consumer habits and preferences, the price of the product, the price of substitute products, and the real income of consumers.

Changes in consumer habits and life styles have had a decided negative effect on egg consumption. The cereal takeover of the traditional, English bacon and egg breakfast, the introduction of numerous convenience foods and the tendency for more and more housewives to buy their cakes rather than bake them, are just some of the trends which have had an adverse effect on egg demand.

Price elasticity is one way of showing the relationship between consumption and price for a product. In the case of eggs the price elasticity of demand is very low, or inelastic. This means that a change in price has a less than proportioned effect on demand. Taking the period 1972-77, for example, the National Food Survey gives the price elasticity of eggs as -0.11 which means a 1% price rise (or fall) would be expected to result in a 0.11% fall (or rise) in consumption.

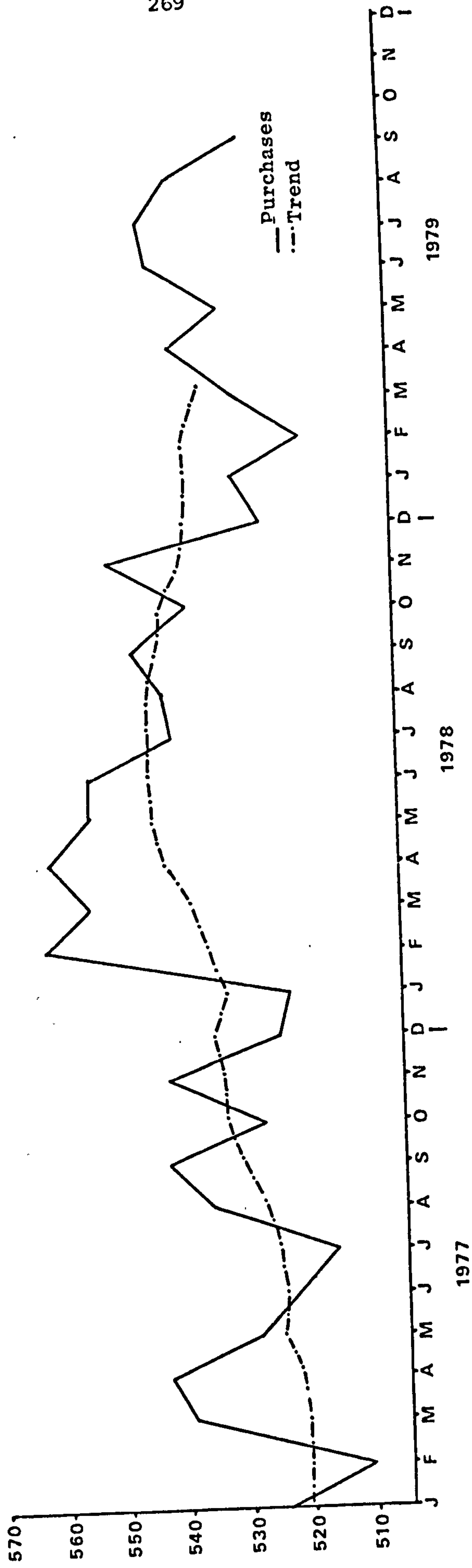
TABLE B13 : INDICATORS OF THE DEMANDFOR EGGS' - 1966-78

YEAR	POPULATION (MILLIONS)	CONSUMPTION PER PERSON PER WEEK	SALES FOR FOOD (MN. DOZ.)
1966	54.5	4.77	1,176
1967	54.8	4.72	1,230
1968	55.0	4.66	1,230
1969	55.3	4.60	1,223
1970	55.4	4.66	1,263
1971	55.6	4.55	1,244
1972	55.8	4.41	1,253
1973	55.9	4.23	1,170
1974	56.0	4.09	1,151
1975	56.0	4.14	1,113
1976	55.9	4.08	1,153
1977	55.8	4.00	1,160
1978	55.8	3.96	

Sources : Annual Abstract of Statistics M.A.F.F.

DIAGRAM B5 : G.B. HOUSEHOLD EGG PURCHASES

000's Boxes per Week



Income elasticity considers the relationship between income and consumption (measured either in terms of expenditure or quantity purchased). For eggs, income elasticity is higher when consumption is measured by expenditure than by quantity purchased, possibly owing to the substitution of bigger eggs and brown eggs as income rises.

There is conflicting evidence regarding the income elasticity of eggs (3). The National Food Survey gives low, but positive, elasticities (for 1977 0.03 by expenditure 0.01 by quantity purchased) and thereby suggests eggs are a 'normal' good. A 'normal' good is one which experiences a less than proportional increase in consumption when income rises because of the limits imposed by the size of the stomach. Against this, a comparison of per capita egg consumption and real income points to a negative income elasticity which would put eggs into the category of an 'inferior' good. An 'inferior' good is one where the demand actually falls as incomes rise because consumers substitute with more expensive goods.

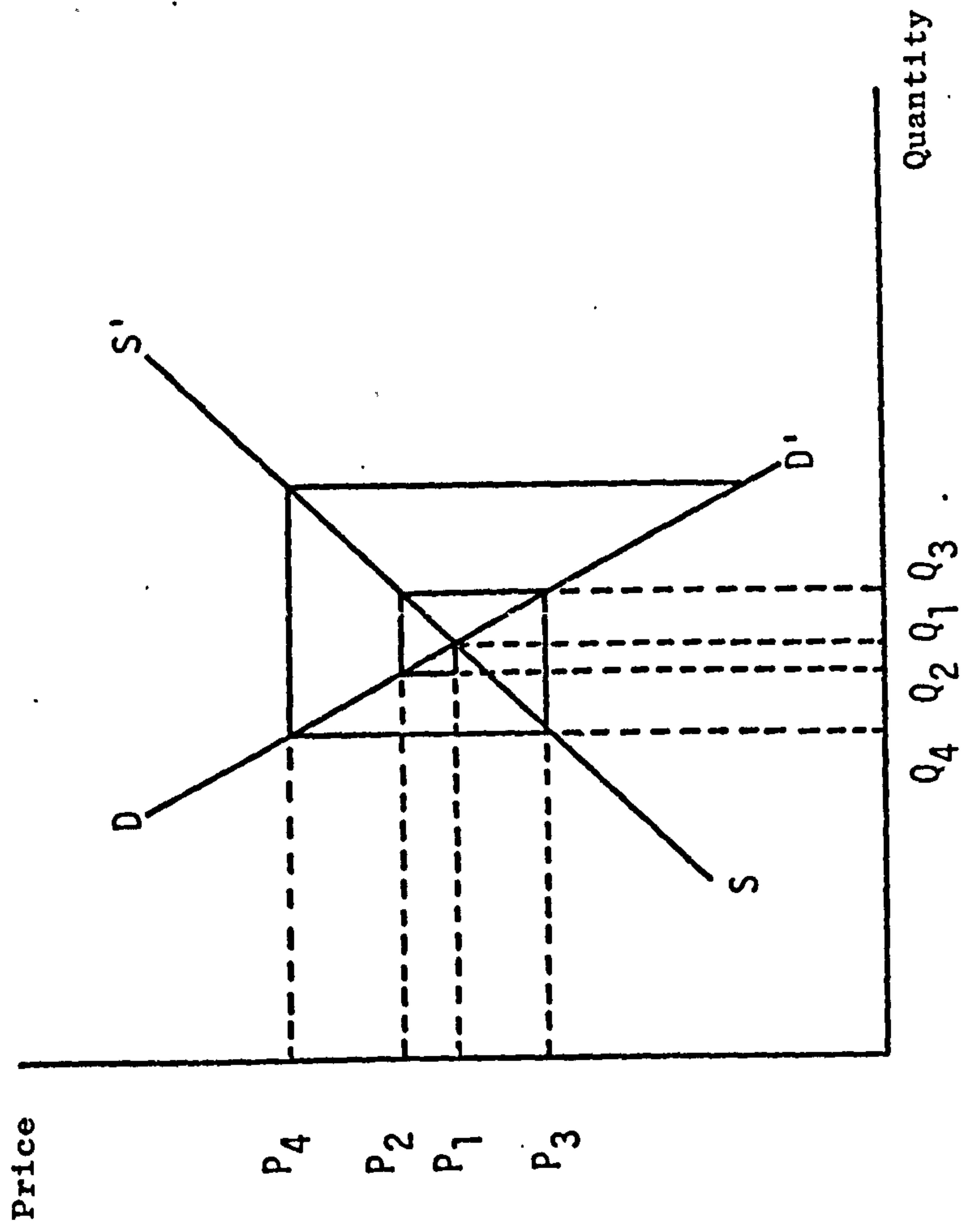
6.3 Supply and Demand

The cobweb theory is one which has been used to explain the wide price fluctuations occurring in many agricultural markets. The theory applies when demand is price inelastic and supply has no elasticity in the short term but has high price elasticity between production sequences. The egg industry does not fully conform to these conditions because supply is made slightly elastic in the short term by extending or reducing the laying period of birds and by importing or exporting eggs. Nonetheless, the cobweb theory is useful for illustrating the increasing instability of prices in the egg market.

Diagram B6 depicts an expanding, or exploding, cobweb. On this diagram, the line DD' is the demand curve for eggs and SS' the supply curve. In t_1 (time period 1), the market is at equilibrium at price P_1 and quantity Q_1 . Although this equilibrium position is unlikely to be achieved in practice, it makes an appropriate starting point.

Now, assume that for some reason (disease, increased costs in the next period, t_2 , supply falls to Q_2 , then the price of eggs would rise to P_2 where demand is at Q_2 . It is likely that this high price will lead to an increase in

DIAGRAM B6 : THE EXPANDING COBWEB



production during t_3 to Q_3 . In order to sell Q_3 the price of eggs will have to drop from P_2 to P_3 . As a result of this drop in price in t_3 , a contraction of supply to Q_4 in period t_4 would be expected with a consequent price rise to P_4 . And so the cycle continues for as long as the supply and demand curves remain in their original positions.

Obviously the cobweb theory is a much simplified model of reality but it does serve to illustrate the inherent instability of the egg industry.

7. TRADE IN EGGS

Prior to joining the EEC there was considerable anxiety in the egg industry that the free trade between member countries would result in foreign eggs swamping the UK market. Following UK entry into the EEC, in February 1973, there was a substantial increase in the number of shell eggs imported into the UK, but only a minimal increase in exports (see Table B14), and so it seemed the worst fears of the industry had been confirmed. However, in 1976, the situation changed completely and from being a net importer of eggs the UK became a net exporter.

In 1978 the depressed market prices for eggs in the UK actively discouraged importers whilst encouraging foreign markets to buy UK eggs. The result was a record level of net exports. In 1979, exports were even higher than in 1978 but the overall position was not as good because imports returned to their pre-1976 level.

To put the figures in Table B14 into perspective, in 1979 imports comprised approximately 2% of supply and exports accounted for around 4% of demand.

TABLE B14 : IMPORTS AND EXPORTS OF SHELL EGGS

(EXCLUDING HATCHING EGGS)

('000 cases)

		1972	1973	1974	1975	1976	1977	1978	1979
<u>IMPORTS</u>	E.E.C.	36	741	698	750	141	110	134	
	Other	16	112	20	**	53	36*	12*	
	Total	52	853	718	760	194	146	146	750
<u>EXPORTS</u>	E.E.C.	30	125	116	268	333	522	1106	
	Other	108	53	7	16	82	101	99	
	Total	138	178	123	284	415	623	1205	1654
<u>BALANCE</u>		+86	-675	-595	-476	+221	+477	+1059	+904

* for re-export as egg products

** less than 50 cases

Source : Eggs Authority based on Customs and Excise

Adjustments have been made to 1973 and 1974 published statistics to compensate for diversions of eggs via Eire en route to G.B. from Northern Ireland, but not to 1972 statistics. From 1975, published statistics adjusted for this.

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- (2) FILMER, W W : "Short-term Forecasting of Egg Production and Marketing in the United Kingdom" in Freeman and Boorman (eds) Economic Factors Affecting Egg Production ; British Poultry Science Limited, Edinburgh, 1975, pp 173-193.
- (3) MAY, M : Generic Advertising with special reference to the United Kingdom Egg Industry. M. Phil. unpublished thesis, Wye College, University of London, 1976.

APPENDIX CQUESTIONNAIRES1. CONTACT QUESTIONNAIRE / CHANNEL PLAN

The contact questionnaires were used in making the contacts from which the case-study channels were identified. Each channel was then recorded on a Channel Plan.

2. BASIC INFORMATION QUESTIONNAIRES

These were sent to respondents prior to the interview to obtain the hard, quantitative data.

Equivalent information was obtained for each channel. The questionnaires, however, varied in accordance with the type of channel member the respondent represented. A producer, for example, received a different questionnaire from a producer-packer in that the farmer's questionnaire did not include questions on egg grading and packing, or on egg marketing. The necessary flexibility was achieved by devising a modular questionnaire.

The sample questionnaires included here were compiled for Channel C.

CONTACT QUESTIONNAIRE

NOTES

NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----

IF A PRODUCER -----> GO TO SECTION A
IF A PRODUCER-PACKER -----> GO TO SECTION B
IF A PACKER -----> GO TO SECTION C
IF A RETAILER -----> GO TO SECTION D

SECTION A : IF INITIAL CONTACT AN EGG PRODUCER ONLY

1. Would you give me the name and address of the egg packer(s) you supply?

(a) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----
(b) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----

2. Ask (one) packer named in 1 : Would you give me the names and addresses of three of your customers?

(a) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----

(b) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----

(c) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----

SECTION B : IF INITIAL CONTACT AN EGG PRODUCER-PACKER

NOTES

1. Would you give me the names and addresses of three of your customers?

(a) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----

(b) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----

(c) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----

SECTION C : IF INITIAL CONTACT AN EGG PACKER

NOTES

1. Would you give me the names and addresses of three of the producers that supply you with eggs?

(a) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION: -----

(b) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION -----

(c) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION -----

NOTES

2. Would you give me the names and addresses of three of your customers?

(a) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION -----

(b) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION -----

(c) NAME: -----
ADDRESS: -----

TEL NO: -----
NAME OF CONTACT: -----
POSITION -----

SECTION D: IF INITIAL CONTACT A RETAILER

NOTES

1. Would you give me the names and addresses of (two of) your supplier(s)?

(a) NAME: -----

ADDRESS: -----

TEL NO: -----

NAME OF CONTACT: -----

POSITION -----

(b) NAME: -----

ADDRESS: -----

TEL NO: -----

NAME OF CONTACT: -----

POSITION: -----

2. Ask (one) supplier, if a packer : Would you give me the names and addresses of three of the producers that supply you with eggs?

(a) NAME: -----

ADDRESS: -----

TEL NO: -----

NAME OF CONTACT: -----

(b) NAME: -----

ADDRESS: -----

TEL NO: -----

NAME OF CONTACT: -----

POSITION: -----

(c) NAME: -----

ADDRESS: -----

TEL NO: -----

NAME OF CONTACT: -----

POSITION: -----

NAME :

DATE OF VISIT :

DIRECTIONS :

CHANNEL PLAN

EGG PRODUCTION

EGG GRADING AND PACKING

EGG MARKETING

EGG WHOLESALING

EGG RETAILING

CONFIDENTIAL

EGG MARKETING AND DISTRIBUTION STUDY

QUESTIONNAIRE

Please return to :

ANGELA CHILDERLEY
Cranfield School of Management
CRANFIELD
Bedford MK40 0AL

BACKGROUND

1. Is
- a sole proprietorship ?
 - a partnership ?
 - a private company ?
 - a wholly owned subsidiary ?
 - a division of a company ?
 - other ? Please specify

If a wholly owned subsidiary or division of a company, what is the name of the holding or parent company ?

Name :

Address :

.....

2. Are you a member of any co-operative or voluntary group ?
- Yes No

If Yes :

a) What is the name of the co-operative/voluntary group ?
.....

3. What was your turnover in 1977 ? (*Only an approximate figure is requested*)

Approximately

4. Approximately what percentage of total revenue is contributed by the sale of eggs in shell ?

..... %

5. How many people do you employ ?
(*Include all persons actively involved, e.g. owners, partners, members of the family if appropriate*)

.....

EGG PRODUCTION

1. How many farms do you own ?

2. Do you hatch your own chicks ?

Yes

No

If Yes:

(a) How many chicks do you expect to hatch in 1978 ?
.....

(b) How many hatcheries do you have ?
.....

(c) What percentage of your own chick requirements are hatched
in your own hatcheries ?
.....

(d) What percentage, if any, of chicks hatched are sold to
outside rearing farms ?
.....

3. Do you rear your own chickens ?

Yes

No

If Yes :

(a) How many chickens do you expect to rear in 1978 ?
.....

(b) How many rearing farms or farms with rearing facilities
do you have ?
.....

(c) What percentage of your laying hen requirements do you rear
yourself ?
.....

(d) What percentage, if any, of chickens reared are sold to
outside laying farms ?
.....

4. Do you mill your own feed ?

Yes

No

If Yes :

(a) How many mills do you have ?

(b) How much chicken feed (for laying hens) do you expect to mill in 1978 ?

.....

(c) What percentage of feed milled is for laying hens ?

.....%

(d) What percentage of your own laying hen feed requirements are provided by your own milling facilities ?

.....%

(e) What percentage of feed milled is sold on the open market ?

.....%

5. (a) How many laying farms (or farms with laying flocks) do you have ?

.....

(b) Which of the following statements best describes this/these farm(s) ?

Egg production units

General farm(s)

Livestock farm(s)

Small holding(s)

6. (a) How many hens did you have in lay on Monday 8th May 1978 ?

.....

(b) How many of these lay :

(i) brown eggs ?

(ii) tinted eggs ?

(iii) white eggs ?

(c) How does the number of hens you have today compare with 5 years ago, or, if you have not been in business 5 years, since starting the business ?

.....
.....

(d) How old are the hens when you install them in the laying sheds ?

..... weeks

(e) How many weeks do you (usually) keep hens in lay ?

..... weeks

(f) Do you force moult ?

never

sometimes

always

(g) What happens to the hens at the end of their laying life ?

.....
.....

7. (a) During the week 8th-14th May 1978, how many eggs, approximately, did the laying farm(s) produce ?

..... cases

(b) How many of these were seconds ?

.....

(c) How many eggs do you usually get from a bird during its laying life ?

(i) bird laying brown eggs

(ii) bird laying tinted eggs

(iii) bird laying white eggs

(d) What was your average weekly egg production :

(i) in 1975 ? Approx cases

(ii) in 1977 ? Approx cases

8. (a) During the week of 8-14th May, 1978, how much feed for laying hens was used ?

.....

(b) What is the average weekly consumption of feed per bird for hens laying ?

(i) brown eggs ?

(ii) tinted eggs ?

(iii) white eggs ?

(c) Does average weekly consumption vary much over the laying life of a bird ?

Yes

No

If Yes :

How does it vary ?

.....

(d) Approximately what percentage of total egg production costs does feed constitute ?

.....%

PRODUCTION - PACKING

1. What percentage of the eggs produced are also graded and packed by you ?

.....*

If less than 100% :

What happens to the rest of the eggs ?

.....

2. Are eggs taken from other independent egg producers for grading and packing ?

Yes

No

If Yes :

(a) What percentage of eggs graded and packed are from outside egg producers ?

.....*

(b) From how many outside egg producers do you take eggs ?

.....*

CONFIDENTIAL

EGG MARKETING AND DISTRIBUTION STUDY

QUESTIONNAIRE

Please return to :

ANGELA CHILDERLEY
Cranfield School of Management
CRANFIELD
Bedford MK40 0AL

BACKGROUND

1. Is
- a sole proprietorship ?
 - a partnership ?
 - a private company ?
 - a wholly owned subsidiary ?
 - a division of a company ?
 - other ? Please specify

If a wholly owned subsidiary or division of a company, what is the name of the holding or parent company ?

Name :

Address :
.....

2. Are you a member of any co-operative or voluntary group ?

Yes No

If Yes :

a) What is the name of the co-operative/voluntary group ?
.....

3. What was your turnover in 1977 ? (*Only an approximate figure is requested*)

Approximately

4. Approximately what percentage of total revenue is contributed by the sale of eggs in shell ?

.....

5. How many people do you employ ?
(*Include all persons actively involved, e.g. owners, partners, members of the family if appropriate*)

.....

EGG GRADING AND PACKING

1. (a) How many packing stations do you own ?

.....

(b) How many of these packing stations are 'on farm' ?

.....

2. (a) For which of the following do you have the necessary facilities ?

- shrink wrapping
- pre-pack pricing
- 'sell-by' date stamping
- cage pallet filling
- returnable plastic basket washing

(b) What other special facilities, if any, do you have ?

.....
.....

3. Do you pack eggs into :

- keyes trays only ?
- pre-packs only ?
- both keyes trays and pre-packs ?

If pre-packs only or both :

- ovotherm ?
- pressed paper ?
- polystyrene ?
- others, please specify

4. Do you operate your own fleet of vehicles for the collection and delivery of eggs ?

Yes

No

(a) If Yes :

(i) How many vehicles

are owned ?

are on hire ?

(ii) How many vehicles are used for :

egg collection ?

egg delivery ?

(iii) What is the average capacity of the vehicles ?

(b) If No :

To whom is the collection and delivery of eggs contracted out ?

Name

Address

5. (a) Approximately what percentage, if any, of the eggs, graded and packed are supplied by your own farm(s) ?

(b) Approximately what percentage, if any, of eggs are supplied by egg producers under contract ?

(c) How many different egg producers supply your packing station(s) with eggs ?

6. What was your average weekly output in :

(a) 1975 ? cases

(b) 1977 ? cases

7. During the week 8-14th May 1978, how many eggs :

- (a) were received from laying farms ?
- (b) were 'bought-in' graded ?
- (c) were 'bought-in' graded and packed ?
- (d) were graded and packed ?
- (e) were delivered to customers ?

8. (a) To whom do you sell the majority of the size 6 and 7 eggs ?

.....
.....

(b) What do you do with your seconds ?

.....
.....

9. (a) In a normal week on how many days are eggs graded and packed ?

.....

(b) On an average grading/packing day, for how many hours are eggs graded and packed ?

.....

10. (a) When will eggs usually be graded and packed if they arrive at a packing station :

(i) on Monday morning ?

(ii) on Friday afternoon ?

(b) In the case of the 'popular' colour and size combinations of eggs how long will it normally be between eggs arriving and leaving the packing station(s) ?

.....

If more than one packing station :

11. How do the packing stations vary in size ?

Considering the smallest and largest packing station :

- (a) How many eggs does each of these packing stations grade and pack in a normal week ?
- (b) How many people work for each packing station ?

	Smallest Packing Station	Largest Packing Station
(a) Average Weekly Output		
(b) Numbers employed		
30+ hours per week		
up to 30 hours per week		

12. Do the collection and delivery vehicles operate :

from a central depot ?

from the individual packing stations ?

other, please specify

EGG MARKETING

1. What is the brand/trade name(s), if any, used to market your eggs ?

.....

2. Do you advertise eggs ?

Yes

No

If Yes :

(a) To whom do you direct the advertising ?

the trade

the consumer

both

(b) Where do you place advertisements ?

.....
.....
.....

(c) Do you use an advertising agency ?

Yes

No

3. Do you run joint promotions with trade customers ?

Yes

No

If Yes :

What type of joint promotions ?

.....
.....

4. Do you supply trade customers with egg display materials ?

Yes

No

If Yes :

What type(s) of display material do you provide ?

- posters
- leaflets
- shelf markers
- header boards
- display stands
- other, please specify

5. What other promotional activities do you undertake ?

.....
.....
.....
.....

6. Do you undertake Market Research ? *If you do please indicate the Market Research undertaken, otherwise write 'NONE'.*

.....
.....

7. Are eggs supplied under contract, or other type of formal agreement, to any of your customers ?

Yes No

If Yes :

(a) What proportion of customers are supplied under contract ?

.....

(b) What proportion of total egg sales are made to customers supplied under contract ?

.....

8. Are discounts and bonuses given to customers ?

Yes No

If Yes :

Under what circumstances are such financial rewards given ?

.....
.....

9. (a) When would customers be invoiced for eggs delivered during the week 8-14th May 1978 ?

.....

(b) What are the terms of payment ?

.....
.....

10. (a) How many Grade A household shell eggs did you sell :

(i) per week, on average, in 1975 ? cases

(ii) per week, on average, in 1977 ? cases

(iii) during the week 8-14th May 1978 ? cases

(b) Do you aim to sell your eggs to a particular customer type of market niche ?

Yes

No

If Yes :

Which customer types ?

.....
.....

(c) For 1978 to date what percentage of egg sales approximately have been made to each of the following customer categories?

Multiple grocer%

Co-op%

Independent grocer%

Other food chains%

Other food independents%

Milk roundsmen%

Mobile shops%

Grocery wholesalers%

Fresh food wholesalers%

Other, please specify :

.....%

(d) Are different prices charged different customer types ?

Yes

No

If Yes: What are the factors determining price variations ?

.....
.....
.....
.....

11. (a) How many packing stations do you serve ?

(b) Do these all belong to the same firm ?

Yes

No

If No :

How many different egg packers do you serve ?

.....

12. How many eggs did you supply

(a) per week, on average, in 1977 ? cases

(b) during the week 8-14th May 1978 ? cases

13. (a) How long have you supplied this customer with eggs ?

.....

(b) During this time how, if at all, has the number of eggs supplied this customer changed ?

increased a lot

increased a little

remained about the same

decreased a little

decreased a lot

14. Is this customer supplied with eggs under contract or other formal arrangements ?

Yes

No

If Yes :

What type of arrangement is it ?

.....
.....
.....

15. Is this customer supplied with eggs under specially negotiated conditions ?

Yes

No

(a) If Yes

What do the special conditions cover ?

quality of eggs supplied	<input type="checkbox"/>
deliveries	<input type="checkbox"/>
prices	<input type="checkbox"/>
promotional activity	<input type="checkbox"/>
egg packaging	<input type="checkbox"/>
other, please specify	

(b) If No

What, briefly, are the terms under which eggs are supplied ?

.....
.....
.....

16. How are the eggs, supplied to this customer, packed ?

in keyes trays	<input type="checkbox"/>
in unmarked pre-packs	<input type="checkbox"/>
in branded pre-packs	<input type="checkbox"/>
in customer branded pre-packs	<input type="checkbox"/>
other, please specify	

17. (a) How many promotions have you run with this customer since 1st January 1978 ?

.....

(b) What type of promotions were they ?

.....

.....

.....

(c) With what promotional material do you supply this customer ?

posters

leaflets

shelf markers

header boards

display stands

other, please specify

(d) Do you and this customer undertake joint consumer advertising ?

Yes

No

CONFIDENTIAL

EGG MARKETING AND DISTRIBUTION STUDY

QUESTIONNAIRE

Please return to :

ANGELA CHILDERLEY
Cranfield School of Management
CRANFIELD
Bedford MK40 0AL

Where applicable please answer by ticking the appropriate box or boxes

BACKGROUND

1. Is
- a sole proprietorship ?
 - a partnership ?
 - a private company ?
 - a wholly owned subsidiary ?
 - a division of a company ?
 - other ? Please specify

If a wholly owned subsidiary or division of a company, what is the name of the holding or parent company ?

Name :

Address :
.....

2. Are you a member of any co-operative or voluntary group ?

Yes No

If Yes :

a) What is the name of the co-operative/voluntary group ?
.....

3. What was your turnover in 1977 ? (Only an approximate figure is requested)

Approximately

4. Approximately what percentage of total revenue is contributed by the sale of eggs in shell ?
.....

5. How many people do you employ ?
(Include all persons actively involved, e.g. owners, partners, members of the family if appropriate)
.....

EGG RETAILING

1. (a) How many of each of the following do you own ?

- hypermarkets
- supermarkets
- grocery self-service shops
- grocery counter-service shops
- butchers
- greengrocers
- other food shops
- milk-round depots
- mobile shops
- market stalls
- others, please specify :
-
-

(b) Counting delivery round depots as retail outlets, how many retail outlets do you own ?

.....

2. How many differing egg suppliers do you use ?

.....

If more than one :

(a) Are the terms of trade the same for all the egg suppliers used ?

Yes

No

(b) Do different suppliers serve outlets in different geographical locations ?

Yes

No

3. Is there any ownership tie between you and any of the egg suppliers used ? *If there is please give the name(s) of the suppliers(s), otherwise write 'None'.*

.....
.....

4. Are eggs supplied under contract, or other formal agreement, by any of the egg suppliers used ?

Yes

No

If Yes

With which suppliers do you have such agreements ?

.....

5. (a) How are eggs sold ?

loose, ungraded from keyes trays

loose, graded from keyes trays

graded in pre-packs

other, please specify

If in pre-packs :

(i) What type of pre-packs ?

ovotherm (thin opaque plastic)

pressed paper

polystyrene

Other, please specify

(ii) Are the packs :

Yes No

pre-priced ?

'sell-by' date stamped ?

unbranded ?

supplier branded ?

own branded ?

6. What colour and size eggs do you usually stock ?

Size \ Colour	1	2	3	4	5	6	7
White							
Brown							

7. (a) How are eggs delivered to you ?

- in cardboard boxes
- shrink-wrapped on pallets
- in open cardboard pallets
- in cages
- in returnable plastic baskets
- on shelved trolleys
- other, please specify

(b) How frequently are eggs delivered and what is the average drop size ? *If this varies from store to store (or depot to depot) please give the number of stores having each delivery frequency and average drop size.*

Number of stores	Frequency of egg delivery	Average drop size

(c) What is the order-delivery cycle time ? (*i.e., how many days between an order being placed and the eggs being delivered,*) *If day 1 is the day eggs are ordered, on what day number are they delivered.*

Day

8. Do you advertise ?

- Yes No

If Yes:

(a) Where do you advertise ?

.....

.....

.....

(b) Since 1st January 1978 have eggs been featured in any of these advertisements ?

Yes No

9. (a) Are eggs often featured in promotional campaigns ?

Yes No

(b) What type of promotional campaigns are usually run on eggs ?

.....
.....

10. Have you run any promotions on eggs since 1st January, 1978 ?

Yes No

If Yes:

(a) How many promotions have been run ?

(b) How many of these were :
run by you ?
run jointly with egg supplier(s) ?
run by the egg supplier(s) ?

(c) When were these promotions held and what type(s) of promotions were they ?
.....
.....

11. (a) How many eggs did you sell :

(i) per week, on average, in 1977 ? cases

(ii) during the week 8-14th May 1978 ? cases

(b) Since 1975 how has the number of eggs sold by you changed ?

increased a lot
increased a little
stayed about the same
decreased a little
decreased a lot

12. (a) Approximately what percentage of eggs are currently supplied by?

.....%

(b) How long have you used this supplier ?

.....

(c) During this time how has the proportion of eggs supplied by this supplier changed ?

- increased a lot
- increased a little
- stayed about the same
- decreased a little
- decreased a lot

13. What was your selling price for eggs during the week 8-14th May 1978 ? (per dozen)

Colour \ Size	1	2	3	4	5	6	7
White							
Brown							

For shops and stores only

14. (a) Where are eggs normally positioned in store ?

.....

(b) How are the eggs displayed ?

(e.g., in cardboard pallets, on shelves, free standing displays ?)

.....

APPENDIX D

INTERVIEW GUIDE

The sample interview Guide was prepared for use with the egg supplier in Channel C.

I N T E R V I E W

RAISE QUERIES ON QUESTIONNAIRE/COMPLETE THE QUESTIONNAIRE

- Ask to describe the main changes in the egg industry over the last 5 years.
(probe : industry as a whole forward looking or very traditional)
- Ask to describe the workings of the business and how changed over last 5 years.
(probe : new investment, expansion of activities)
- Lead onto the reconciliation of egg production with requirements
- Lead onto the ordering/delivery procedure and accounts system.
- Lead onto discussion of retailers and egg retailing.
(probe : what not doing that they should and vice-versa; what they do which causes headaches)
- Ask what makes a 'good' customer
(probe:promotional activity, payment, sales)
- Lead onto relationships with _____
(probe : length of trading relationship, importance of sales to customer, the amount of contact, discussion of policies)
- Lead onto whether _____ interfering or disinterested.
- Lead onto effect of losing _____ custom.

If Time : Ask about costs.

APPENDIX EDESCRIPTIONS OF THE FIVE CHANNELS1. CHANNEL A

Channel A has two channel members, Good Egg and Valuestore. Between these two channel members there is the relatively unusual feature of a legally binding contract.

1.1 Good Egg

Good Egg is a major, regional egg producer-packer covering the area shown in Diagram E1.

(a) Ownership and Structure

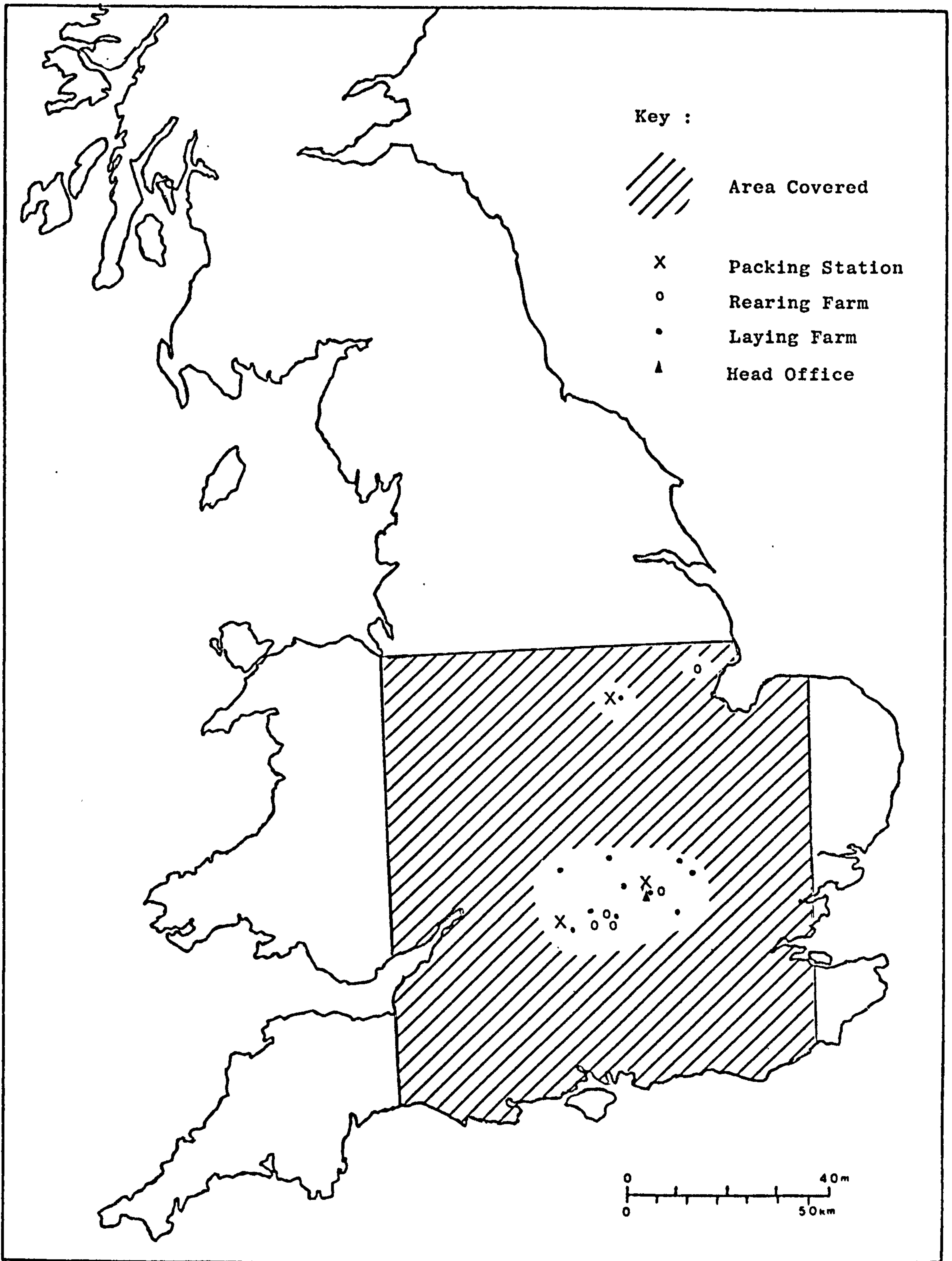
Originally a family firm, Good Egg is now the wholly-owned subsidiary of a vast international conglomerate, Allsorts Incorporated. Members of the family that started Good Egg are, however, still very much in evidence in senior management positions.

The management of Good Egg claims to be allowed 'substantial' autonomy and likens the relationship between Good Egg and Allsorts to the relationship between an independent business and a merchant bank. This is not a totally accurate picture because Allsorts does, in fact, exercise much tighter control than most merchant banks.

Every year, Good Egg has to submit a 5 year plan to Allsorts Inc., which, if accepted, is the basis on which finance is granted for the next financial year. Allsorts also demands quarterly progress reports in which actual results and market conditions are compared against those budgeted and forecast. Adjustments are made to the 5 year plan in accordance with these quarterly reports.

Good Egg has six divisions (the feed mill, rearing farms, laying farms, packing stations, marketing and transport) plus a head office. Each division is a profit centre with its own budgets and forecasts, and divisional transfers are made at prevailing market prices.

DIAGRAM E1 : AREA COVERED BY GOOD EGG



The divisional Heads, and the Heads of the various Head office functions, make up the main management team which compiles the 5 year plan presented to Allsorts for approval.

Rearing farm managers, laying farm managers and packing station managers are purely operational managers. For example, a laying farm manager will organise the cleaning and maintenance of hen houses, decide when a vet needs calling in and arrange the collection of end-of-lay birds by food processors. He does not, however, have discretion over the formulae of the feed compound, the mix of white and brown birds, the type of equipment used, the number of weeks that birds are kept in lay, or the price charged to those buying the end-of-lay birds.

(b) Recent History

Since 1973 the growth of Good Egg has been quite spectacular owing to the massive injections of capital by Allsorts Inc. Average weekly sales, for example, have almost quadrupled from 5,000 cases to 20,000 cases.

Also during this period, Good Egg acquired a feed mill (from another subsidiary of Allsorts Inc); bought up several egg producers and packing stations; installed a small computer to facilitate ordering, accounts and forecasting egg supplies; re-equipped the packing stations and started on a programme of automating laying farms. Interestingly, there was no attempt to integrate backwards into hatcheries.

(c) Main Activities

Rearing

Good Egg buys in chicks at one day old for rearing. The rearing farms keep the birds 18 weeks during which time a full vaccination programme is followed to help combat the biggest potential hazard associated with egg production - disease.

Egg Production

The birds are transferred to the laying farms at 18 weeks. Good Egg has the policy of keeping hens in lay 56 weeks and then selling them off for slaughter to food processors. There is no 'force moulting' of birds.

40% of the eggs sold by Good Egg are supplied by producers under contract. At present, three contractual schemes

are operated :

- a traditional scheme under which contracted egg producers undertake to send all the eggs produced by a given, named flock to Good Egg.
- a management fee scheme where the egg producer provides facilities, labour and management but Good Egg provides the birds and feed. Good Egg also prescribes laying conditions and feed allowances.
- a scheme in which Good Egg supplies the feed and the egg producer supplies the buildings, labour, management and hens.

Of these schemes, Good Egg favours the recently introduced management fee scheme because, of the three, it gives the greater control over egg production.

Feed Milling

All feed requirements are met by the large feed mill which has been recently acquired. This mill produces a range of animal feed, not just chicken feed, and sells it to customers from both within and without the Allsorts conglomerate.

Collection and Delivery

Eggs are collected from both the owned and the contracted laying farms by vehicles that are based at the packing stations. The vehicles are managed, however, by a separate, head office based transport division.

The frequency with which collections are made from the individual laying farms is determined by output, but is never less than twice weekly. In one case, a laying farm and packing station share a site and collections are made many times daily by an agricultural tractor and trailer.

The same vehicles are used to deliver, as well as collect, eggs. Each vehicle has two bodies which can be 'swapped', thus enabling a driver to be on the road with one body while the other is loaded or unloaded.

At least one delivery a week is made to each delivery point (either warehouse or retail store) served by Good Egg. Once again the quantity of eggs involved is a prime consideration in the frequency of deliveries, but the deciding factor is the service level negotiated by the marketing department.

Grading and Packing

To comply with EEC Rulings, eggs that arrive at a packing station must be graded and packed within 24 hours unless there is an intervening weekend or bank holiday.

Once graded and packed, eggs may stay in storage much longer than the 24 hours prior to grading. At Good Egg, if eggs are still in stock 2 weeks after packing, a quality check is automatically given. If at this test a batch of eggs falls below standard, it is sold to a processor and not to customers intending to re-sell the eggs for in-shell human consumption. The freshness of eggs is assessed by weight using an international scale. On this scale 70 is a good, fresh egg.

The packing stations belonging to Good Egg all have automated grading and packing although the human eye is still needed at candling.*

Marketing and Sales

All marketing and sales negotiation is undertaken by the marketing department. To allow this department freedom to negotiate without (directly) affecting the budget of the packing station division, the marketing department buys all the eggs packed by the packing stations as a paper transaction and re-sells them to customers.

At present the marketing department has responsibility for :

- selling eggs to retailers.
- price/discount setting and negotiation.
- monitoring marketing conditions, especially prices.
- providing a market intelligence service to customers.
- deciding, with the transport division, what service levels can be offered to customers.
- placing advertisements in trade journals.
- designing below-the-line promotions.
- providing a merchandising service, which includes the provision of point-of-sale promotional aids.
- organising joint promotions with customers.

* Candling - a light is passed through the egg to show up any defects, such as blood spots or cracked shells.

Of these, most time is spent on the selling and price/discount setting and monitoring. The reason given for this is the price sensitivity of the market.

Commercial Activities

Orders for eggs are placed by customers with tele-sales girls working at the packing stations. The computerised system means that an order can be confirmed, and a combined delivery note/invoice raised, while the customer is still on the telephone.

All financial activities are under the control of the accounts department. With the internal transfer scheme operated by Good Egg, this department has to determine internal transfer prices and action all internal transfers in addition to the traditional functions of collecting and making payments, monitoring liquidity, producing trial balances for Allsorts Inc. and so on. However, being a subsidiary, the accounts department is spared negotiation with the Inland Revenue, the responsibility for this has been assumed by Allsorts Inc.

1.2 Valuestore

Valuestore is a southern based supermarket chain with nearly 40 outlets.

(a) Ownership and Structure

Valuestore is a wholly owned subsidiary of Bertrams, a retailing group. Bertrams has adopted a highly centralised approach towards the management of subsidiaries. To aid this approach Bertrams has centralised all the main service functions, such as legal advice, personnel, accounts and computer facilities.

There is discussion between the senior managers of Valuestore and Bertrams about the annual targets that Valuestore are set, but basically they are handed down by the holding company.

As may be expected, centralisation is also a feature of Valuestore's internal organisation. Very little discretion is allowed store managers and in those areas where some discretion has to be allowed guidelines are provided.

Each retail outlet has a manager, under-manager and a number (depending on the size of the outlet) of departmental managers. The store managers report to the Store

Operations Director. The under manager and departmental managers of a store report to the manager. Departmental managers, however, run their departments, in so far as product range, prices and promotions are concerned, according to the dictates of the appropriate buying department.

The use of the term 'buying department' is really a misnomer because each buying department has responsibility for the marketing of the products it covers. The size of these buying departments varies but most have a chief buyer, two or three assistant buyers and a range of support staff.

(b) Recent History

As a subsidiary of Bertrams there has been much rationalisation. This rationalisation has taken two main forms - the pruning of service functions already available from Bertrams head office and the closure of small counter-service and self-service grocers. Despite these measures, the competitive position of Valuestore is not strong because it is a second tier chain in the fiercely competitive grocery trade where margins are narrow and price cutting rife.

There have been two main developments concerning the retailing of eggs. One, the introduction of a wire display unit for egg pre-packs. This unit takes a case of eggs and sits on standard shelving. Two, the pre-launch testing of a '7 day old egg guarantee'.

(c) Main Activities (re Eggs)

Egg Buying

Mr Nailor, the head of the provisions buying department, takes personal responsibility for negotiating terms of supply for eggs. This is because of an interest in eggs which stems from having once managed a packing station.

Valuestore is in the fairly unique position of having only one egg supplier rather than the more usual two or three. The reason for this is the 'sole supplier' contract which is the result of a unique set of historical circumstances.

In addition to negotiating prices, discounts, promotions, delivery and packaging requirements, Mr Nailor sets the selling prices for eggs, decides the range of eggs to be stocked by each store category and determines the way eggs are presented to consumers, within the limits of the company logo and store image restrictions.

Every week the provisions buyers prepare a newsletter which is distributed to all store and provisions departmental managers. This newsletter gives information on prices, promotions and other factors for all provisions.

Ordering, Delivery and Accounts

The provisions departmental managers order the eggs required from the appropriate Good Egg packing station. Eggs are ordered 48 hours before delivery and there are two deliveries a week to the smaller stores; three a week to the bigger stores.

Eggs are delivered direct to stores in five layer boxes which, when opened, allow the ovotherm packs to be tipped easily into the wire baskets used for merchandising.

All invoices are submitted to, and processed by, Bertrams centralised accounts section. Here, the invoices are checked against delivery notes and against the price listings sent in by the Valuestore buying departments, before payment is made. Valuestore obtains information about accounts through on-line printers and visual display units.

Egg Retailing

In addition to ordering eggs, provisions departmental managers are responsible for in-store stock rotation, marking down the price of eggs that have reached their sell-by date and the in-store merchandising of eggs, which includes trying to gain favourable positioning.

Eggs are sold by Valuestore in own label, ovotherm packs marked with a sell-by date. The packs are displayed in the wire baskets, already mentioned, which fit onto standard shelving. Usually they are positioned near the cheese and delicatessen counter.

The range of eggs sold by Valuestore is :

White : sizes 2, 3, 4, 5.
Brown : sizes 2, 3, 4.

Not all stores stock this full range. Store size, past sales and the type of area in which the store is located are the main factors determining the sizes stocked by individual stores. White sizes 2 and 4 are always stocked

because, since metrication, they have proved to be the most popular sizes.

1.3 The Connection between Good Egg and Valuestore

There is a formal written contract that lays out the basic conditions under which Good Egg supplies Valuestore with eggs in return for the right to remain the 'sole' supplier. The exact terms are negotiated annually with regular interim discussions on price and promotion. When the contract expires at the end of 1980 it is unlikely to be renewed.

Most direct contact between Valuestore and Good Egg is through Mr Nailor and Mr Jones, the sales manager in the marketing department of Good Egg. Mr Nailor and Mr Jones talk on the telephone regularly, twice a week; once to discuss the market and price situation and once to discuss the progress of egg sales in the week. Mr Jones also visits Mr Nailor for the various negotiations. The only other regular direct contact between the two firms is at the local level when tele-sales girls ring departmental managers for their orders.

2. CHANNEL B

Channel B is also comprised of two channel members, Chicklay and Hulstons, with a contractual arrangement between them. However, unlike Channel A, the two firms involved are small and the contractual arrangement is less binding.

2.1 Chicklay

Chicklay is a small, local producer-packer serving independents in Bedfordshire and north Hertfordshire.

(a) Ownership and Structure

Chicklay is a partnership owned and managed by two brothers, Paul and Peter Chicken.

Initially both brothers worked on every aspect of egg production, packing and marketing, down to taking turns to deliver the eggs. As the business grew and settled down this arrangement caused friction so it was decided to split the areas of responsibility for day-to-day management. Today Paul Chicken looks after egg production and the feed mill while Peter Chicken takes charge of packing and sales, including delivery and

marketing. Even with this division of responsibility the business is very much a joint venture.

(b) Recent History

The brothers set up Chicklay in 1970 by virtue of Government grants available at that time for new businesses in agriculture. Prior to this the brothers kept hens as a sideline and hobby.

Growth has been steadily accelerating. In 1975 average weekly sales were 350 cases and by 1978, 650 cases. A growing business is also demonstrated by the increasing workforce. In 1970 there was no hired help but in 1978 there were 5 part-time and 3 full-time employees.

Hill Farm, the sole site from which Chicklay operates, originally had one laying shed, a farmhouse and a range of farm yard buildings. At the time of interview there were 4 very large laying sheds (three stocked and one just built and awaiting birds), a small packing station, an office, a feed mill, the foundations for a rearing shed, a farm house and a bungalow (both brothers live on site). There is no more room on the farm for additional building so further expansion will involve buying more land.

(c) Main Activities

Egg Production

Until the rearing unit is built Chicklay will continue to buy in birds at 18 weeks and keep them in lay 60 weeks without force moulting. Aware of the dangers of disease, Chicklay only buys hens from rearers that carry out a full vaccination programme.

End-of-lay birds are sold for slaughter to processors.

Feed Milling

All the feed requirements of the birds in lay are met by the second-hand feed mill installed in one of the original farm buildings.

Collection, Grading and Packing

The eggs are taken across Hill Farm from the laying sheds to the packing station by agricultural tractor and trailer. The packing station is a small brick building containing one unsophisticated grading/packing machine. Grading

and packing take place on 3 days a week (Mondays, Wednesdays and Fridays).

When Chicklay sells more eggs than it can produce, the extra eggs required are bought via the Central Egg Agency clearing house.

Delivery

A storage shed adjoins the packing station and it is from here that the eggs are loaded onto the delivery van in accordance with daily orders. The driver is given the order tickets the night before delivery and he is then responsible for loading the van and deciding his delivery route. Most customers have a regular weekly delivery.

Marketing and Sales

All marketing and sales is undertaken by Peter Chicken with the help of a part-time office worker who also deals with the accounts.

Chicklay has adapted some of the methods used by the larger producer-packers to market their eggs. For example, customers are offered a merchandising service complete with Chicklay promotional aids - including posters, shelf talkers and leaflets - in return for better positioning and space allocation. A merchandiser used to be employed to do this, and will be again when a suitable replacement is found. In the meantime Peter Chicken is acting as the merchandiser.

In addition to the merchandising service, Chicklay part-finances cut price promotions in eggs and offers below-the-line incentives to shopkeepers and delivery roundsmen. By way of advertising Chicklay has placed an advertisement entry in the Yellow Pages of local telephone directories and uses the local free newspapers that have proliferated in the area.

Even before taking on the job of merchandiser, Peter Chicken spent one day a week on the road, which was split between calls on existing customers and calls on potential customers. Some potential customers are approached cold, others are sent leaflets beforehand and occasionally a retailer will approach Chicklay for information about their prices and service.

The latest introduction to the sales/marketing package is a contractual bonus scheme. Under this scheme customers are paid a special case bonus if they contract to take a

certain number of eggs each week for a 20 week period - and then fulfil their contract.

Commercial Activities

The part-time office worker rings customers for orders, raises delivery notes and invoices, sends out statements and monitors payment.

An accountant compiles the final accounts, deals with the Inland Revenue and acts as a financial adviser.

2.2 Hulstons

'Hulstons' is the trading name of a small, five-store grocery chain in Hertfordshire.

(a) Ownership and Structure

Mr and Mrs Hulston set up in business over 25 years ago with a small post office-cum-general store. At that time the business was a partnership, today it is a private limited company with Mr and Mrs Hulston as the principal shareholders.

The central office is above the original shop opened by the Hulstons. This office, which is the hub of all activity, is staffed by Mr and Mrs Hulston, two clerks and one typist/telephonist.

Each of the grocery stores has a manager and a number of assistants. The store managers are very closely controlled and allowed only minimal decision-making responsibility.

(b) Recent History

The last Hulston store was acquired four years ago and there are no plans for future expansion in terms of buying more outlets.

Over the last few years the policy of giving each store a unique, specialist feature, as dictated by its location, has been adopted. As a result of this policy two of the stores are bakers-cum-grocers, one has a post-office, another is basically a greengrocers and the newest is licenced and sells a comprehensive range of drinks.

(c) Main Activities (re Eggs)

Mr Hulston negotiates terms with the suppliers of all products including eggs. Mr Hulston also sets the price to be stamped on the packs by the egg suppliers of which there are two, Chicklay and Grace Brothers.

The shop managers place the weekly orders for eggs and check deliveries. The shop managers also organise any promotional activity, although the decisions concerning the type and timing of any promotion are made by Mr Hulston.

Mrs Hulston oversees invoice checking and payments, taking particular care to ensure that full benefit is made of any special promotional contract or other discounts.

2.4 The Connection between Chicklay and Hulstons

Chicklay first supplied eggs to Hulstons in 1975. In January 1978 Chicklay introduced the contractual bonus scheme and Hulstons became one of the first customers to take it up.

There is direct contact between Mr Hulston and Peter Chicken by telephone once a week. In addition Peter Chicken visits Mr Hulston about once a month and the Chicklay office girl rings the store managers weekly for their orders.

3. CHANNEL C

Although three legally distinct companies make up this channel there are, in effect, only two channel members. This situation arises because Jones Farm and Meadowland Eggs have common ownership and management. Once again the retailer is supplied eggs under contract.

3.1 Jones Farms and Meadowland Eggs

This producer-packer combination presently constitutes a large local egg supplier centred around Birmingham.

(a) Ownership and Structure

In 1974 Mike Jones was advised that, for tax reasons, it would be beneficial to formally separate the packing and sales side of his business from the production side.

Taking this advice, Mike Jones formed two private limited companies, and became the principal shareholder of both. Mike Jones is very definitely 'the boss' and it is he alone that takes all major decisions. The day-to-day management of the business is, however, largely in the hands of the two farm managers, the packing station manager and the sales manager. As the firms grow, these managers are being given more responsibility and operational freedom.

(b) Recent History

Growth has been the feature of this business over the past five years. In 1975 average weekly sales totalled 500 cases, in 1977, 870 cases and in 1978, 1750 cases. As the geographical area that is served remains very much the same as it was in 1964, the increase in sales is the outcome of increased market penetration.

Jones Farms production was unable to meet the jump in sales between 1977 and 1978 and so, towards the end of 1977, Meadowland Eggs began to buy-in significant quantities of eggs from local producers. By February 1978 about one third of Meadowland's Egg requirements were being supplied by outside producers.

Packing the additional eggs posed no problem, a purpose-built packing station and office block was completed in 1977.

(c) Main Activities

Rearing and Egg Production

The farms belonging to Jones Farms have both rearing and laying sheds so that each farm rears its own laying hens.

Chicks are bought in from hatcheries at 1 day old and then reared for eighteen weeks. During this time a full vaccination programme is followed. At eighteen weeks the birds are transferred to the laying sheds, where they are kept in lay for 54 weeks, without force moulting. End-of-lay birds are sold to processors.

As already noted, 33% of eggs are produced for Meadowland Eggs by independent farmers over which there is no control. This is because eggs are taken on a flexible, ad-hoc basis - there are no contracts nor formalised agreements of any type.

Jones Farms has no feed milling facilities, all feed is bought from a major feed company. This company gives customers free technical advice and offers flock management advice at a nominal charge.

Collection and Delivery

The recently completed packing station adjoins one of the two farms owned by Jones Farms. Eggs from this farm are taken across to the packing station by agricultural tractor and trailer. Eggs from the other farm, 1 mile away, are occasionally transported in this way but mostly a van is used.

Eggs are collected from regular outside producers about twice a week. In most cases, however, the very nature of the relationship with outside producers precludes scheduling collections more than a day or two in advance. Eggs are collected as and when needed and available.

Deliveries are scheduled on a weekly basis. The frequency of delivery to a customer depends on the quantity of eggs involved and the actual or potential importance of the account. Smaller accounts tend to have a weekly delivery and larger accounts, twice-weekly deliveries.

A back-up 24 hour, 7 day a week emergency service is provided, but it is rarely called on at weekends.

Grading and Packing

The packing station is fitted with automatic egg grading and packing machinery which still uses the human eye at candling.

Normally, eggs are graded and packed five days a week, Monday to Friday. At busy periods and after a bank holiday, however, the packing station may also work on Saturdays.

Marketing and Sales

The marketing and selling of eggs is undertaken by Mike Jones and the sales manager. Generally speaking Mike Jones negotiates terms with the multiples and other major accounts and the sales manager services these accounts at store/depot level and sells to the other categories of customer.

Most eggs are supplied under contract. The contract covers prices and discounts, off-take and delivery,

promotion and packing. The actual terms contained in the contract vary from customer to customer but they are usually similar for customers of the same type.

Meadowland Egg supplies point of sale promotional material to all customers and will, if requested, merchandise eggs and organise a complete point of sale promotion. Meadowland also part finances special cut-price promotions and management incentive schemes.

Commercial Activities

An order-clerk-cum-tele-sales girl places orders with suppliers (for feed, egg packs, boxes, etc.) and collects orders from customers (for eggs). In her role as tele-sales girl, she rings each order point on a pre-arranged day. The order forms and delivery notes she raises are passed onto the packing station manager with a copy going to the accounts clerk.

The accounts clerk controls the bought and sales ledgers, raises invoices and acts as the credit controller under the guidance of Mike Jones.

A clerk/typist types all invoices and deals with general farm business and with the independent producers. The secretary, shared by Mike Jones and the sales manager, completes the office staff.

3.2 Betterbuy

Betterbuy is a large multiple retailer with over 700 stores and employing over 15,000 people.

(a) Ownership and Structure

Betterbuy is a wholly owned subsidiary of Foodstuffs. Foodstuffs exercises control and influence over Betterbuy by appointing its directors and by holding the capital investment purse strings. Limited information was available on the overall working structure of Betterbuy. For eggs, however, the following division of responsibility applies.

At Betterbuy, eggs are classified as a fresh food. The fresh foods director, Mr Tiller, has responsibility for determining all fresh food product policy and runs all departments dealing with fresh foods. The egg buyer is given little autonomy because, like Mr Nailor of Valuestore, Mr Tiller has a particular interest in eggs. This means that most egg suppliers by-pass the buyer and deal

directly with Mr Tiller.

Store and fresh food departmental managers are told which egg suppliers may be used, which egg colour/size combinations may be stocked, and how eggs should be displayed. The advice on display is, however, very often quietly ignored.

(b) Recent History

Betterbuy was hit badly by price cutting, a recent feature of the aggressively competitive grocery trade. Taking stock of its position, Betterbuy started a rationalisation programme and opened a chain of limited line discount stores. At the time of interview the rationalisation programme had just been introduced.

In January 1978 Mr Tiller set up a 12 month research project to study the effect on sales of various methods of merchandising.

(c) Main Activities (re Eggs)

Buying, Ordering, Delivery and Accounts

Terms are negotiated with suppliers by Mr Tiller. When a satisfactory deal has been negotiated a formal sales agreement is drawn up and signed by both parties. In addition to prices and discounts, this agreement covers promotional activity, ordering and delivery arrangements.

Ordering is undertaken at store level by the fresh foods departmental manager or the store manager. Eggs are delivered to stores once or twice a week, depending on sales volume. In most cases, orders are placed the day before delivery.

Payments are handled by the head office accounts section.

Egg Retailing

Eggs are sold by Betterbuy in a variety of packs and displayed in a variety of ways. This variety is partly due to the research into egg merchandising and partly due to eggs being bought from several different regional and local suppliers, each with their own pack designs and point-of-sale promotional packages.

The result is that eggs are sold :

- loose from barrows
- loose from keyes trays - with pressed paper pre-packs provided
- in supplier branded - { ovotherm
pressed paper } pre-packs
polystyrene

The range of eggs listed by Betterbuy is :

White : sizes 2, 3, 4, 5
Brown : sizes 2, 3, 4, 5

but individual stores only stock a maximum of five colour/size combinations, usually white sizes 2, 3, 4 and brown sizes 2 and 4.

3.3 The Connection between Meadowland Eggs and Betterbuy

Eggs are bought by Betterbuy from Meadowland Eggs under what Betterbuy calls a sales agreement and Meadowland Eggs calls a contract. This agreement, or contract, is negotiated annually.

There is direct contact between Betterbuy and Meadowland Eggs at three levels. At the top, Mike Jones and Mr Tiller meet and talk on the telephone frequently - especially when the annual negotiations are in progress. The sales manager from Meadowland and the egg buyer from Betterbuy talk on the telephone weekly when the sales manager informs the egg buyer of prevailing conditions (including prices) in the egg market. Finally, there is direct contact when orders are placed and when accounts are queried.

4. CHANNEL D

In this channel the egg producer is a member of an egg packing co-operative, and the egg packing co-operative is a member of an egg marketing co-operative.

4.1 F D Chapman Ltd

Mr Chapman is a general farmer with interests in pigs, chickens and arable farming.

(a) Ownership and Structure

F D Chapman Limited is the registered name of the private limited company which is Mr Chapman's farming business. Mr and Mrs Chapman and Mr Chapman's parents are the only shareholders of this company.

Mr Chapman manages the farms that have livestock. Although egg production provided Mr Chapman's entrée into farming, he is not particularly interested in this side of the business so he employs an experienced man to run it for him.

(b) Recent History

In 1973 Mr Chapman acquired his fourth farm. Since then, all surplus funds have either gone on this new acquisition or on building up the pig herd.

(c) Main Activities (re Eggs)Rearing and Egg Production

All pullet rearing and egg production is concentrated on the farm that was originally bought by Mr Chapman in 1948.

One day old chicks are bought in from hatcheries about every 22 weeks. At 18 weeks the birds are transferred to the laying sheds, having been vaccinated against all the main diseases. In this way the farm is able to rear its own laying hen requirements.

Hens are kept in lay for 10 months, are force-moulted, and then put in lay for another 6-8 months. This gives an average of 72 laying weeks. The second laying period is cut short if either Christmas or July* falls within its bounds.

Feed Milling

The feed mill is used to mill feed for the pigs as well as for the chickens. Approximately 45% of the mill's output goes to the laying hens, and the remaining 55% goes to the pigs and rearing pullets.

* demand and prices slump at these times

Commercial Activities

The paperwork associated with egg production is dealt with by Mrs Chapman, with the help of a part-time secretary.

4.2 Western Egg Company

The Western Egg Company grew out of an organisation that was created during the war to conform with Government regulations on the distribution of eggs. When the war finished, 80% of the producers that were in the company decided to remain.

(a) Ownership and Structure

The Western Egg Company is a producer co-operative, which means that it is owned by the producers who supply it with eggs. The number of shares that a producer may hold is limited, thus ensuring that no single producer can become the dominant shareholder. Dividends are not paid on shares, but the member producers receive quarterly bonuses (out of profits) that are based on their fulfilment of contractual obligations and the number of eggs supplied.

The co-operative is managed by a salaried executive. The salaried executive board has to answer to producers at the formal AGM and at the less formal, biannual, producers meetings.

The relationship between the Western Egg Company board and its member producers closely resembles that which exists between a public company board and its shareholders.

The Western Egg Company head office formulates policy and draws up future plans which are presented to the producers at the AGM for approval. It also coordinates the activities of the packing stations and provides the usual range of head office services.

Each packing station is responsible for the collection, grading, packing and delivery of eggs in its designated area. To do this, packing station managers are allowed to run their packing stations as they see fit within the limits of existing facilities, assigned budgets, company policy and delivery schedules. In addition to the packing stations, Western Egg Company has two distribution depots and its own egg freezing and drying plant. The managers of these units work within similar constraints to those given to the packing station managers.

(b) Recent History

Since the early 1970's, a modernisation programme has been pursued. Packing stations have been extensively re-equipped, new outer-packaging machinery has been installed (e.g. for shrink wrapping), and a fleet of new vehicles has been built up.

(c) Main ActivitiesCollection and Delivery

The Western Egg Company operates a commercial fleet which contains vehicles ranging in size from 35 cwt vans to 14 ton, 6 wheeler lorries. These vehicles are serviced in the Company's garage workshops which are attached to the two largest packing stations.

The larger vehicles are used solely for the collection of eggs, because they are generally too big for the goods reception areas of retail stores. The frequency of collection varies from producer to producer because it is determined by output. All producers, however, have their eggs collected at least once a week. Many of the eggs supplied to the Western Egg Company come from large producers who have daily collections, except at weekends.

The frequency of delivery is negotiated with customers by the marketing organisation Chickadee, but the timing of each delivery is usually negotiated by Western Egg Company with the outlets that it serves. There is never less than one delivery a week to an outlet. Most commonly there are two deliveries and some outlets receive three.

Although the vehicles are based at the packing stations, and only serve a maximum 30 mile radius, they are managed by the head office.

Grading and Packing

The smallest packing station that is operated by Western Egg Company has an output of around 3,000 cases a week, and the largest has an output of 10,000 cases. Some of the smaller stations are kept open as a service to producers - they are not necessarily economically viable.

The larger packing stations are equipped with very modern grading and packing machines. Some of these machines are capable of handling 120 cases an hour and of automatically pricing pre-packs.

All eggs that are rejected at candling are sent to the Company's egg breaking, pasteurising and freezing plant.

Commercial Activities

Each packing station has a tele-sales girl who rings each retail outlet, or delivery point, for its order. The contact is made on set days, generally two days before the prescribed day for delivery. Copies of the orders are sent to the head office accounts department and also to Chickadee.

The financial side of the business is controlled by the head office accounts department. None of the producers are paid cash for their eggs and only a handful of very small, long-standing, customers pay cash on delivery.

4.3 Chickadee

Chickadee specialises in the marketing of eggs on a national scale.

(a) Ownership and Structure

Chickadee is a co-operative, owned and supplied with eggs by four packers, three of which are also co-operative packing organisations. The board of directors, is made up of two members from each of the four supplier-owners. The board sets the budgets and approves any policy changes which are advanced by the salaried executive that manages Chickadee.

Basically, Chickadee comprises three functional areas : marketing, sales and accounts. With the exception of the field sales force, all staff are based at the head office.

(b) Recent History

Chickadee was formed in 1970 in anticipation of the demise of the Egg Marketing Board and the advent of a free market. The aim was to establish a brand of eggs with a national image and distribution system. Chickadee is now one of the largest suppliers of eggs.

(c) Main Activities

Marketing

Chickadee is one of the few egg suppliers to employ an

advertising agency and to commission market research.

The market research that is undertaken investigates consumer attitudes towards branding, brand awareness and the effect of Chickadee advertising on demand. Needless to say, the results of this research are used in determining promotional activity.

Most of the promotional activity that is directed towards the trade is below-the-line and takes the form of special case bonuses and management incentive schemes. Chickadee does, however, advertise in the trade press. Often these advertisements provide information on the consumer oriented promotions.

A complete set of point-of-sale display material and a merchandising service is available to retailers.

Various types of promotions are aimed at consumers. Competitions, coupon offers, recipe leaflets, special price cook books and school project posters illustrate a few examples.

These promotions are supported by advertising in women's magazines and on commercial radio.

Chickadee frequently runs joint promotions with trade customers. These promotions often incorporate joint advertising in local, and occasionally in national, newspapers.

Selling

Prices, discounts, bonuses, service levels, and promotional support levels are negotiated with customers by the sales team. This team comprises :

- | | | |
|---------------------------|---|--|
| National Account Managers | - | dealing with the major multiples |
| Regional Sales Managers | - | dealing with regionally based multiples |
| Area Sales Managers | - | dealing with area accounts such as hospital groups, education authorities and symbol wholesalers |
| Representatives | - | concerned with individual stores. A mixed task of handling small local accounts and maintaining contact with managers of stores belonging to national and regional multiples |

- Merchandisers - performing the usual merchandising functions and reporting on High Street egg prices.

Commercial and Other Activities

A number of other activities are closely associated with the marketing and selling of eggs. These include :

- invoicing, controlling customer credit, and distributing payments among the supplying packers
- arranging the packing allocation on the basis of the daily egg availability declaration
- organising the transportation of eggs, routing vehicles and monitoring fleet performance.

Basically, Chickadee acts as a co-ordinating body and marketing functionary.

4.4 Fodders

Fodders is a major, national grocery multiple with around 600 outlets at the time of interview.

(a) Ownership and Structure

Fodders Limited is a public company. It is divided into six divisions, each with a managing director who is, in turn, a member of the parent board. Five of the divisions do not operate as separate profit centres; they exist to service the sixth division, which is the stores division.

One division is, in essence, although not in name, the grocery and provisions buying department. Fodders treat eggs as a provision rather than as a fresh food. In this division, group buyers are called executive directors. Mr Bryant is the executive director who deals with eggs. The stores division has joint Managing Directors to whom five Regional Managing Directors report. These Regional Managing Directors have (altogether) 18 Regional Directors reporting to them. Area Store Controllers report to the Regional Directors, and Store Managers report to the appropriate Area Store Controller. In addition, there is a Bakery Director and several product group specialists and executives.

(b) Recent History

Fodders is a rapidly expanding grocery multiple which has invested considerable sums in building new stores and refurbishing old ones. At the same time many uneconomic stores have been closed.

The sales of eggs have grown at approximately the same rate as total sales for this chain have shown.

(c) Main Activities (re Eggs)Egg Buying

The grocery and provisions buying department, through Mr Bryant, has the responsibility for 'listing' egg suppliers and for negotiating prices (including discounts) for eggs. Marketing and promotional activity is usually the result of negotiations involving the supplier, the stores division and the buying department.

Each supplier is allocated a certain number of stores. The individual store manager, however, can change one supplier for another if he believes this will result in better service. Usually such change is instigated by the provisions departmental manager. These changes should go through head office but they often do not.

Egg Retailing

The stores division decides the range of eggs to be stocked, where eggs are to be positioned in-store and what prices are to be charged for eggs.

All eggs are sold in supplier branded pre-packs, which means that ovotherm, pressed paper and polystyrene pre-packs are to be found in different branches of this one multiple. There is also variety in the outer packing of eggs (because they are delivered in cages, in plastic baskets, in cardboard boxes, on pallets and on shelved trolleys) and in the methods of egg display (on shelves, on non-returnable cardboard pallets, in returnable plastic baskets and on trolleys).

Fodders list the following range of eggs :

White	:	sizes	2, 3, 4, 5
Brown	:	sizes	2, 3, 4, 5

This full range is only stocked by a handful of the largest stores. Most other stores stock 5 or 6 colour/size combinations and the smaller stores stock only 3 or 4 colour/size combinations.

Ordering, Delivery and Accounts

Eggs are ordered by the stores from the appropriate packing station. Small stores order eggs weekly and have a weekly delivery, larger stores order eggs two or three times a week and have a corresponding number of deliveries.

Accounts are computerised and centralised, but there are still some satellite offices which undertake basic accountancy work for the regions.

4.5 The Connection between F D Chapman Limited, the Western Egg Company, Chickadee and Fodders

(a) F D Chapman Limited and the Western Egg Company

Mr Chapman sees himself as a contract supplier to, rather than an owner of, the Western Egg Company. The contract, under which Mr Chapman supplies eggs, requires him to specify the size of the flocks being put under contract, the breed of hens of which they comprise, the dates that the flocks are put into lay and the number of weeks that it is intended to keep the hens in lay. From this information the Western Egg Company is able to forecast what eggs it is likely to receive. In return, Mr Chapman has an assured outlet for all the eggs that are produced by his contracted flocks.

Mr Chapman's contact with the Western Egg Company takes various forms, such as AGM's, monthly newsletters, technical discussions with field officers and telephone conversations with the local packing station managers. There are additional points of contact between the driver who collects the eggs and the farmhand who is responsible for the laying hens and between Mrs Chapman and the Western Egg Company accounts department.

(b) The Western Egg Company and Chickadee

The Western Egg Company is very conscious of being a part owner of Chickadee. It is also very committed to the idea behind the creation of Chickadee.

Contact between the Western Egg Company and Chickadee is more than daily and takes place at every level of staff.

In effect, Chickadee interacts with the Western Egg Company as if it were a company marketing and sales department. An illustration of this is that some of Chickadee's regional and area sales managers are provided with office space in Western Egg Company packing stations.

(c) F D Chapman Limited and Chickadee

The pattern of ownership means that, indirectly, Mr Chapman is a part-owner of Chickadee.

(d) Chickadee and Fodders

It is interesting that Chickadee believes there to be a formalised arrangement covering the supply of eggs to Fodders but that Fodders do not acknowledge that any such arrangement exists. There is agreement however on the fact that eggs are supplied under specially negotiated conditions which emphasise price and joint promotional activity.

Contact between Chickadee and Fodders is at all levels and of all types (personal visit through to formal letter) as indicated in the above outline of activities.

5. CHANNEL E

Channel E is an example of the traditional pattern of egg distribution and marketing. An independent producer supplies eggs to an independent packer, and the independent packer sells eggs to an independent retailer.

5.1 West End Farm

Mr Cook is a general farmer concentrating on arable farming.

(a) Ownership and Structure

West End Farm is a private limited company. The principal shareholder of this company is Mr Cook, and all the other shareholders are members of Mr Cook's family.

Mr Cook works his farm with the help of three farm hands (two full-time and one part-time) and his son.

(b) Recent History

The size and type of farm run by Mr Cook has remained very much the same over the last ten or so years. Eggs are however, of less importance now than previously.

(c) Main Activities (re Eggs)Rearing and Egg Production

Chicks arrive at the farm for rearing at one-day old. At 16 weeks the pullets are transferred to the laying shed to give them time to settle before coming into lay at around eighteen weeks. The hens are usually force-moulted to give a laying life in excess of 70 weeks. At the end of their laying life, the hens are sold to processors.

Feed Milling

The feed mill is very old but it is able to meet all the feed requirements of the livestock on the farm.

Commercial Activities

Mr Cook, with the help of Mrs Cook, handles all the paperwork that is associated with the farm, including that concerned with eggs. Some of the eggs that are produced are sold by Mrs Cook 'over the gate' to regular customers.

5.2 Gransden Egg Packers

Gransden Egg Packers is an old, established family firm which is presently run by the nephew of the founder.

(a) Ownership and Structure

Mr Harvey, who runs Gransden Egg Packers, does not have a majority shareholding. He is, however, the single, largest shareholder. With the exception of Mr Harvey's youngest brother-in-law, who will take over the business on Mr Harvey's retirement, none of the other shareholders are involved in the running of the company.

(b) Recent History

Gransden Egg Packers is one of the few surviving small, independent egg packing stations. Although surviving,

the business has contracted. In the early 1970's, for example, weekly output averaged 1500 cases but by 1975 this figure had fallen to 1000 cases, where it has stabilised.

(c) Main Activities

Collection and Delivery

The vehicles owned by Gransden Egg Packers are used for both collection and delivery. In general, the drivers have a routine weekly schedule of collections and deliveries. A few customers, however, only have deliveries every other week because their orders are very small and they are situated off the main delivery routes.

Grading and Packing

Eggs are graded and packed for 7 hours a day, 5 days a week. This means that the average, midweek, turnaround time for eggs is 24 hours.

The grading and packing machinery in the packing station is of a basic design, rather old and labour intensive.

Marketing and Sales

Gransden Egg Packers sell eggs to customers, most of whom are long-standing, on price and price alone. There is no promotional activity.

Selling is very low key. Mr Harvey negotiates terms (i.e. discounts) and prices with customers over the telephone. Mr Harvey relies on his van drivers to keep him informed about how satisfied his customers are. Although this approach means that few new customers have been attracted, it is true to say that no customers have been lost to other packers. Some customers have been lost because their businesses have closed down.

Gransden Egg Packers only deals with independent businesses. This is partly policy but mainly because these are the only businesses that want to buy from a small, independent packer.

Commercial Activities

Orders are received from customers by telephone, using the standard procedure of an office girl ringing

customers on set days of the week. This same office girl arranges collections with the egg producers.

Invoices are raised, payments to producers are made, and payments from customers are monitored, by an accounts clerk. An accountancy firm sees to the final accounts and advises on the payment of dividends.

5.3 Whites

Whites is a village store with a sub post-office.

(a) Ownership and Structure

The shop is owned and managed by Mr and Mrs White. Both of them are involved in decisions concerning product range, shop layout and associated matters. The day-to-day running of the business is divided such that Mrs White concentrates on the post-office and Mr White looks after the shop in general.

(b) History

Mr and Mrs White bought their shop in the late 1960's without any previous experience of retailing or running a business. Despite this apparent disadvantage, the business has flourished.

In 1976 the shop was extended and completely refitted on self-service lines. Prior to this there was a combination of self-selection and counter service.

(c) Main Activities (re Eggs)

Mr White negotiates terms with Mr Harvey of Gransden Egg Packers and places the weekly order for eggs. Mr White also checks invoices but payment of accounts is handled jointly by Mr and Mrs White.

Eggs are positioned near the dairy cabinet. Only a limited range is stocked, viz : white and brown, sizes 2 and 4.

5.4 The Connection between West End Farm, Gransden Egg Packers and Whites

(a) West End Farm and Gransden Egg Packers

There is no formalised, contractual arrangement between

West End Farm and Gransden Egg Packers. There is, however, a 'gentleman's agreement' that West End Farm will not send eggs to any other packer and that Gransden Egg Packers will accept all eggs offered to it by West End Farm. Both parties believe this 'gentleman's agreement' has been honoured throughout their long trading association.

Mr Cook and Mr Harvey are in contact, by telephone, at least once a week. Mr Cook also has dealings with the office girls and van drivers of Gransden Egg Packers.

(b) Gransden Egg Packers and Whites

There is no written contract of supply between Whites and Gransden Egg Packers, just a 'gentleman's agreement' that :

- Whites will stay with Gransden Egg Packers for as long as the prices and terms quoted are competitive.
- Whites will give Gransden Egg Packers the opportunity to match any deal offered by another supplier.

Mr White speaks to Mr Harvey frequently on the telephone. This is in addition to the regular contact with the delivery driver and the girl who rings for the orders.

6. CHANNEL MEMBER SIZE

In the previous sections, the channels and constituent channel members are described in terms of structure and activity. In this section, the relative size of the various channel members is indicated by certain key data.

6.1 Channel A

(a) Good Egg

Turnover 1977 :

£11.7 mil. approx.

Number Employed * :	514
Average Weekly Egg Sales 1978 :	19,000 cases approx.
Facilities :	1 Feed Mill 6 Rearing Farms 10 Laying Farms 3 Packing Stations Head Office
Number of Laying Hens :	800,000
Number of Commercial Vehicles :	18 tractors; 36 bodies

(b) Valuestore

Turnover 1977 :	£80 mil. approx.
Number Employed :	3,500 approx.
Number of Outlets 1978 :	34
Average Weekly Egg Sales 1978 :	1,442 cases approx.
Number of Egg Suppliers	1

6.2 Channel B(a) Chicklax

Turnover 1977 :	£330,000 approx.
Number Employed :	8
Average Weekly Egg Sales 1978 :	650 cases
Facilities :	1 Farm Site with : Feed Mill Laying Sheds Packing Station Office
Number of Laying Hens :	56,000
Number of Commercial Vehicles :	1

(b) Hulstons

Number Employed :	30
Number of Outlets 1978 :	5
Average Weekly Egg Sales 1978 :	37 cases
Number of Egg Suppliers :	2

* In all cases this includes part-time workers.

6.3 Channel C(a) Jones Farms and Meadowland Eggs

Turnover (Meadowland Eggs) 1977 :	£½ mil. approx.
Number employed :	15
Average Weekly Egg Sales :	1,750 cases
Facilities :	2 Rearing and Laying Farms 1 Packing Station with Offices
Number of Laying Hens :	70,000
Number of Commercial Vehicles	6

(b) Betterbuy

Turnover 1977 :	£400 mil. approx.
Number Employed :	18,500 approx.
Number of Outlets :	750 approx.
Average Weekly Egg Sales :	10,000 cases approx.
Number of Egg Suppliers :	5*

6.4 Channel B(a) F D Chapman Limited

(figures relate to the one farm with
egg production)

Turnover (Eggs only) 1977 :	£300,000 approx.
Number Employed :	10 **
Facilities :	Rearing Sheds Laying Sheds Feed Mill
Number of Laying Hens :	59,500

(b) Western Egg Company

Turnover 1977 :	£27 mil. approx.
Number employed :	650

*Another five appointed end-1978.

** In total - not just on egg production.

Average Weekly Egg Output 1977 : 45,000 cases approx.
 Facilities : 10 Packing Stations
 2 Distribution Depots
 1 Egg Freezing and
 Drying Plant
 2 Garages
 Head Office
 Number of Commercial Vehicles : 90

(c) Chickadee

Turnover 1977 : £75 mil. approx.
 Number Employed : 115
 Average Weekly Egg Sales 1978 : 120,000 cases approx.

(d) Fodders

Turnover 1977 : £950 mil. approx.
 Number Employed : 8,000 approx.
 Number of Outlets 1978 : 600 approx.
 Average Weekly Egg Sales 1978 : 27,000 cases approx.
 Number of Egg Suppliers : 3

6.5 Channel E

(a) West End Farm

Number Employed : 4
 Facilities : 1 Farm with :
 Rearing Shed
 Laying Shed
 Feed Mill
 Number of Laying Hens : 7,000

(b) Gransden Egg Packers

Number Employed : 18
 Average Weekly Egg Sales 1978 : 1,000 cases approx.
 Facilities : 1 Packing Station
 with Offices
 Number of Commercial Vehicles : 4

(c) Whites

Number Employed :	5
Number of Outlets :	1 *
Average Weekly Egg Sales 1978 :	6 cases
Number of Egg Suppliers :	1