

Distributors' Customer-driving Capability under Supplier Encroachment

Abstract

Suppliers in business-to-business (B2B) markets often directly approach end customers in addition to using third-party distribution channels. This phenomenon, known as supplier encroachment, poses an increasing challenge to the distributor's profitability in the supply chain. However, little research has adopted the distributor's perspective to examine how it can overcome this challenge. This study addresses this gap by adopting the dynamic capability and network embeddedness theory to postulate the critical role of the distributors' customer-driving capability in tackling encroachment. Using survey data from 125 distributor firms in the semiconductor industry, we show that distributors' customer-driving capability significantly improves firm performance and that the impact strengthens when supplier encroachment is high. Moreover, we delineate the positive impacts of supplier relationship exploration, distributor relational embeddedness, and customer service excellence on distributors' customer-driving capability. Interestingly, supplier encroachment weakens the effects of supplier relationship exploration and customer service excellence but strengthens that of distributor relational embeddedness, indicating the importance of leveraging peer relationships under high supplier encroachment.

Key Words: B2B Marketing; Customer-driving Capability; Supplier Encroachment; Dynamic Capability; Network Embeddedness Theory

1. Introduction

Suppliers in business-to-business (B2B) markets actively manage relationships with not only their distributors but also the distributors' customers through various marketing activities (Dahlquist & Griffith, 2014; Homburg, Wilczek, & Hahn, 2014). The marketing activities directed toward the distributors' customers reflect the suppliers' increasing efforts to manage downstream customers without the mediation of distributors – a phenomenon widely referred to as supplier encroachment (Arya, Mittendorf, & Sappington, 2007; Huang, Guan, & Chen, 2018). The simultaneous adoption of direct and indirect distribution channels offers substantial benefits to the supplier, such as direct access to customer information, effective control of distributor opportunism, and the ability to rapidly respond to market dynamism (Sa Vinhas & Anderson, 2005; Sa Vinhas & Heide, 2015). However, from the distributor's perspective, supplier encroachment creates mounting challenges, because business customers can order products and services directly from suppliers, thereby threatening the distributor's profitability in the value chain (Homburg et al., 2014).

While there has been considerable interest in the issue of supplier-distributor dynamics against the backdrop of supplier encroachment, the multichannel management literature has mostly adopted the supplier's perspective to investigate how one can design the channel structure and effectively govern interorganizational relationships when both direct and indirect channels are available (Fürst, Leimbach, & Prigge, 2017; Kabadayi, Eyuboglu, & Thomas, 2007; Sa Vinhas & Anderson, 2005). Some researchers have pointed out the distributor's vulnerability under supplier encroachment (Li, Gilbert, & Lai, 2015; Sa Vinhas & Heide, 2015). Yet, to the best of our knowledge, there is few empirical study that focuses on how distributors can develop

their capabilities to respond to the challenge or improve firm performance, and thus the critical question is largely unanswered.

Distributors facing the challenge of supplier encroachment must build a distinctive capability to sustain market advantage (Ghauri et al., 2016). Kohli and Jaworski (1990) defined market orientation as the organizational-wide generation of market intelligence pertaining to current and future customer needs, and the dissemination and responsiveness to this intelligence. Subsequent studies suggested two approaches to becoming marketing oriented—market-driven and market-driving (Jaworski, Kohli, & Sahay, 2000). While *market-driven* refers to understanding and reacting to the preferences and behaviors of players within a given market structure in a responsive manner, *market-driving* implies influencing the structure of the market or behaviors of market players to enhance competitive position in a proactive manner. Prior research in marketing has emphasized the importance of a market-driving orientation to a firm's long-term market advantage and superior profitability (Brege & Kindström, 2020; Chen, Li, & Evans, 2012; Jaworski et al., 2000; Kohli & Jaworski, 1990). According to Ghauri et al. (2016), market-driving behavior encompasses three dimensions: customer driving, channel driving, and wider society driving. Given the limited room for distributors to influence the whole channel or society, we focus on customer-driving in our context of enquiry.

From the dynamic capability perspective, prior literature of market orientation has generally agreed that the ability to proactively drive the market or influence customers' latent needs is consistent with the essence of dynamic capability and is key to developing a firm's market advantage and performance (Blocker et al., 2011; Ghauri et al., 2016; Narver, Slater, & MacLachlan, 2004). Drawing on this literature, we define customer-driving capability as the distributor's ability to sense opportunities and reshape resources to proactively understand,

influence, and develop customers' latent and future needs in order to create new markets.

Successful brands such as Apple, Starbucks, and IKEA are known to drive rather than be driven by the market they enter (Kumar, Scheer, & Kotler, 2000). It is noteworthy that a firm's ability to develop customers' future needs is based on its understanding and satisfaction of customers' existing needs. Yet, a firm with customer-driving capability significantly goes beyond it to explore and specify needs that even customers themselves are not aware of. Our interviews with two high-positioned managers of electronics firms revealed:

“About ten years ago, our company only focused on doing what customers asked for. We can no longer just do the same, as the technologies have been changing too fast. We have to be more active in ‘pushing’ our customers. For example, downstream customers may not know the latest technological trend in the industry. We need to take the initiative to tell them the possibilities of cutting cost or improving product performance based on the new technologies.” (Ms. W, Marketing Director, IC Electronics)

“Sensing and fulfilling customer needs are the basis in our industry. We frequently update customers with the latest information in our industry and get ourselves updated on their needs and concerns. We also propose solutions such as different combinations of products and services for our customers to create new business opportunities.” (Ms. C, Regional Supply Manager, FT Electronics)

As illustrated by the two informants, firms actively create new customer needs by informing customers about technological advancements, and proposing solutions to solve customer problems. We posit that a distributor's customer-driving capability plays a critical role in the face of supplier encroachment, and aim to empirically examine its antecedents and performance impact under varying levels of supplier encroachment.

In doing so, this study contributes to the marketing channels literature in three ways. First, unlike the prior research, which focused on a supplier's ability to encroach on the market in multichannel management, our study is among the first to adopt a distributor's perspective to discuss the dark side of supplier encroachment and how distributors can respond to it by developing customer-driving capability. Second, we examine the performance impact of

distributors' customer-driving capability under the pressure of supplier encroachment. Responding to the call for dynamic capability research in proactive market-driving (Wilden, Devinney, & Dowling, 2016), we posit that, as a middleman, the distributor's ability to drive or "make" downstream customer need is key to sustaining its market advantage and enhancing firm performance. Third, we integrate the dynamic capability and network embeddedness theory in a new context by explaining how distributors can develop relationships with different network actors, including upstream suppliers, peer distributors, and downstream customers in order to diversify, excavate, and secure resources for customer-driving capability development. Specifically, we suggest that supplier relationship exploration, distributor relational embeddedness, and customer service excellence serve as conduits for developing customer-driving capability, thus providing practical implications to managers in distribution firms.

2. Conceptual Framework and Hypothesis Development

2.1 Supplier Encroachment

In addition to selling through intermediary distributors, suppliers sell products directly to downstream customers using supplier-owned sales forces, a phenomenon known as supplier encroachment (Arya et al., 2007; Huang et al., 2018). Suppliers with high encroachment can obtain direct access to valuable market information (Sa Vinhas & Anderson, 2005), explore customers' product preferences, and ultimately stimulate changes in the market structure and shape the behaviors of the players in the value chain (Webster, 2000). Supplier encroachment can also benefit customers with competitive price offerings and advanced product research and development (Sa Vinhas & Anderson, 2005). Given the increased number of direct transactions between suppliers and customers, distributors face unprecedented challenges to acquire and retain customers (Dahlquist & Griffith, 2014; Ernst, Hoyer, & Rübsaamen, 2010). From the

distributor's view, direct market access by suppliers, who have advantages in terms of price flexibility, technology strength, and resource management (Rehme et al., 2016), places substantial pressure on their survival and profitability.

Most of the previous research on supplier encroachment takes the view of suppliers (e. g., Arya et al., 2007; Homburg et al., 2014; Huang et al., 2018). One literature stream on channel management has focused on how suppliers can maximize their benefits through encroachment. For example, Homburg et al. (2014) delineated strategies for B2B suppliers to approach their customers' customers. Sa Vinhas and Heide (2015) examined the role of the suppliers' concurrent channel usage in reducing distributors' opportunism and how suppliers can manage competition between channels. Another stream of the literature has focused on the optimal pricing strategy for suppliers when they plan to directly approach customers. For example, a nonlinear pricing strategy should be considered when the problem of information asymmetry exists due to supplier encroachment (Li et al., 2015; Huang et al., 2018). However, to the best of our knowledge, no prior research has taken a distributor's perspective to understand how they can effectively respond to the challenge of supplier encroachment.

2.2 Distributors' Customer-driving Capability and Firm Performance

From the dynamic capability perspective, a firm's ability to create new value requires it to sense opportunities and threats, seize the opportunities, and maintain competitiveness by integrating, protecting, and even reconfiguring tangible and intangible resources to match and create market changes (Eisenhardt & Martin, 2000; Teece, 2007). The literature of dynamic capability suggests a link between a firm's dynamic capability and its ability to influence markets. The dynamic capability enables firms to respond to and carry out changes in the market (Teece, Peteraf, & Leih, 2016). In the marketing literature, prior researchers also use the

dynamic capability perspective to explain how market orientation and marketing capability affect firm performance (e.g., Bruni & Verona, 2009; Danneels, 2008; Morgan, Vorhies, & Mason, 2009; Song et al., 2005; Winter, 2003).

Prior research on marketing capability has primarily adopted a customer focus to examine constructs such as market-focused learning, customer linking, and customer needs fulfillment (Mu et al., 2018; Song et al., 2005; Vorhies & Morgan, 2005; Weerawardena, 2003). While some studies have emphasized the strategic value of customer-driving capability to firms, they have been mostly conceptual in nature, limited to case studies and theoretical reviews (e.g., Elg et al., 2012; Schindehutte, Morris, & Kocak, 2008; see Table 1). In a recent study, Wilden et al. (2016) called for further studies to shift from a passive market-driven perspective toward the investigation of proactive market-driving. Thus, an empirical examination of customer-driving capability and its antecedents and outcomes is much needed.

We posit that customer-driving capability positively influences a distributor's firm performance for three reasons. First, customer-driving capability is a type of dynamic capability, and it enables a distributor to provide value propositions that focus more on the future and new market than the existing market (Kumar et al., 2000) and hence survive market dynamism, in which customer needs are difficult to predict and satisfy. Second, customer-driving capability needs distributors to accurately understand customers' current needs, which can help them to continuously probe and uncover customer's future needs, likely even before customers realize that they have such a need. It can enhance the value that distributors deliver to customers and thus develop the distributor's market advantage and firm performance (Blocker et al., 2011; Brege & Kindström, 2020). Finally, a distributor who possesses customer-driving capability can reconfigure resource linkages and create a unique proactivity profile, such as customized product

solutions and services, to create new markets, increase the market size, and enhance firm performance (Blocker et al., 2011; Ghauri et al., 2016). For example, a distributor with customer-driving capability can synergize resources and offer specific products and services to a given customer to address its latent needs.

Given that distributors are the middlemen in a distribution channel and perform marketing tasks for the supplier, they are usually driven by the supplier instead of customers, who are closer to the market. This supplier-driven nature of their role, on the one hand, foreshadows the distributor's predicament amid the trend of supplier encroachment and, on the other hand, demands that distributors think outside the box to engage in customer-driving activities.

We argue that not only does customer-driving capability increase distributors' performance, but this effect also grows under supplier encroachment. As suppliers encroach on customers, customers have more choices on the purchasing channels and will develop higher and more sophisticated expectations regarding the products or services they receive (Dahlquist & Griffith, 2014; Ernst et al., 2010). Business customers expect service or product providers not only to satisfy their expressed needs but also to sufficiently understand and address their latent needs as part of transactional exchanges (Blocker et al., 2011; Flint, Woodruff, & Gardial, 2002). With the increasing competition from suppliers' direct sales, the ability to drive customer needs becomes more valuable because it is in line with heightened customer expectations. For example, with increasing supplier encroachment, customers can obtain offerings with competitive prices and value. It is advisable for distributors, who are left with little profit margin, to avoid price wars with suppliers and to focus on latent markets. In this case, customer-driving capability enables distributors to avoid competition with the supplier on the existing market by focusing on

latent markets and future customer needs instead, thus creating new markets and setting up new market advantages. Finally, the stronger the supplier encroachment, the less value customers will perceive from the distributor's regular order fulfillment; thus, the capability of distributors to drive customers' latent needs and deliver unique value to customers becomes more important for distributor firm performance. Distributors armed with customer-driving capability can help customers to identify their needs and address them in advance, thereby improving the irreplaceability of the distributor from customers' viewpoints and enhancing distributor performance.

***H1a:** The distributor's customer-driving capability positively influences its firm performance.*

***H1b:** Supplier encroachment strengthens the positive relationship between the distributor's customer-driving capability and its firm performance.*

2.3 Antecedents of the Distributors' Customer-driving Capability

As previously discussed, a distributor's customer-driving capability is critical for driving firm performance. An ensuing question is how distributors can build up their customer-driving capability. Moreover, since supplier encroachment represents a competitive condition for the distributor, can any of the drivers of customer-driving capability become more or less effective?

Distributors are embedded in the network with other market players, including upstream suppliers, peer distributors, and downstream customers (Dong, Zeng, & Su, 2019; Wang, Gu, & Dong, 2013). The heterogeneous information and resources that distributors draw from different entities in the network can promote their customer-driving capability. Therefore, we draw on the dynamic capability and network embeddedness perspective to investigate how distributors can diversify, excavate, and secure their resources with other market players in the network to facilitate customer-driving capability (Elg et al., 2012). In our study, we consider *supplier*

relationship exploration, which is defined as a distributor's effort to seek alternative suppliers for more business opportunities (Tse, Wang, & Zhang, 2019), as an approach to diversify and enrich distributors' resource base. *Distributor relational embeddedness* refers to the extent to which a distributor develops close and reciprocal relationships with other distributors in the industry (Uzzi, 1997; Wang et al., 2013). For downstream customers, we consider *customer service excellence*, referring to an organizational emphasis on delivering accurate and timely services to customers through sales reps (Wirtz & Zeithaml, 2018). By embracing customer service excellence, sales reps from the distributor firm can help to secure vital and scarce resources (Gu, Wang, & Wang, 2019) and facilitate information exchange and business transactions through interpersonal communications and informal social mechanisms (Huang et al., 2016).

2.3.1 Supplier Relationship Exploration

Unlike monotonous supply, which causes threats to the distributor in terms of channel stability, resource accessibility, and supply price (Tomlin, 2006), supplier relationship exploration provides several benefits to facilitate the development of customer-driving capability. First, through communication with different suppliers, distributors can enlarge and diversify their reservoir of information and obtain a better understanding of industry and market characteristics (Tse et al., 2019). With greater information accessibility, distributors can comprehend the industry forefront to drive customers' latent needs, which are difficult for customers to articulate (Blocker et al., 2011). For example, distributors with more knowledge about the product market from different suppliers can educate their customers about the latest technological trends in the industry. Second, as supplier relationship exploration allows distributors to explore alternative resources available on the market, it places competitive pressure on the incumbent supplier to offer better prices and products (Babich, Burnetas, &

Ritchken, 2007; Wuyts et al., 2004). It not only can secure the stability of supply but also can optimize the resources to be utilized for latent customer need exploration and satisfaction. Third, the diversified resources from different suppliers enable distributors to drive different customer needs in a more precise fashion (Choi & Hartley, 1996). For example, resources from suppliers with a spectrum of expertise across product categories can deepen and widen a distributor's knowledge in different fields, which enables it to drive customers' latent needs from different aspects and expand its customer-driving capability. Thus, supplier relationship exploration enables distributors to diversify information, optimize their offerings, and drive different segments of customer needs, thus facilitating the development of customer-driving capability.

However, when supplier encroachment is high, we posit that the positive effect of supplier relationship exploration on a distributor's customer-driving capability decreases. As suppliers deepen their encroachment via direct sales channels to reach end customers, the distributor gains reduced benefits from supplier relationship exploration. First, while distributors can collect more information from an enlarged pool of suppliers and use the insights gained to influence customer needs (Prajogo & Olhager, 2012; Tse et al., 2019), suppliers that directly contact customers can transfer knowledge to customers in a timely and customized way. Therefore, the information benefit arising from supplier relationship exploration is less effective in shaping the customer-driving capability. Second, when suppliers directly contact customers, they do not have to share profits with intermediary distributors, which is a main motive for their encroachment (Hendershott & Zhang, 2006). In so doing, they can offer customers products and solutions with higher price value (Arya et al., 2007; Homburg et al., 2014). Although supplier relationship exploration can help the distributor to obtain better price value (Koufteros, Vickery, & Dröge, 2012), the bargaining power of the distributor among different suppliers gradually

decreases as supplier encroachment deepens, thus reducing the benefit of supplier relationship exploration. Finally, as supplier encroachment grows, suppliers directly invest in end customers in order to gain information about customer needs and market changes (Homburg et al., 2014). With direct access to customer information and resources, suppliers can drive customers' latent needs independently and effectively, bypassing the distributor (Huang et al., 2018). Thus, the diversified supplier resources become less valuable for distributors to drive different customers' needs when supplier encroachment is high (Yoon, 2016). Overall, supplier encroachment weakens the value of supplier relationship exploration in providing information to guide customers, optimizing offerings, and exploring different customers' latent needs, thus attenuating the positive effect of supplier relationship exploration on the customer-driving capability.

H2a: Supplier relationship exploration has a positive effect on the distributor's customer-driving capability.

H2b: Supplier encroachment weakens the effect of supplier relationship exploration on the distributor's customer-driving capability.

2.3.2 Distributor Relational Embeddedness

From the view of network embeddedness theory, a distributor is embedded in a business network consisting of suppliers, peer distributors, and customers (Granovetter, 1985; Uzzi, 1997). These network members share information regarding industry, technology, and market changes (Brass et al., 2004; Wang et al., 2013). Distributor relational embeddedness helps the distributor to develop customer-driving capability in two ways. First, distributors in the network communicate with each other to share valuable market information (Zeng et al., 2015). For example, peer distributors can share updated information about supply sources, market conditions, development trends in the industry, and insights into customers' latent needs (Gu et

al., 2010). With superior information, the distributor can adjust its products and services to guide its customers proactively (Ghauri et al., 2016; Swaminathan & Moorman, 2009). Second, a distributor with high relational embeddedness shares close and reciprocal relationships with peer distributors, which makes it easy to gain trust and social support from others in the business network (Wang et al., 2013). These relational benefits are intangible resources for the distributor, facilitating its attempts to drive customers' demands and behaviors. Given the enhanced access to information and relational benefits accrued from the peer distributor network, we posit that distributor relational embeddedness facilitates the development of customer-driving capability.

We further contend that, when supplier encroachment increases, distributor relational embeddedness plays a more important role in fostering the distributor's customer-driving capability. When supplier encroachment is high, suppliers compete with distributors for market resources and information. Distributors are forced to seek valuable information and resources from other market players. In this case, the synergized value of resources gained from distributor relational embeddedness will play a stronger role in addressing industry trends and customers' needs (Wang et al., 2013). They help the distributor to drive customer needs to a greater extent. Moreover, a central feature of the distribution channel is that the distributors are closer to the market than the suppliers and thus access more valuable downstream information (Desiraju & Moorthy, 1997; Gu et al., 2010; Wuyts et al., 2004). Forced to turn to peer distributors for more information when supplier encroachment is high, the distributor can excavate more valuable resources to drive customers' needs in a more accurate manner. Therefore, we argue that supplier encroachment will amplify the value of distributor relational embeddedness in promoting distributors' customer-driving capability.

H3a: Distributor relational embeddedness has a positive effect on the distributor's customer-driving capability.

H3b: Supplier encroachment strengthens the effect of distributor relational embeddedness on the distributor's customer-driving capability.

2.3.3 Customer Service Excellence

Distributors, which traditionally have limited room for innovation in the B2B value chain, often play similar roles as logistic and order fulfillment intermediaries. However, as suggested by Huang et al. (2016), developing interpersonal ties between exchange firms is vital to accessing and securing key and scarce resources. Sales reps, who act as the boundary spanners between firms, demonstrate effectiveness in communicating with customers and building close relationships through value-added service provision and intensive personal communication (Gu et al., 2019; Huang et al., 2016). Distributors can gain valuable customer information from service provision processes, helping them to understand customers' requirements. For example, drawing on intensive interpersonal interactions, sales reps can help distributors to obtain valuable and scarce information, which is not available in the market (Zhou et al., 2020). This result enables the distributor to dig into customers' real needs and guide them properly. Moreover, distributors that can provide excellent service to customers are more attractive to suppliers (Wuyts et al., 2004). Suppliers and other stakeholders are more motivated to work with them, enriching the tangible and intangible resources available to these distributors for customer-driving capability development. Overall, excellent customer service helps distributors to obtain an accurate understanding of customers and access valuable resources, thus exerting positive influences on customer-driving capability.

However, as supplier encroachment increases, the benefits obtained through customer service excellence will be weakened. Suppliers can obtain critical information about the market conditions and the end customers' requirements by approaching them directly. The resources gained by the distributor through customer service excellence thereby lose their uniqueness. Moreover, customers can obtain competitive offerings from suppliers' direct sales, such as services of the same quality but at lower prices. With increasing competitive service provisions from suppliers, more customers might cooperate directly with suppliers (Lau, Tang, & Yam, 2010), offering the distributor fewer opportunities to obtain resources and value from end customers through customer service excellence. The greater the supplier encroachment, the lower the likelihood that the distributor will be able to gain valuable and rare information and resources through services to drive the market. Thus, the effect of customer service excellence on the development of the market-driving capability is weakened when supplier encroachment is high.

H4a: Customer service excellence has a positive effect on the distributor's customer-driving capability.

H4b: Supplier encroachment weakens the effect of customer service excellence on the distributor's customer-driving capability.

Insert Figure 1 about here

3. Methods

3.1 Sample and Data Collection

We tested our framework using data collected from distributors in the semiconductor industry across China with the help of China Electronics and Distribution Alliance (CEDA). We obtained authorization from CEDA to access its member list of distributors in China. The context

is appropriate for our study for two reasons. First, supplier encroachment is a globally relevant phenomenon in the semiconductor industry with increasing threats to distributors (Texas Instruments, 2019). Since China commands nearly half of overall semiconductor market value (Deloitte, 2019), distributors face the challenge of supplier encroachment; hence, the topic is relevant to our context. Second, the semiconductor industry shares some common characteristics with industries such as automotive, consumer electronics, and software that are globally connected and technology intensive and involve complex channel structures (Deloitte, 2018). Given the changing marketplace, we believe that supplier encroachment is a widely relevant phenomenon that marketing scholars and practitioners across countries and industries seek to understand and provide solutions for distributors. Our sample provides a proper context for theory testing and should not limit the generality of our findings.

We adopted the key-informant approach and solicited the participation of one person from each distributor firm in a high position who is knowledgeable about the firm's marketing strategy and relationships with upstream suppliers, peer distributors, and downstream customers. We invited 500 potential informants to participate in our research via email. We explained the academic purpose of our study and ensured the confidentiality of the data provided with a cover letter. After three email reminders at one-week intervals, we obtained 125 completed responses, representing a response rate of 25%. We compared the early respondents who replied after the initial email notification with the late respondents who replied after three email reminders were sent, and no significant differences in terms of industry experience and company tenure were found.

Our respondents held the titles of partner/CEO/general manager (14.2%), purchasing director (16.7%), sales manager (20.8%), product manager (33.3%), and others (15%). On

average, our respondents had 11.7 years of industry experience and 6.5 years of company tenure. On average, their distribution relationship with key suppliers was 8.9 years, and their relationship with key customers spanned 7.0 years. These statistics show that our respondents are highly experienced and familiar with their suppliers and customers.

3.2 Measures

We identified the potential measurement scales for the key constructs from the previous literature and adapted them to our research context. We developed an English version questionnaire and then translated it into Chinese. Two independent bilingual translators then translated the Chinese-based questionnaire back into English to ensure the conceptual equivalence. We conducted in-depth interviews with CEOs and senior purchasing managers from distributor firms to evaluate the questionnaire's relevance and clarity. We revised several items based on their feedback. The items used in the questionnaire are measured on 7-point Likert scales (1 = strongly disagree and 7 = strongly agree), unless otherwise specified.

We carefully constructed the four-item measurement scale for *customer-driving capability* based on the previous literature including customer-driving behavior from Ghauri et al. (2016), future customer needs focus from Nenonen et al. (2019), and proactive customer orientation capability from Blocker et al. (2011). External validity of these items was verified through in-depth interviews with senior managers.¹ The first item measures the distributor's ability to explore new customers in new markets, a key characteristic of customer-driving capability (Blocker et al., 2011). The second and third item stress the distributor's ability to explore and satisfy customers' latent needs, such as launching new products and services, and

¹We thank a reviewer for recommending improvement of the external validity of the study. Eight in-depth interviews were conducted, each taking 40-60 minutes. We report the informant profile and their narratives in Appendix A & B.

probing customers' real needs that they might be unaware (Ghauri et al., 2016). These items have been used in previous studies to gauge the extent to which distributors can proactively drive customers (Ghauri et al., 2016; Jaworski et al., 2000; Nenonen et al., 2019). The last item measures the distributor's ability to keep close contact with customers to fulfill their current needs and explore their latent needs (Blocker et al., 2011; Brege & Kindström, 2020). These items are also consistent with our interviewees' comments.

“If we cannot offer customers what they asked for, we have no opportunity for future orders. We get to know our customers better through fulfilling their existing needs, which also helps us make more reasonable recommendations for them. Sometimes customers do not know the latest trend in the industry or express their needs clearly, so we will explore together to find their real needs. We call this ‘demand creation’ in our industry.” (Mr. F, Product manager, CE International Equipment)

“Every time when we successfully complete a customer order, we know their needs better. When we satisfy their existing needs, they trust us more. They will tell us more about their problems, worries, and plans, so that we know what they really need and brainstorm a better solution for them.” (Mr. L, Regional director, AR Electronics)

The items for *supplier encroachment* were derived from the work of Homburg et al. (2014) to reflect the extent to which the supplier has direct access to the distributors' customers through marketing activities. Sample items include “Our supplier has its own customer management system” and “Our supplier often holds information-sharing activities directly targeted at downstream customers.”

The items for upstream *supplier relationship exploration* were adopted from Tse et al. (2019) to describe how much the distributors would like to diversify their supplier base with different alternative suppliers. The measure of *distributor relational embeddedness* was based on Wang et al. (2013) to capture the extent of support that distributors can gain from collaborative peer relationships. We adapted the measures of *customer service excellence* from Cronin and Taylor (1992) as well as from Ray, Muhanna, and Barney (2005) to reflect the extent to which the sales reps create and deliver high quality service to customers. For the dependent variables,

we adapted three items from Zhou, Yim, and Tse (2005) to measure the distributor's firm performance.

Following the previous literature (Feng, Morgan, & Rego, 2017; Gu et al., 2010), we included *firm size*, measured by the natural log of the number of staff members at the distributor firm, as a control variable because of its potential impact on the effectiveness of the customer-driving capability. We also included *firm age*, measured by the number of years since the distributor firm was founded, to control for possible economies of scale and scope. Moreover, we also included *market uncertainty*, measured by the scale items from Jaworski and Kohli (1993). The previous literature on the dynamic capability suggests that market uncertainty can have an impact on the availability of resources and capability development (Teece et al., 2016) and hence affects a broad range of marketing capability-performance links. Finally, we included *supplier relationship valence* (Kumar, Scheer, & Steenkamp, 1995) and *customer engagement* (Ernst et al., 2010) to control for their potential effects on customer-driving capability development and firm performance. The descriptive statistics and the interconstruct correlations among all of the variables are provided in Table 2.

Insert Table 2 about here

3.3 Measurement Model

We summarized the constructs, measurement items, and model statistics in Table 3. We submitted all of the constructs to conduct confirmatory factor analysis. We subjected each item's loading to its priori factor and allowed all factors to correlate with each other. Finally, the fit indices of the measurement model were satisfactory ($\chi^2_{(394)} = 507.782, p < 0.001$, comparative fit index (CFI) = 0.952, incremental fit index (IFI) = 0.955, and root mean square error of approximation (RMSEA) = 0.048).

Insert Table 3 about here

The standard loadings for all of the factors were significant ($p < 0.001$), demonstrating the convergent validity. Moreover, all of the composite reliability (CR) values were greater than the 0.70 cutoff, and the average variances extracted (AVE) were greater than 0.5, indicating convergent validity and reliability (Fornell & Larcker, 1981). To assess the discriminant validity, we calculated the shared variance between each pair of constructs; they were less than the AVE for each individual construct. For example, the highest shared variance between distributor relational embeddedness and customer-driving capability is 0.531 less than the AVE of customer-driving capability (0.653).

3.4 Common Method Bias

As our data are collected from the self-reports of distributors, we took several steps to minimize and exclude the potential for common method bias. First, in the development of the scale items in the questionnaire, we adopted the established subjective scales containing reasonable reliability and validity (Atuahene-Gima & Murray, 2007). Second, as several hypotheses in our study focus on moderating effects, the concern of common method bias is alleviated. This is because it is unlikely that the respondents would consciously suspect the complicated relationships in our framework. Third, we used Harmon's one factor method on all items. Eight factors were extracted, accounting for 77.77% of the total variance, while the first factor explained 12.07%, failing to reveal a substantial amount of common method variance (Podsakoff & Organ, 1986). Fourth, we applied Lindell and Whitney's (2001) marker variance (MV) approach to statistically assess the potential bias. We identified a marker variable (supplier performance ambiguity), which is theoretically uncorrelated with at least one core construct in our framework, as a proxy for common method variance, and we adjusted all of the construct

correlations with the lowest positive correlation ($r = 0.005$) between the MV and all the variables. After the partial correlational adjustment, all of the significant correlations remained significant (see Table 2). Finally, we made attempts to collect second-wave data to corroborate some of our findings, which will be reported in a subsequent section. Overall, based on the above procedural and statistical evidence, we believe that common method bias is not a serious concern in our study.

4. Analysis and Results

4.1 Main Effects

Because our model contains both direct effects as well as interactions, we follow previous literature (e.g., Homburg, Müller, & Klarmann, 2011; Sheng et al., 2011; Zhou et al., 2020) by using a combination of structural equation modeling (SEM) and regression analysis. We performed SEM to test our hypothesized main effects because it explicitly accounts for the reliability of measurement and can simultaneously test a complete model with all main effects (Weiner, Ullman, & Bentler, 2003). We controlled for the potential effects of firm size, firm age, market uncertainty, supplier relationship valence, and customer engagement when testing the main effects. The overall model fit statistics showed a satisfactory fit of our model to the data ($\chi^2(268) = 355.532$, CFI = 0.955, IFI = 0.956, RMSEA = 0.051).

We hypothesize that the customer-driving capability enhances the distributor's firm performance (H1a). The results from our tests show that the customer-driving capability registers a highly significant and positive effect on firm performance ($\beta = 0.450$, $p < 0.001$), thereby supporting H1a. We also hypothesize that supplier relationship exploration (H2a), distributor relational embeddedness (H3a), and customer service excellence (H4a) enhance the distributor's customer-driving capability. The results provide strong support for supplier relationship

exploration ($\beta = 0.193$, $p < 0.05$), distributor relational embeddedness ($\beta = 0.261$, $p < 0.05$), and customer service excellence ($\beta = 0.289$, $p < 0.05$), indicating that they all significantly and positively influence the distributor's customer-driving capability, which is in support of H2a, H3a, and H4a. Furthermore, there might be direct effects of the three antecedents on firm performance. Therefore, we tested an alternative model by linking the antecedents with firm performance. The alternative model also fits our data well ($\chi^2(265) = 353.434$, CFI = 0.954, IFI = 0.956, RMSEA = 0.051). As Table 4 shows, adding these direct links between antecedents and firm performance does not hurt model fit. This additional evidence suggests that our results are stable and robust.

Insert Table 4 about here

4.2 Moderation Effects

We applied moderated regression analysis to test the hypotheses involving moderation, as it is considered effective to detect moderator effects in survey-based research (e.g., Homburg et al., 2011; Sheng et al., 2011; Zhou et al., 2020). The results of all of the moderating effects are presented in Table 5. Supplier encroachment significantly strengthens the positive effect of customer-driving capability on firm performance ($\beta = 0.149$, $p < 0.05$), supporting H1b. Regarding the moderated antecedents, the results show that the effect of supplier relationship exploration on customer-driving capability is significantly weakened by supplier encroachment ($\beta = -0.138$, $p < 0.05$), in support of H2b. Additionally, supplier encroachment strengthens the positive effect of distributor relational embeddedness ($\beta = 0.177$, $p < 0.01$), in support of H3b. Finally, the positive effect of customer service excellence on customer-driving capability is significantly weakened when supplier encroachment is high ($\beta = -0.191$, $p < 0.05$), consistent

with H4b. The highest VIF in our model is 1.803, which is substantially less than the critical threshold of 10.0, indicating that multicollinearity is not an issue.

We conducted simple slope tests and plotted the relationships in Figure 2. In these tests, we split the supplier encroachment variable into two groups: low (one standard deviation below the mean) and high (one standard deviation above the mean). We then examined our hypothesized effects at both levels. As Figure 2a shows, the effect of customer-driving capability on firm performance is insignificant when supplier encroachment is low ($b = 0.279, p > 0.1$) but significant when it is high ($b = 0.428, p < 0.05$), suggesting the enhanced performance impact of customer-driving capability under supplier encroachment. Moreover, as Figure 2b shows, supplier relationship exploration is strongly related to customer-driving capability when supplier encroachment is low ($b = 0.602, p < 0.001$) but not when it is high ($b = -0.022, p > 0.10$). Conversely, Figure 2c shows that the effect of distributor relational embeddedness on customer-driving capability is not significant when supplier encroachment is low ($b = -0.313, p > 0.10$) but is significant when supplier encroachment is high ($b = 0.487, p < 0.001$). Finally, as Figure 2d shows, we find that customer service excellence is positively and significantly related to customer-driving capability when supplier encroachment is low ($b = 0.794, p < 0.05$) but not when it is high ($b = -0.069, p > 0.1$). These slope analysis results collectively support our moderation hypotheses, in that when supplier encroachment is high, the impact of customer-driving capability increases, and the effectiveness of distributor relational embeddedness in fostering this capability increases as well; however, the effectiveness of supplier relationship exploration and customer service excellence declines.

Insert Table 5 about here

Insert Figure 2 about here

4.3 Supplementary Analysis

Mediation analysis. We performed bootstrapping tests (Preacher & Hayes, 2008; Zhao, Lynch, & Chen, 2010) to determine the mediating role of customer-driving capability in affecting firm performance. The results revealed that the indirect effect of supplier relationship exploration on firm performance was significantly mediated by the customer-driving capability ($a \times b = 0.077$), with a 95% confidence interval excluding zero (CI = 0.016 to 0.159). The direct effect of supplier relationship exploration on firm performance ($c = 0.084$, $t = 1.157$, $p = 0.250$, CI = -0.060 to 0.226) was not significant, suggesting full mediation (Zhao et al., 2010). Similarly, the indirect effect of distributor relational embeddedness on firm performance through the customer-driving capability was significant ($a \times b = 0.112$, CI = 0.016 to 0.224), but the direct effect of distributor relational embeddedness was not significant ($c = 0.208$, $t = 2.394$, $p = 0.018$, CI = 0.036 to 0.380), also suggesting full mediation. Finally, the indirect effect of customer service excellence on firm performance ($a \times b = 0.081$) was significant, with a 95% confidence interval excluding zero (CI = 0.014 to 0.158), and the direct effect of customer service excellence on firm performance was significant ($c = 0.322$, $t = 4.037$, $p = 0.001$, CI = 0.164 to 0.480), showing the partial mediation of the customer-driving capability between customer service excellence and firm performance.

Second-wave data collection. To increase the rigor of the research findings (Weerawardena & Mavondo, 2011) and address the potential concerns of common method bias, we obtained second-wave responses one year later by recontacting the 96 informants who provided contact information in their initial responses. After sending two email reminders one week apart, we made phone calls to the nonresponding firm to further explain the research objective and ensure the confidentiality of the data collected. Eventually, we obtained 55

completed responses, with a response rate of 57.2%. We compared the early respondents, i.e., those who replied after the first email notification, and the late respondents, i.e., those who replied after emails and call reminders were sent, and we found no significant differences in terms of firm size and sales growth. We matched the follow-up 55 responses from Time 2 with their initial responses from Time 1 by the respondents' company names and contact information.

In the second-wave data collection, we included the same measurements of the key constructs as in the first-wave data collection. To address the potential issues of systematic response bias, we included a different measure of firm performance, i.e., sales growth rate, which measures the rate at which the company's sales income grows compared to its competitors. Using this sales growth rate as the dependent variable in the supplementary analysis, we aimed to assess the causal relationship between distributors' customer-driving capability and firm performance. Responding to the call for the "pursuit of rigor in research" (Gnyawali & Song, 2016), we also reexamined our findings with second-wave responses pertaining to the customer-driving capability, in addition to firm performance.

While we could not assess the moderating hypotheses due to the lack of sufficient responses from Time 2, we focused on testing the main effects of our framework. We used the customer-driving capability from Time 1 and sales growth from Time 2 to examine the time-lagged effect. The results showed that the customer-driving capability significantly increases sales growth ($\beta = 0.335, p < 0.1$). Furthermore, to examine the antecedents of the customer-driving capability, we utilized supplier relationship exploration, distributor relational embeddedness, and customer service excellence from Time 1 and the customer-driving capability from Time 2. The results showed that supplier relationship exploration and customer service excellence do not register significant effects, whereas distributor relational embeddedness

significantly enhances the customer-driving capability ($\beta = 0.365, p < 0.05$). Recalling our simple slope test results, supplier relationship exploration and customer service excellence have no significant effects on the customer-driving capability when supplier encroachment is high. We suppose that their nonsignificant effects in the time-lagged sample occur because the mean value of supplier encroachment in the matched sample (mean = 5.982, $n = 55$) is greater than that in the primary sample (mean = 5.497, $n=125$). The additional results echo our previous finding that supplier relationship exploration and customer service excellence have diminished effects, while distributor relational embeddedness plays a strengthened role under higher supplier encroachment.

5. Discussion

Although the supplier's direct marketing activities have dramatically increased and pose mounting challenges to distributors' profits, empirical studies on how distributors can respond to the challenge have been rare. We propose that the distributor's customer-driving capability can enhance its performance under supplier encroachment. With two waves of survey data from 125 and 55 distributors, respectively, in the semiconductor industry, we find that the customer-driving capability can enhance the distributors' viability in the face of supplier encroachment. Moreover, we find that three antecedents systematically interact with supplier encroachment in developing the distributor's customer-driving capability. An additional set of eight in-depth interviews was conducted to strengthen our theoretical and practical understanding of the topic.

5.1. Theoretical Implications

This study offers implications for the following streams of literature. First, we contribute to the channel management literature by switching the perspective from the supplier to the distributor. Predominantly adopting the view of the supplier, the previous research in the

multichannel management field has mainly focused on channel structure design and pricing strategies (e.g., Huang et al., 2018; Sa Vinhas & Heide, 2015). However, a rapidly changing environment and increasing competition from upstream suppliers have challenged the viability of distributors. It is imperative to examine effective responding strategies for distributors to survive the competition. We respond to the call for more studies about intermediaries' behaviors in the channel literature (Gilliland & Kim, 2014; Kim & Gilliland, 2017) by investigating how a distributor can drive the latent and future market needs to sustain a market advantage under supplier encroachment. To the best of our knowledge, our study is among the first to conceptualize and empirically test a framework to advise distributors in the face of increasing market encroachment by suppliers.

Second, we empirically confirm that customer-driving capability can significantly enhance the distributor's performance, especially under high supplier encroachment. In so doing, we enrich the dynamic capability literature by adopting a proactive customer-driving view and empirically testing the antecedents and outcomes of the customer-driving capability (Wilden et al., 2016). We also resonate with Nenonen et al. (2019), who suggested that studies of customer-driving capability utilize context-specific heuristics. In our context of distributors, we show that the distributor's customer-driving capability enhances its performance by reconfiguring and reshaping its resources to drive customers' latent needs proactively. Our focus on distributors' customer-driving capability also responds to the call for "examining performance effects of different marketing capabilities" (Moorman & Day, 2016). Being one of the first to document the performance impact of the customer-driving capability, our study contrasts with previous studies that mostly adopted the customer-driven perspective, and we generate new insights in the area of marketing capabilities.

Third, the results contribute to the general understanding of how distributors can develop their customer-driving capability from a network perspective. We reveal a set of three antecedents, i.e., supplier relationship exploration, distributor relational embeddedness, and customer service excellence, focusing on how distributors can diversify, excavate, and secure their resources through relationships with different market players in the network. Echoing the outside-in marketing strategy (Quach et al., 2020), our study revealed how distributors can work with external players to develop its own customer-driving capability, which will ultimately enhance the customer perceived value and firm performance. Furthermore, by testing the moderating effects of supplier encroachment on the effectiveness of the antecedents, we identify the activity profiles for the distributors' customer-driving capability development (Brege & Kindström, 2020). Among the set of approaches to develop the customer-driving capability, distributor relational embeddedness is most effective when supplier encroachment is high, emphasizing its unique contribution to the distributor's development of its capability and performance.

5.2. Managerial Implications

Reflecting the prevalence of supplier encroachment in semiconductors and beyond, Texas Instruments stated the following in its annual report (2019), "We market and sell our products through direct sales channels, including our brand sales force and our website, and through distributors. About 65 percent of our sales are fulfilled through our distributors, and they maintain inventory of our products." Our study provides several practical implications for distributors suffering from the competition brought by supplier encroachment. First, as a middleman with less power in the resource arrangement, a distributor should focus on its own proactive customer-driving capability rather than passively relying on the adjustments made by

suppliers. A distributor with the capability of reconfiguring and reshaping the resources to make or create the market can enhance its irreplaceability in the value chain and increase its own sales performance, even in the presence of supplier encroachment. As a member of a networked value chain, a distributor faces pressure from multiple directions, such as macroeconomic uncertainties, customer demands, supplier market changes, and competitive threats. Fostering a customer-driving capability helps distributors to buffer against risks, survive environmental dynamism, and improve performance.

Second, a distributor should adopt different approaches to enrich, diversify, and secure resources to cultivate its customer-driving capability when facing varying levels of supplier encroachment. When supplier encroachment is low, distributors can flexibly combine strategies, including supplier relationship exploration, distributor relational embeddedness, and customer service excellence, based on their resources and market characteristics to drive and influence customers. However, when supplier encroachment is high, the distributor should concentrate on distributor relational embeddedness to bond with peer distributors to enhance information sharing and reciprocity for the development of the customer-driving capability.

Third, our study suggests that, when facing competition from other market players in the value chain, a firm can take a proactive and value-generating perspective, rather than respond disruptively. In an environment of supplier encroachment, distributors can broaden the boundaries of their own firm and drive and influence the latent needs of potential markets. Distributors that are well connected to network members, including suppliers, peer distributors, and customers, are in the best position to deploy resources from multiple sources to sustain their market advantage.

5.3. Limitations and Future Studies

The findings of this study should be understood with the consideration of the limitations in the research design. First, although the semiconductor industry fits our research context and shares similar characteristics with many other industries, future studies can examine the effect of distributors' customer-driving capability on firm performance with data from multiple industries. Second, due to the resource constraint, data were collected from distributor firms with one key informant. Further research can examine the framework with supplier-distributor-customer triadic-matched data or the multiple-informant approach to improve the rigor of the findings. Third, this study merely focuses on the customer-driving capability, but further studies can compare the relative performances of different types of market-driving capability with different levels of outcome variables (Katsikeas et al., 2016) to assess the organization's marketing excellence (Moorman & Day, 2016). Fourth, our study only examined three drivers of the market-driving capability based on the dynamic capability and network embeddedness perspectives. There may be other antecedents, such as resource mobilization, organization structure reconfiguration, and technology leadership, which could influence the development of customer-driving capability (Brege & Kindström, 2020). Finally, the effectiveness of customer-driving capability could be examined under different competitive forces. In our B2B supplier-distributor context, supplier encroachment is a most notable external force for distributors. However, different external factors, such as peer competition and supplier forward integration, could be further examined when varying the capacity of the customer-driving capability in enhancing the distributor's performance.

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Figure 1: Conceptual Framework

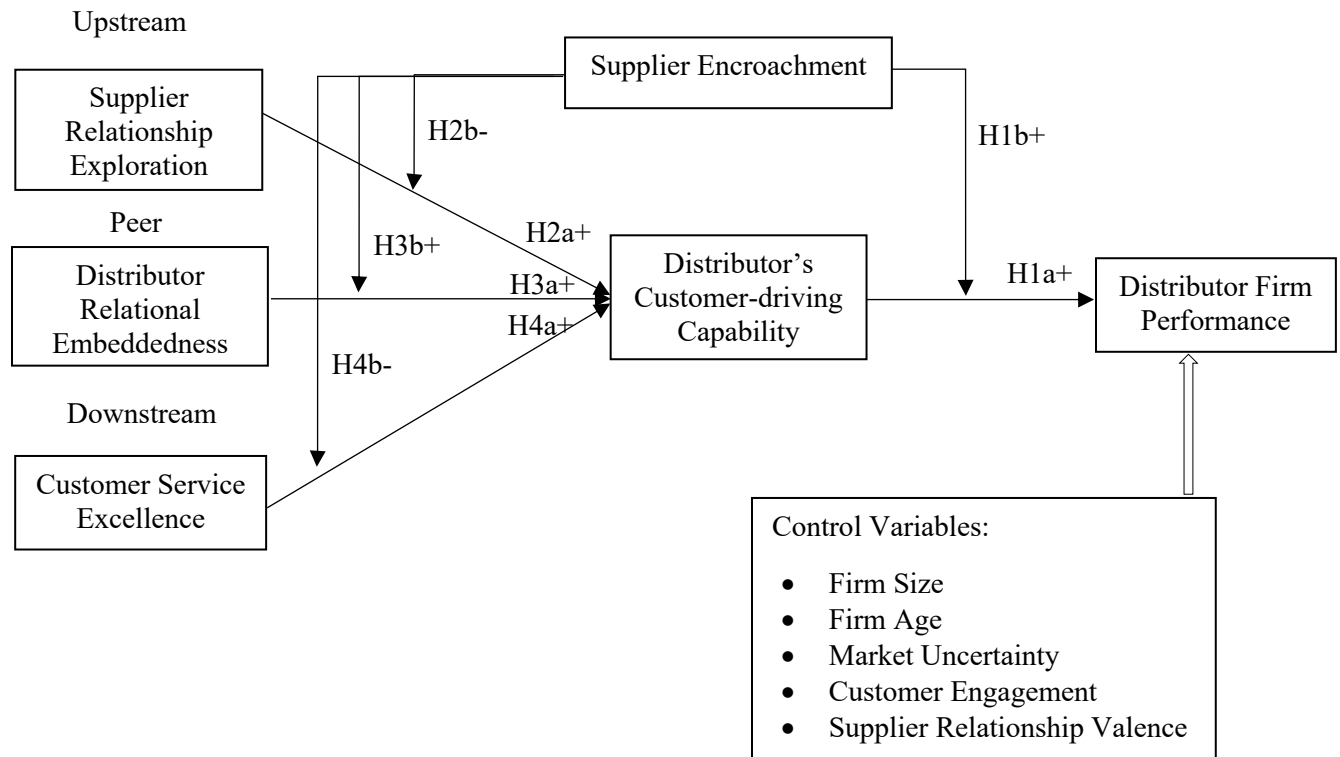
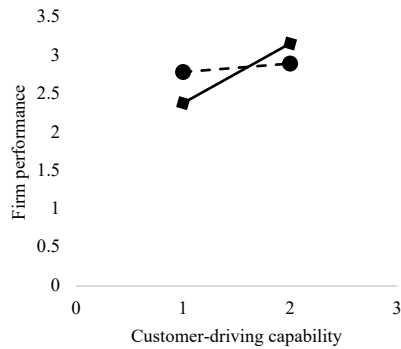
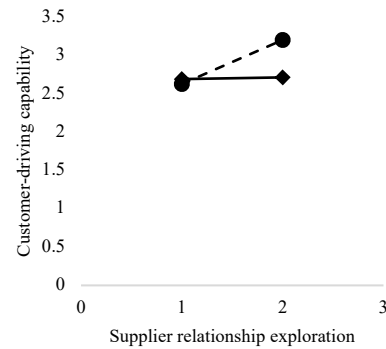


Figure 2: Interaction Effects

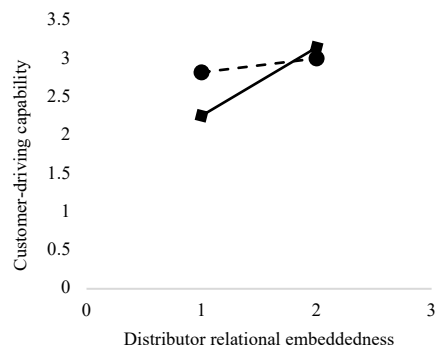
2a: Interaction effects between customer-driving capability and supplier encroachment on firm performance



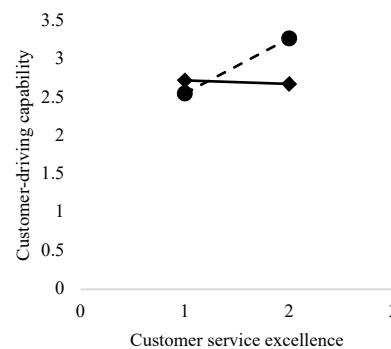
2b: Interaction effects between supplier relationship exploration and supplier encroachment on customer-driving capability



2c: Interaction effects between distributor relational embeddedness and supplier encroachment on customer-driving capability



2d: Interaction effects between customer service excellence and supplier encroachment on customer-driving capability



--- Low supplier encroachment
 — High supplier encroachment

Table 1: Selected Studies Related to Customer-driving Capability

Key studies*	Research objectives	Theory	Empirical	Key findings
Jaworski, Kohli, & Sahay, 2000	To introduce two approaches to market orientation: market-driven and market-driving approach.	Market orientation	No	This study reshapes and defines market-driven and market-driving. It also provides three approaches to driving the market structure and two ways for firms to shape market players' behaviors.
Kumar, Scheer, & Kotler, 2000	To compare market-driven and market-driving.	Market orientation	No	This study offers several recommendations to help established firms overcome obstacles and become more market-driving.
Narver, Slater, & MacLachlan, 2004	To distinguish between responsive and proactive market orientations and new product success.	Market orientation	No	This study extends the measurement of market orientation by measuring both responsive market orientation and proactive market orientation. The findings also imply that proactive market orientation is indispensable for firms to sustain new-product success.
Schindehutte, Morris, & Kocak, 2008	To explore how entrepreneurship-market-driving interface influence sustainable competitive advantage.	Market orientation	No	This study argues that market-driving is distinct from a firm's market orientation, and instead is the essence of entrepreneurial action in the Schumpeterian "creative destruction" sense.
Blocker et al., 2011	To explore the notion of proactive customer orientation and examine how this capability offers an opportunity for competitive advantage.	Market orientation	Yes	This study confirms that proactive customer orientation is the most consistent driven of customer value creation.
Elg et al., 2012	To explore how firm achieves supportive supplier relationship in global supplier network to enhance its market- driving strategy.	Social network	No	This study identifies critical factors within the actor, resource and activity dimensions that influence the suppliers' support for a firm's market-driving strategy.
Ghauri et al., 2016	To investigate how firm becomes market-driving in foreign markets and what capabilities lead to market-driving behavior.	Dynamic capability	Yes	This study finds that capabilities in configuration, networking, knowledge transfer and internal branding can lead to market-driving behavior.
Stathakopoulou et al., 2019	To investigate the role of personnel attributes in implementing a market-driving strategy.	Market orientation	No	This study demonstrates that specific characteristics of the top management and certain traits of middle-level employees are of central importance to the market-driving concept.
Nenonen, Storbacka, & Windahl, 2019	To comprehensively categorize the capabilities needed for market-shaping and synthesize them into a conceptual framework that describes the process and its outcomes.	Dynamic capability	No	This study finds that market-shaping is beneficial not only for the shaping firm but also for other stakeholders. It also proposes eight triggering capabilities and four facilitating capabilities.
Brege & Kindström, 2020	To provide specific strategies for firms to develop proactivity in the market.	Market orientation	No	This study proposes a working definition of proactivity in a market strategic context and conceptualizes three generic proactive market strategies.
Our study	To explore whether customer-driving capability helps a distributor survive through the destructive competition brought by supplier encroachment, and the antecedents of customer-driving capability.	Dynamic capability	Yes	This study confirms the vital role of distributor's customer-driving capability in facilitating firm performance under supplier encroachment condition, and identifies three antecedents of customer-driving capabilities: supplier relationship exploration, distributor relational embeddedness and customer service excellence.

* Studies are listed in chronological order.

Table 2: Descriptive Statistics and Correlations

	1	2	3	4	5	6	7	8	9	10	11
1. Firm performance	0.503	0.406**	0.155	0.241**	0.339**	0.489**	0.151	-0.280**	0.040	0.362**	0.211*
2. Customer-driving capability	0.413**	0.653	0.215*	0.333**	0.523**	0.468**	-0.011	-0.257**	0.135	0.510**	0.327**
3. Supplier encroachment	0.161	0.221*	0.681	0.246**	0.405**	0.139	-0.034	-0.185*	-0.056	0.314**	0.287**
4. Supplier relationship exploration	0.247**	0.340**	0.252**	0.581	0.318**	0.233**	-0.062	-0.269**	0.220*	0.086	0.014
5. Distributor relational embeddedness	0.346**	0.531**	0.412**	0.325**	0.734	0.388**	-0.263**	-0.310**	0.061	0.357**	0.211*
6. Customer service excellence	0.496**	0.475**	0.145	0.239**	0.395**	0.782	-0.052	-0.312**	-0.003	0.512**	0.145
7. Firm size	0.157	-0.006	-0.029	-0.057	-0.259**	-0.048	N/A	0.359**	-0.052	0.073	0.066
8. Firm age	-0.276**	-0.253**	-0.181*	-0.265**	-0.307**	-0.309**	0.366**	N/A	-0.052	-0.143	0.032
9. Market uncertainty	0.045	0.141	-0.051	0.226*	0.066	0.002	-0.048	-0.048	0.587	0.032	0.024
10. Customer engagement	0.369**	0.518**	0.321**	0.091	0.364**	0.520**	0.079	-0.139	0.037	0.676	0.246**
11. Supplier relationship valence	0.217*	0.334**	0.293**	0.019	0.217*	0.150	0.072	0.037	0.029	0.252**	N/A
12. Supplier performance ambiguity (MV)	-0.256**	-0.086	-0.071	0.036	0.048	-0.120	-0.261**	0.005	0.016	-0.104	-0.246**
Means	5.016	5.974	5.497	5.388	5.557	5.485	5.379	17.533	4.258	5.549	6.172
Standard deviations	0.999	0.936	1.217	1.190	1.099	1.077	1.693	12.351	1.143	1.056	1.095

Note: N=125. **: $p < 0.01$, *: $p < 0.05$

The diagonals of the matrix are the Average Variance Extracted (AVE) values for the latent variables shown in the bold type; the zero-order construct correlations are below the diagonal; the adjusted correlations for the potential common method variance (Lindell & Whitney, 2001) are above the diagonal.

Table 3: Construct Measurement Scales and Properties

Multi-item construct measures	Std. Loading
Customer-driving Capability CR= 0.750 AVE= 0.503 (Self-constructed based on Blocker et al., 2011; Ghauri et al., 2016; Nenonen et al., 2019)	
1. We are capable of exploring new customers in new markets.	0.912***
2. We regularly launch new products and services that are intended to explore the latent needs of our existing and new customers.	0.833***
3. We continuously explore our customers' new needs, of which they might be unaware.	0.777***
4. We always keep close contact with our customers to fulfill their existing needs and explore their latent needs.	0.696***
Supplier Encroachment CR= 0.893 AVE= 0.653 (Self-constructed based on Homburg, Wilczek & Hahn, 2014)	
1. Our supplier often holds customer events without our participation.	0.968***
2. Our supplier verifies the information received from distributors with downstream customers directly.	0.869***
3. Our supplier often holds information sharing activities directly targeted at downstream customers.	0.786***
4. Our supplier has its own customer management system.	0.642***
Supplier Relationship Exploration CR= 0.806, AVE= 0.581 (adapted from Tse, Wang, & Zhang, 2019)	
1. We always consider potential new suppliers to secure better product lines, delivery conditions, or prices, even when we are happy with the current suppliers.	0.775***
2. We continually adjust our resources to build up relationships with diverse potential suppliers.	0.758***
3. We are continually on the lookout for relationship building with various potential suppliers.	0.754***
Distributor Relational Embeddedness CR= 0.917 AVE= 0.734 (adapted from Wang, Gu, & Dong, 2013)	
1. We share close social relations with other peer distributors in our distribution network.	0.934***
2. The other peer distributors in our distribution network are quite willing to give favors or provide help to us.	0.882***
3. Relationships between us and other peer distributors in our distribution network can be generally described as "mutually beneficial".	0.807***
4. We expect to be working with other peer distributors in our distribution network far into the future.	0.796***
Customer Service Excellence CR= 0.915 AVE= 0.782 (adapted from Cronin & Taylor, 1992; Ray, Muhanna, & Barney, 2005)	
1. Our service reps provide customer service accurately the first time.	0.906***
2. Our service reps strive to understand and meet customers' specific needs.	0.880***
3. Our service reps make sure that our promises to customers are delivered properly and timely.	0.866***
Firm Performance CR= 0.784 AVE= 0.600 (adapted from Zhou, Yim, & Tse, 2005) Compared with your major competitors, your firm's performance in the following aspects is: 1=much lower than your major competitors and 7=much higher than your major competitors	
1. Sales growth in the past two years	0.756***

2. Return on investment	0.746***
3. Value to customers	0.616***

Control variables:

Firm Size: The natural log of the number of employees the firm has.

Firm Age: Number of years since the establishment of the firm.

Market Uncertainty

CR=0.808 AVE=0.587

(adapted from Jaworski & Kohli, 1993)

- | | |
|---|----------|
| 1. The downstream customer preferences change frequently. | 0.878*** |
| 2. The downstream customer needs are unstable. | 0.710*** |
| 3. Our sales are unpredictable. | 0.696*** |

Customer Engagement

CR=0.892 AVE=0.676

(adapted from Ernst, Hoyer & Rübsaamen, 2010)

- | | |
|--|----------|
| 1. Our customers will participate in the prototype testing of products. | 0.882*** |
| 2. Our customers inspire and help us in the new product development. | 0.861*** |
| 3. Our customers provide us with key information about market changes and latent needs analysis. | 0.808*** |
| 4. Our customers will participate in the market testing of products. | 0.728*** |

Supplier Relationship Valence

(adapted from Kumar, Scheer, & Steenkamp, 1995)

The relationship between your firm and your supplier can be described as competitive (1), or cooperative (7)

Model fit: $\chi^2(394) = 507.782$ CFI= 0.952 IFI= 0.955 RMSEA= 0.048

Note: ***: p<0.001

Table 4: Hypothesis Testing of Main Effects

Structural Paths	Standardized Path Loading	
	Hypothesized Model	Alternative Model
<i>Main effects:</i>		
Customer-driving capability---> Firm performance	0.450***	0.267*
Supplier relationship exploration-->Customer-driving capability	0.193*	0.204*
Distributor relational embeddedness-->Customer-driving capability	0.261*	0.259*
Customer service excellence-->Customer-driving capability	0.289*	0.229*
Supplier relationship exploration-->Firm performance		0.068
Distributor relational embeddedness-->Firm performance		0.028
Customer service excellence-->Firm performance		0.367*
<i>Control variables:</i>		
Firm size-->Firm performance	0.279*	0.297*
Firm age-->Firm performance	-0.323*	-0.237 +
Market uncertainty-->Firm performance	-0.083	-0.042
Customer engagement-->Firm performance	0.120	-0.025
Supplier relationship valence-->Firm performance	0.052.	0.079
Firm size-->Customer-driving capability	0.123	0.115
Firm age-->Customer-driving capability	-0.039	-0.049
Market uncertainty-->Customer-driving capability	0.125	0.103
Customer engagement-->Customer-driving capability	0.091	0.126
Supplier relationship valence-->Customer-driving capability	0.211*	0.211*
Model Fit:	$\chi^2(268) = 355.532$ CFI=0.955, IFI=0.956, RMSEA=0.051	$\chi^2(265) = 353.434$ CFI=0.954, IFI=0.956, RMSEA=0.051

Notes: +: p<0.10; *: p<0.05; **: p<0.01; ***: p<0.001

Table 5: Regression Results of the Moderating Role of Supplier Encroachment

		Dependent Variables		Highest VIF
		Firm performance	Customer-driving capability	
<i>Control variables:</i>				
Firm size		0.134**	0.042	1.364
Firm age		-0.023***	-0.008	1.418
Market uncertainty		0.008	0.083	1.171
Customer engagement		0.171+	0.330***	1.750
Supplier relationship valence		0.141+	0.145*	1.203
<i>Main effects and interactions:</i>				
Supplier encroachment (SE)		-0.036	-0.106	1.541
Customer-driving capability (CDC)	H1a	0.222*		1.575
SE x CDC	H1b	0.167*		1.119
Supplier relationship exploration (SRE)	H2a		0.149*	1.419
SE x SRE	H2b		-0.138*	1.133
Distributor relational embeddedness (DRE)	H3a		0.268***	1.803
SE x DRE	H3b		0.177**	1.605
Customer service excellence (CSE)	H4a		0.168*	1.703
SE x CSE	H4b		-0.191*	1.642
F		6.867***	12.281***	
F change		5.063**	8.786***	
R ²		0.321	0.568	
Adjusted R ²		0.275	0.522	

Notes: + p<0.10; * p<0.05; ** p<0.01; *** p<0.001

Appendix A: Interview Sample Description

No	Informant	Title	Industry experience (Years)	Firm	Number of employees	Firm annual income (USD)
1	Ms. W	Marketing director	20	IC Electronics Limited	1000	1.8 billion
2	Ms. C	Regional supply manager	15	FT Electronics	1000	1.3 billion
3	Mr. F	Product manager	20	CE International Equipment	500	2 million
4	Mr. L	Regional director	30	AR Electronics	3500	7 billion
5	Mr. M	Marketing director	25	WT Technology	2200	10 billion
6	Mr. T	Senior vice president	25	WP Group	1600	10 billion
7	Mr. H	Sales director	16	MA Group	600	1.4 billion
8	Mr. K	Senior marketing director	30	SE Group	400	0.5 billion

Note: To protect privacy of the interviewees, we anonymize the interviewees' names and firms in this table.

Appendix B: Narratives from In-depth Interviews

Informant No.	Narratives	Related Constructs
1	About ten years ago, our company only focused on doing what customers asked for. We can no longer just do the same, as the technologies have been changing too fast. We have to be more active in “pushing” our customers. For example, downstream customers may not know the latest technological trend in the industry. We need to take the initiative to tell them the possibilities of cutting cost or improving product performance based on the new technologies.	Customer-driving capability
2	Sensing and fulfilling customer needs are the basis in our industry. We frequently update customers with the latest information in our industry and get ourselves updated on their needs and concerns. We also propose solutions such as different combinations of products and services for our customers to create new business opportunities.	Customer-driving capability
3	If we cannot offer customers what they asked for, we have no opportunity for future orders. We get to know our customers better through fulfilling their existing needs, which also helps us make more reasonable recommendations for them. Sometimes customers do not know the latest trend in the industry or express their needs clearly, so we will explore together to find their real needs. We call this “demand creation” in our industry.	Customer-driving capability
4	Every time when we successfully complete a customer order, we know their needs better. When we satisfy their existing needs, they trust us more. They will tell us more about their problems, worries, and plans, so that we know what they really need and brainstorm a better solution for them.	Customer-driving capability
1	Now the entire industry is emphasizing “demand creation”. The premise of creating demand is to understand and meet customers’ current needs. If we can’t do this, customers absolutely won’t cooperate with us again, then how can we have the chance to explore their future needs? In other word, to satisfy customers’ current needs is our basic duty.	Customer-driving capability
7	Of course we are worried if our customers order from suppliers. But we also have our own strength. We have long-time relationships with customers, and they trust us more. To customers, we are like problem solvers or solution providers. In other words, we not only sell products, but also provide forward-looking guidance and services. I think that’s our advantage over suppliers.	Supplier encroachment
4	When suppliers contact downstream customers to promote their products, our customers often come back to us to check information or compare prices.	Supplier encroachment
8	Our suppliers sometimes directly contact our downstream customers. But you know how fast the information flows in the industry, we will soon know about it because of all the personal ties in the industry.	Supplier encroachment
8	We often attend conferences organized by industry associations and private gatherings with other distributors. The main purpose is to build connections and share information.	Distributor relational embeddedness
6	We have formal and informal contacts with our peers, such as in meetings organized by suppliers or during customer visits. We share new product trends, market conditions, and government policies. In short, there is no harm in communicating with peers.	Distributor relational embeddedness
5	If it doesn’t affect our business, we don’t mind giving favor to other distributors. We may help them with some logistic need. It’s reciprocal. We sometimes need their help too.	Distributor relational embeddedness
2	We will help each other balance inventory and transfer goods. Also, sometimes we share product samples. These reciprocal acts are very common in the industry.	Distributor relational embeddedness
8	We always consider potential suppliers in our industry. A set of quality potential suppliers is very important. Even though we may not have conducted any business with them yet, they are very useful sources of information and potential partners in the future.	Supplier exploration
7	Maintaining potential relationships with suppliers is also important, because even though we have no cooperation now, we may cooperate in the future. We will take a long-term perspective to evaluate the marketing and technical capabilities of suppliers, and exchange industry information with them.	Supplier exploration