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Distributors' Downstream Demand Creation under Upstream Suppliers' Direct Market Access

Abstract

Suppliers' direct access to customers continues to bring challenges to distributors in business-to-business markets. Yet, little attention has been given to how distributors can survive in such a disintermediation environment. The authors address this void by proposing distributors' demand creation as a key responding strategy. With survey data from 125 distributor firms in the semiconductor industry, this study shows a significantly positive effect of distributors' demand creation on both firm performance and competitive advantage. Moreover, we find three important antecedents of distributors' demand creation: upstream supplier diversification, service-orientation and downstream customer integration. Interestingly, suppliers' direct access to customers moderates the effects of antecedents on distributors' demand creation, the higher level the suppliers' direct access, the stronger the effect of downstream customer integration but the weaker effects of upstream supplier diversification and service-orientation on the distributor's demand creation.

Key word: distribution channel, supplier direct access to customer, distributor demand creation

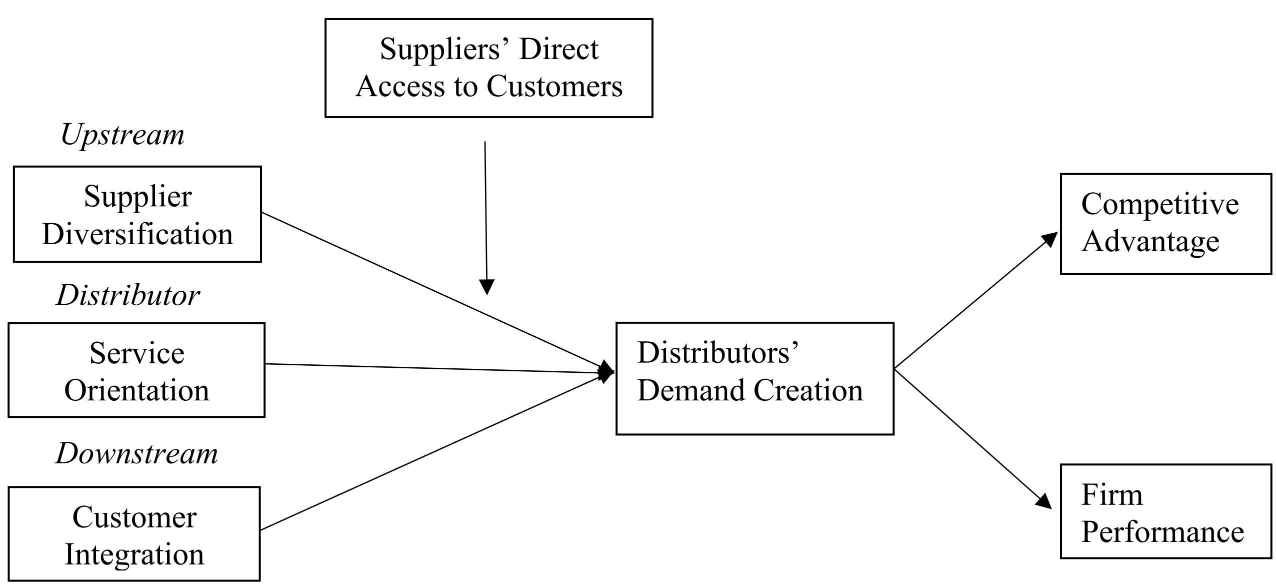
Track: Business-To-Business Marketing & Supply Chain Management

1.Introduction

It has quickly become a norm than exception that business-to-business suppliers target their marketing activities and sales efforts directly at industrial buyers (i.e. customers), in addition to the traditional intermediaries (i.e. distributors) (Homburg, Wilczek and Hahn, 2014; Dahlquist &Griffith, 2014). 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, enlarged market share, and faster response to changing market conditions (Vinhas & Anderson, 2005). However, such increased direct access by suppliers brings distributors mounting challenges and puts them under great pressure for survival (Mudambi & Aggarwal, 2003). In the literature of B2B marketing and supply chain management, research insights mainly focus on the supplier's perspective (Fürst, Leimbach and Prigge, 2017; Kabadayi, Eyuboglu and Thomas, 2007), leaving the distributor's vulnerability and response strategies under studied. Given the practical significance and the theoretical void, in this study we aim to examine how distributors should react to suppliers' direct access to downstream customers, and the antecedents and consequences of their response strategy.

From the historic evolutional view which can be traced back more than fifty years ago (Converse, 1958), the role of a distributor can be split into "two halves"—marketing and logistics. Because of technological developments in manufacturing, information sharing, and logistic systems in the past decades, new distribution arrangements have emerged. In particular, information technology enables efficient and effective supplier-customer communication, which was previously mediated by distributors (Olsson, Gadee and Hulthén, 2013). Suppliers transform their distribution systems by increasing their direct access to customers in an aim to increase market coverage and sales (Vinhas & Anderson, 2005), thus, leaving distributors' role to mere task fulfillment, such as warehousing and delivery, with reduced profit margin. To tackle the challenges brought by suppliers' direct channel arrangement and maintain long-term competitive advantage, distributors need to be better equipped to respond to customer requirements and market changes (Day, 1994). Previous research identifies demand-focused processes as a primary strategy to create value for customers (Esper, Ellinger, Stand, Flint and Moon, 2009). In this study, we propose demand creation as a key response to the challenging market. From a demand chain management perspective, we conceptualize demand creation as a strategy that stems from a high level integration of market-related knowledge and skills, including relationship marketing, resource management and market sensibility, to maintain and generate customer needs, and thus to deliver superior value for customers (Guenzi & Troilo, 2006; Esper et al., 2009).

Furthermore, our study also aims to investigate the drivers of a distributor's demand creation. As a middleman in the supplier-distributor-customer triadic industrial channels, distributors may consider to facilitate demand creation by working through three directions—upstream, distributor-self and downstream, with supplier diversification, service orientation and customer integration strategies separately. In other words, distributors need to (1) diversify alternative suppliers for collaboration practice to stimulate customer demands by joint marketing activities (Corsten & Kumar, 2005; Dahlquist & Griffith, 2014), (2) be service-oriented, which was recognized as an useful vehicle to build close customer relationship and get to know customer requirements (Payne & Frow, 2005), and (3) integrate with downstream customers, which concentrates on solution customization and delivery integration (Frohlich & Westbrook, 2001). Moreover, as suppliers' direct access becomes common in industrial channels and one of the key factors leading to distributors' survival dilemma, our study also explores the moderating role of suppliers' direct access in affecting the effectiveness of different antecedents. The proposed conceptual framework is shown as Figure 1.



Firgure1. A conceptual framework

2.Theory and Hypotheses

2.1 Distributors' demand creation and firm performance

During the past two decades, B2B market environment has witnessed significant changes, as a result of the booming e-commerce, disintermediation in industrial channel and merge and acquisition between firms (Mudambi & Aggarwal, 2003; Walters, 2004; Fürst et al., 2017). As the distributor's role shifts, suppliers suppress distributors' market power with direct competitions for customers and resources (Vinhas & Heide, 2015). Traditional logistic and warehousing role of inventorying and delivering goods from one party to another is not sufficient to maintain profit margin and survive in the new economy. Based on previous findings, distributors must respond to demands by increased services and investments (Mudambi & Aggarwal, 2003). Distributors can react as bonding with their customers through demand creation to balance the competition from suppliers, which would enhance distributors' profit margin and market share, offer competitive advantages and improve firm performance. Thus, we propose

H1: Distributors' demand creation has positive effect on firm performance.

H2: Distributors' demand creation has positive effect on competitive advantage.

2.2 Antecedents of distributors' demand creation

As suppliers' direct access to customers becomes more common in B2B markets, one sets of risk-mitigating strategies has been adapted by distributors. Among them, supplier diversification is one of the most popular ones (Tang & Gurnani, 2014). Especially, when customer demand is uncertain, dependence on one single supplier becomes riskier and supplier diversification is largely believed to be an optimal strategy (Anupindi & Akella, 1993). In supplier-distributor dyadic relationship, suppliers control important sources through ownership, and limited resource set-up makes distributors dependent on access to resources of others (Olsson et al., 2013). Distributors would like to build up compatibilities with a range of suppliers, rather than bond with a supplier with specific investment for the relationship (Mudambi & Aggarwal, 2003). As a boundary spanner between supplier and customer, distributor originally functions as a role to transfer knowledge and requirements between customers and suppliers (Anderson & Narus, 1984). Thus, a distributor serves as an expertise of suppliers' products, technical processes and market characteristics, and knows relative advantages of one product, choice criteria and market trend. Diversifying supplier alternatives can enlarge distributors' information and knowledge sources and facilitate better understanding of industry and customer characteristics, thus will promote demand creation.

H3: Upstream supplier diversification has positive effect on distributors' demand creation.

Distributors often have the same assortments with similar prices, to build differentiations in business-to-business markets, a predominant way is to pursue a service-oriented strategy (Homburg, Hoyer and Fassnacht, 2002). Following Vargo and Lusch's (2004) S-D logic, many business-to-business firms transform their orientations from goods to services (Gebauer & Fleisch, 2007), which highlights co-creating values through resource integration and service provision. Precisely, service oriented distributors offer services actively, whereas others provide services when customers explicitly ask for them (Dotson & Patton, 1992). Services tend to involve customers in each stage, and service orientation strategy shows the motivation to involve in a longer commitment and intimate relationship (Alam & Perry, 2002). With close relationship, distributors can get valuable information of customer preferences and concerns, which can be matched with distributor industry experience to identify customer demands.

H4: Service orientation has positive effect on distributors' demand creation.

Distributors' traditional logistic role of product delivery is not sufficient for sustaining competitive advantage, thus more firms seek ways to add value to their customers (Anderson & Narus, 1990). Previous literature points out the importance of customer integration in terms of delivery integration and mass customization in industrial channels (Mudambi & Aggarwal, 2003), which can reduce customer cost through flexible and customized solutions. Moreover, in this context, customer integration is relevant to the concept of transaction-specific assets (TSAs). TSAs are investments in a specific relationship that could generate trust, a lasting bond and greater dependence (Heide & John, 1988). Furthermore, interdependence relates positively to interfirm agreement on relationship satisfaction, marketing strategy and organization goal settings (Frazier, Gill and Kale, 1989), which can encourage new demand development between distributors and customers.

H5: Downstream customer integration has positive effect on distributors' demand creation.

2.3 The Moderating role of suppliers' direct access to customers

Many business-to-business suppliers actively manage direct relationship with customers (Dahlquist & Griffith, 2014). Such a strategy gives suppliers a better way to get valuable information from customers (Mudambi & Aggarwal, 2003; Vinhas & Anderson, 2005), which comes from distributors in traditional industrial channel or single independent distribution channel. Therefore, suppliers get chance to directly access to information regarding market characteristics, create product preferences among customers, and ultimately stimulate derived demands (Webster, 2000). As the degree of suppliers' direct access rises, suppliers can accurately differentiate and customize their operations and efficiently react to the technology developments and market changes with updated products and services for customers. Moreover, suppliers' direct access to customers is better for customers because they can choose the channel that is better suited their needs, and it is better for suppliers because they can increase sales while matching customer needs and channel capability (Vinhas & Anderson, 2005). Thus, suppliers, who have advantages in price flexibility, technology strength and resource arrangement (Rehme, Nordigården, Ellström and Chicksand, 2016), induce intense competitions for distributors' demand creation. Thus, suppliers' direct access would weaken the positive effect of supplier diversification on demand creation.

H6: Suppliers' direct access to customers weakens the effect of upstream supplier diversification on distributors' demand creation.

From the perspective of a supplier, the decision to expand markets with utilization of distributor can be considered as a "make or buy" decision in service arena (Mudambi & Aggarwal, 2003). Suppliers can directly sell to customers with their own sales force and add direct channel to offer customer choices with potential cost and time saving. Suppliers are professional in manufacturing technology and product design, and they can deliver specialized services to customer, which can cause great competitions with service-oriented distributors for customer, moreover for demand creation.

H7: Suppliers' direct access to customers weakens the effect of service orientation on distributors' demand creation.

For B2B distributors, integration with customer means customized solutions, including specific product combinations, customized delivery system and even working operations (Frohlich &Westbrook, 2001). Customer integration requires some transaction-specific investments, which could generate trust and lasting bonds (dependence) with customers. Suppliers' direct channel provides customer with potential benefits, such as cost saving, but it generates an additional level of risk assessment, decision making and monitoring (Mudambi &Aggarwal, 2003), which result in high management cost. However, distributors' customer integration can reduce the risks customer face in dynamic environment and encourage cooperative norms, and it can encourage communications and interactions between parties (Guenzi & Troilo, 2006). Thus, in downstream market, opportunities to get accurate information and generate new demands are enhanced. As the degree of direct access rises, the effect of downstream customer integration on demand creation could be strengthened.

H8: Suppliers' direct access to customers strengthens the effect of customer integration on distributors' demand creation.

3.Methods

3.1 Sample and data collection

We tested our framework using data collected from distributors of one world's leading semiconductor firm. We got the authorization from the firm to access its list of distributors in China. We adopted key-informant approach and solicited participation of one person in each distributor firm who is highly placed and knowledgeable about the firm's relationship with upstream suppliers and downstream customers. We randomly selected 300 distributor firm and invited potential informants to participate in this research vis email. After several rounds of reminders, we obtained 125 completed replies, with an effective response rate of 41.7%.

3.2 Measures

The items used in the questionnaires are 7-point Likert scales (1= strongly agree, 7= strongly disagree), unless specified otherwise. The measurement scales, their factor loadings, reliability report and validity assessments are available upon request.

4.Analysis and Results

We performed structural equation modeling to test our conceptual framework in Fig.1. We report results of main effects in Table 1 and those of moderation effects of suppliers' direct access to customers in Table 2. In Table 1, the results of all hypothesized main effects are reported. The overall model fit statistics shows a satisfactory fit of our model related to the data ($\chi 2(168) = 230.534$, CFI = 0.949, IFI =0.952, RMSEA = 0.055). We find support for H1 and H2. Distributor demand creation can positively affect its firm performance (0.353, $p<0.05$) and competitive advantage (0.520, $p<0.001$). In support of H3, H4 and H5, upstream supplier diversification (0.213, $p<0.05$), distributor service-orientation (0.515, $p<0.001$) and downstream customer integration (0.344, $p<0.001$) all affect distributors' demand creation significantly and positively.

Table1. Hypothesis testing of main effects

Structural Paths	Std. path estimates	Hypothesis (Y/N)
Demand Creation→Firm performance	.353**	H1(Y)
Demand Creation→Competitive advantage	.520***	H2(Y)
Supplier Diversification→Distributors' demand creation	.213**	H3(Y)
Service orientation→Distributors' demand creation	.515***	H4(Y)
Customer integration→ Distributors' demand creation	.344***	H5(Y)
Control effects:		
Firm size→ Firm performance	.144	
Firm age→ Firm performance	-.212**	
Firm size→ Competitive advantage	-.155*	
Firm age→ Competitive advantage	.307**	
Full Model Fit Indices: $\chi 2(168)=230.534$, CFI=0.949, IFI=0.952, RMSEA=0.055		

Note: ***p<0.001, **p<0.05, *p<0.1

We also hypothesize the moderating effect of suppliers' direct access about antecedent effects on demand creation. To test these hypotheses, we split our sample into two groups--high and low level of suppliers' direct access to customers, based on median value (5.50). Following the moderation test procedures that Jaccard and Turrisi (2003) suggested, we first conduct multi-group analysis with each antecedent on distributors' demand creation. In the second step, we proceed to an individual parameter estimation, in which we constrain each relevant pair of parameter estimations to be equal across high and low level of suppliers' direct access to evaluate the differences between model fits. As shown in Table 2, regarding the effect of supplier diversification on demand creation, the path estimate for low group (0.206, $p<0.1$) is significant, yet shows insignificant for high group (-0.060, p>0.1). The chi-square difference test shows a significant change ($\Delta\chi2(1) = 2.787$, $p<0.1$), thus H6 is supported. The path estimate on the effect on customer integration on demand creation, is insignificant for low group (-0.170, p>0.1), but is significant for high group (0.770, p<0.05). Also, the chi-square difference test shows a significant result ($\Delta\chi2(1) = 8.023$, $p<0.05$), in support of H8. Regarding the effect of service-oriented on demand creation, path estimate of low group is greater (0.576, p<0.001) than that of high group (0.400, p<0.05), with a significant chi-square difference test ($\Delta\chi2(1) = 5.012$, $p<0.05$). The results show the greater effect of service-orientation on distributors' demand creation when the suppliers' direct access level is low, supporting H7.

Table 2. Multi-group Analysis of Supplier's Direct Access:

Structural Paths	Low Suppliers' Direct Access	High Suppliers' Direct Access
	Std. path estimates	
Supplier diversification→Distributors' demand creation	.206*	-.060
	$\Delta\chi2$ (1)=2.787*	
Service orientation→Distributors' demand creation	.576***	.400**
	$\Delta\chi2$ (1)=5.012**	
Customer integration→ Distributors' demand creation	-.0170	.770**
	$\Delta\chi2$ (1)=8.023**	
Control Effects:		
Firm size→ Firm performance	.021	.292**
Firm age→ Firm performance	-.171	-.323**
Firm size→ Competitive advantage	.157	.412**
Firm age→ Competitive advantage	-.007	-.306**
Full Model Fit Indices: $\chi2(326)= 400.368$, CFI=0.947, IFI=0.951, RMSEA=0.044		

Note: ***p<0.001, **p<0.05, *p<0.1

5.Discussion

More and more suppliers access to customers through their own sales force directly. However, the majority of previous studies in business-to-business markets focus on channel design to reduce the conflicts from suppliers' perspective (Fürst et al., 2017; Vihans & Anderson, 2005; Homburg et al., 2014). It remains unclear how distributors can survive under the pressure of supplier direct access. The findings of this study extended extant literature regarding industrial channel by proposing and examining the role distributor demand creation play in improving distributor firm performance and competitive advantage. Also, we find three antecedents of distributor demand creation: upstream supplier diversification, service orientation and downstream customer integration, which can significantly and positively encourage distributors' demand creation. Moreover, with consideration of different levels of suppliers' direct access to customers, our study further finds that the effect of downstream customer integration on demand creation is strengthened when supplier direct access is high, while the effects of supplier diversification and service orientation on demand creation are weakened. Thus, for distributors facing serious competition from suppliers' direct access to customers, they need to adopt downstream customer integration to promote demand creation for sustaining competitive advantage and improving firm performance.

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