

# Strategic Distribution Potentiality toward Firm's Success: Food Industries in the North Region of Thailand

**Dr. Supathanish Termsnguanwong**

Business Administration Faculty, Payap University, Thailand

---

## Keywords

Strategic, Distribution Potentiality, Firm's Success

## Abstract

*This study proposes a distribution channel strategy model based on the notion that distribution channel strategy is the basic determinant of distribution channel performance which may lead to firms' success. Its major objective is to assist manufacturers in making effective decision on distribution channel strategy. The proposed model integrates two strategic components: a) distribution channel selection—the manufacturer's choice of distribution intensity, channel location characteristics, channel control and b) distribution channel management—the channel service quality as to product and as to people. The model proposes how the two strategic components affect distribution channel performances that finally lead to firm's success.*

---

## Introduction

### Background of the study

In the past, most companies ignored the distribution channels as an important part of their marketing strategy. At present, intensive competition in global markets stimulate firms to place more emphasis on their distribution channel strategy to increase firms' success.

The distribution strategy is considered as an important strategic weapon to achieve and maintain competitive strength (Magnet, 1992; Porter, 1991). It is one of the key components of the marketing mix which will become an even more important part in the future (Cravens, 1994). The reason is that products can now be copied within a short period of time. For example, designs of fashion products from well-known brand companies can be copied from the catwalk and put on the street shop within a day. Price can be undercut within minutes. But from the standpoint of developing competitive advantage that has long-term viability, distribution channel strategy (specially the one that focuses on building a strong relationship between manufacturer and its channel members) is a key marketing mix that cannot be duplicated quickly with technology, with a clever idea, or with factors such as product, price, and promotional strategies (Rosenbloom, 1995). In other words, the superior performance of a distribution channel strategy is likely to result from how firms select and manage their distribution channel, in addition to the capabilities of people in their organizations with various channel members and their inclination to deliver superior performance aimed at achieving mutually beneficial goals.

As such, distribution channel strategy is at the heart of competition (Porter, 1985) and becomes an essential area of marketing strategy.

Most previous researches indicate that location is an important factor to which the firm should pay attention (Brown, 1993; Ghosh and McLafferty, 1987; Yoo, Donthu, and Lee, 2000). Accordingly, the firm should be interested in location characteristics relevant to its distribution channel strategy.

Channel control is an important topic in distribution channel strategy. Most evidences show that both industrial and consumer goods markets want control distribution channels for better execution of their marketing strategies. As such, distribution channel strategy is at the heart of competition (Porter, 1985) and becomes an essential area of marketing strategy to attain success for SME's in Northern Thailand, hence this study.

### Statement of the Problem

This study attempted to examine the distribution channel strategy as a source of advantage that would lead to a position advantage and finally to firm's success.

1. What is the profile of the respondent companies?
2. What is the level of distribution channel selection and management in terms of distribution intensity, channel location characteristics, channel control and channel service quality?

3. Are there significant differences in the level of distribution channel selection and management in terms of distribution intensity, channel location characteristics, channel control and channel service quality?
4. What is the extent of channel performance of the firms in terms of effectiveness and efficiency?
5. Are there significant differences in the extent of channel performance of the firms in terms of effectiveness and efficiency?
6. What is the level of the firm's success in terms of external outcome and internal outcome enjoyed by the SMEs?
7. Are there significant differences on the external outcome in terms of market share, profitability and sales and internal outcome in terms of satisfaction and loyalty?
8. Is there a relationship between distribution channel selection and management and channel performance and firm's success of the SME's?
9. What model can be formulated to improve distribution potentiality of SME's that would lead to firm's success?

## **Research Methodology**

### **Data-Gathering Instrument**

The research instrument used a self-administered survey questionnaire which was mailed to the respondents. The mailing lists were those Thai food manufacturers in 2006 obtained from Ministry of Commerce that have the most relevant and updated database. The list represented a group of the desired general population. Respondents were executives who were involved in the distribution and policy administration, who were requested to complete and return the questionnaire by mail during the specified sampling period. Firm sizes were classified according to their employees registered in the Ministry of Commerce.

The questionnaire is composed of four parts based on the statements of the problem, in order to gather answers to questions posted earlier, which were the following:

Part I is the profile of the target food companies,

Part II are questions to gather information about the level of distribution channel selection in terms of distribution intensity, channel location characteristics and channel control and distribution channel management in terms of channel service quality as to product and people.

Part III is the extent of channel performance of the companies in terms of effectiveness and efficiency possessed by the companies.

Lastly, Part IV touched on the level of the firm's success in terms of external outcome to cover market share, profitability, sales and also in terms of internal outcome to cover satisfaction and loyalty.

For validity test, the researcher conducted face and content validities. The face validity was done by selecting three experts in the areas of research, instrument preparation, and business. They checked the research instrument as to the appropriateness of the terms/vocabulary used against the kind of respondents, data gathered and the adequacy of the items per aspect.

In reliability test, the researcher administered the questionnaire to 20 managers from different food manufacturing firms. The researcher integrated all the suggestions and reproduced the instrument based on the number of respondents.

### **Review of related Literature and Studies**

#### **Distribution Channel Strategy**

Distribution channel strategy refers to the manufacturer's selection of channels to serve designated end markets (Corstjens and Doyle, 1981). In the past, most companies did not consider the distribution channel as a relevant component of their marketing mix. At present, channel strategy has increasingly become the concern and the heart of competition for an organization (Porter, 1991). It is one of the most critical aspects to improve the organizations' operation and performance.

Since the distribution channel strategy is aimed at getting the right product in the right quantities to the respective target markets (Rosenbloom, 1999), product oriented (such as product differentiation) by itself is not sufficient to enhance a firm's success or to secure a competitive advantage; whereas, channel oriented tends to generate a more promising outcome (Magnet, 1992; Porter, 1991; Yeoh's and Jeong, 1995).

As such, it is important for managers to determine which distribution channel strategy is the most efficient in offering products to meet the customers' needs. In general, there are different types of channel that firms can use. Each has different cost structures and degrees of face-to-face interaction (Mols, Bukh, and Nielson, 1999).

#### **Distribution Channel Strategy as a Marketing Strategy**

Marketing strategy is an integrated, multi-element or multi-component strategic concept guiding a firm's marketing plan toward a specific product or product line during a given time period (Stasch et al., 1999). The elements or components of the strategic concept should include all or most of the following: the market, competitors, other environmental market factors, product, price, promotion, and distribution.

Cravens (1994) suggests that developing a marketing mix (product, price, promotion, and distribution strategies) to meet the demands of the firm's target markets better than that of the competitors is the heart of modern marketing management. The manager should develop the right combination of the four P's to provide and maintain the desired level of target market satisfaction. For this reason, the role of distribution must be considered along with product, price, and promotion.

Bandopadhyay (2001) posits propositions regarding the creation of an appropriate marketing mix (a combination of product, promotion, pricing, and distribution strategies) to effectively reach each target market. The study focuses on competitive strategies for internet market and suggested firms to consider re-intermediation over disintermediation strategy. Firms should make use of retailers who will physically distribute products that are featured on the internet. In addition, firms should emphasize developing partnerships with electronic facilitating agencies that can help reduce the customers' search and transactional efforts.

Yoo, Donthu, Lee (2000) explores the relationships between selected marketing mix elements and the creation of brand equity. The study proposes a conceptual framework where marketing elements are related to the dimensions of brand equity. Marketing mix elements are investigated by using consumers' perceptions of price, store image, distribution intensity, advertising spending, and frequency of price promotions. The dimensions of brand equity are examined by perceived quality, brand loyalty, and brand associations combined with brand awareness. The empirical test, using a structural equation model, supports the research hypotheses. The results show that frequent price promotions, such as price seals, are related to low brand equity whereas high advertising spending, high price, good store image, and high distribution intensity are related to high brand equity.

Sherwood and Nordstrom (1990) offer an integrative framework for presenting physical distribution activities as a tactic to achieving desire level of customer service and ultimately customer satisfaction. The study provides the connection which establishes physical distribution as an important strategic element in the firm's marketing mix. Additionally, it shows how other marketing mixes are affected by physical distribution considerations.

According to the above previous researches, distribution is an important part of marketing strategy.

### **Integrated Framework of Distribution Channel Design and Distribution Channel Management into Distribution Channel Strategy**

According to previous studies, the distribution channel strategy literature can be divided into design and management aspects (Rangan, Menezes, and Maier, 1992). The channel design (e.g., Williamson, 1985) examines the organization's channel system and the rationale for having channel intermediaries (sales force, agents, distributors, wholesalers, and retailers); whereas channel management explores how channel systems can be handled. The central piece of these studies involves conflict and cooperation (Anderson and Narus, 1990; Stern and Brown, 1969), including how manufacturers and distributors use their power base (Beier and Stern, 1969; Gaski, 1984) to achieve their business objectives (Frazier and Rody, 1991).

McCalley (1992) proposes the concepts of marketing channel which is separated into two parts: 1) the channel distribution structure to ensure manufacturers have appropriate channels to distribute their products consistent with their marketing objectives, and 2) the physical distribution structure to take care of efficiently moving the desired products from the manufacturers to the consumers.

Stren, El-Ansary, and Coughlan (1996) state that distribution channel strategy concerns the firm's decision regarding the type of channel organization to use, the intensity of distribution appropriate for the product or service, and the extent of channel management performed by the firm.

### **Result**

It is expected that channel selection and management indicators in terms of distribution intensity, channel location characteristics, channel control, channel service quality as to product and people may lead to firm's success and also channel performance factors in terms of effectiveness and efficiency. But since it was observed that channel selection and management factors and only efficiency in channel performance which are significantly related to external outcome, it is proposed that food manufacturing firms should study further and find out what areas should be considered in identifying as well as in zeroing in to their target market so that they can successfully attain their expected goals, and where they can provide quality service as to product and people, and at the same time being

flexible from time to time. Also, these food manufacturing firms should look into other factors that could enhance customer satisfaction and loyalty. (Arrows with broken lines refer to areas that should be enhanced in order to be connected fully to the target point, and once completely connected, it now becomes the desired model).

In addition, SMEs should provide criteria for faster decision making. According to important factors in distribution channel strategy findings in this study, the managers should do fast decision making in changing contract conditions concerning distribution system upon demand from target market.

Another one is to provide a guideline for management in strengthening distribution channel strategy. The overall finding offer strong empirical support for the intuitive notion that improving distribution channel selection and management strategies can increase external outcomes. The findings demonstrate the importance of each strategy that can help firm make faster decisions on distribution channel selection and management strategy in the right directions, including striving to meet management’s desired performance level, clearly convincing how to select and manage their channel effectively and efficiently in channel performance.

Basing on the result of the study, the model that could be formulated to improve the distribution potentials of SMEs that can lead to firm’s success is the following

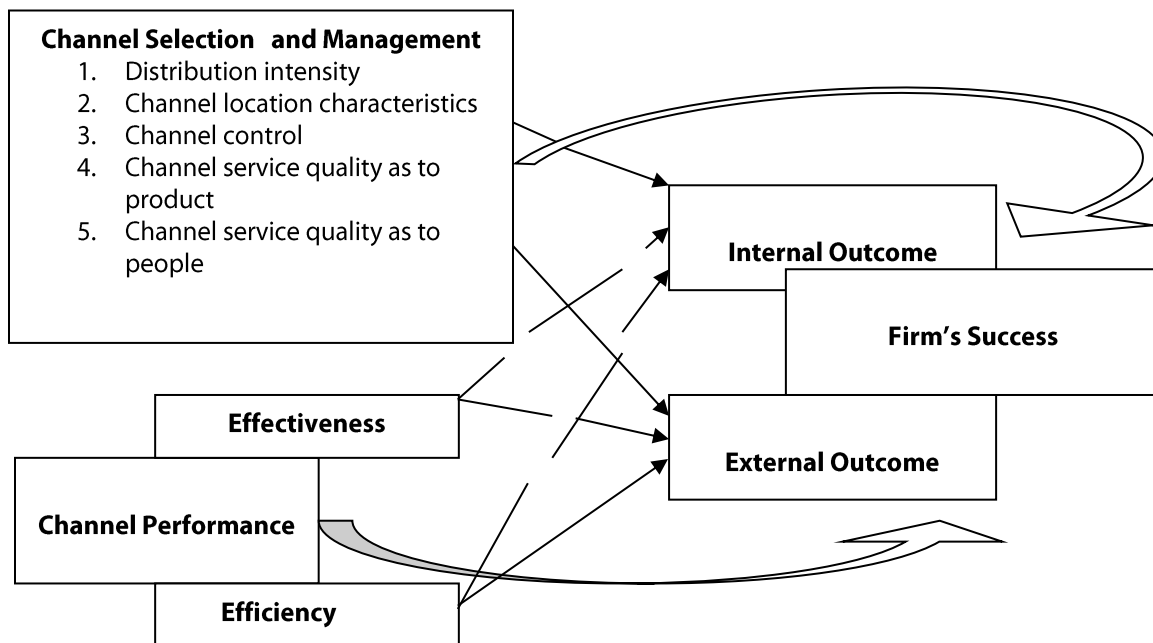


Figure 1: The distribution channel strategy model

## Summary

### Profile of the respondent companies

The respondents of the study were mostly managers of the food companies involved. More of the respondent food companies belong to beverage, followed by pickle food, snack and candy and vegetable and fruits.

When classified by the number of total employees, more of the companies have 50 & below employees. More of the companies again, when classified by the number of years in operation, more of them belong to 10 years and below. When classified by the capital stock, the percentage of those with 100 001 – 200 000 baht and 200 001 – 300 000 baht are more or less the same.

It was noticed that domestic sale of the food manufacturers increased in 2006 compared to 2004 and 2005. International sales of these food manufacturers, decreased in the year 2006 compared to 2004 and 2005. For average sale 2006, figures (range 1-20 M baht) are higher compared to 2004 and 2005.

### Level of Distribution Channel Selection and Management

For distribution intensity, food products distributed evenly got the highest mean. For location characteristics, convenience to reach got the highest mean compared to others. Also for channel control, marketing mix got the highest mean. For channel service quality as to product, correct delivery on all items ordered, got the highest mean, whereas for channel service quality as to people, taking care of the customer equally got the highest mean.

As to company's present distribution channel to the customer, the first channel which follows the path from producer, distributor, wholesale, retail then customer, so far got the highest percentage. This means that most of the products are distributed this way.

### **Differences in the Level of Distribution Channel Selection and Management**

Results show that there are significant differences between distribution intensity and channel service quality as to people, channel location characteristics and channel service quality as to people, channel control and service quality as to people and channel service quality as to product and channel service as to people.

### **Extent of Channel Performance**

To improve effectiveness of the companies, it was noted that majority are willing to effect changes just to build good relationship with the market. Also to improve efficiency, the companies are very willing to save in operating cost as indicated by its highest mean.

### **Differences in the Extent of Channel Performance**

There is a significant difference in the extent of channel performance in terms of efficiency and effectiveness of the firms.

### **Level of Firms' Success**

The overall mean for external outcome indicating level of firm success as to market share, profitability and sales is 4.35, with a descriptive equivalent of very high. For internal outcome, the overall mean is 4.83 with an equivalent of very high also, describing level of firm success as to satisfaction and loyalty.

### **Differences in the Level of Firms' Success**

There is a significant difference between external outcome and internal outcome. Food industries appreciate more the internal outcome of the business rather than the external one.

### **Relationship between Distribution Channel Selection and Management and External Outcome**

Distribution channel selection and management is significantly related to firm's success in terms of external outcome.

### **Relationship between Distribution Channel Selection and Management and Internal Outcome**

Distribution channel selection and management is not significantly related to firm's success in terms of internal outcome of the business.

### **Relationship between Channel Performance and External Outcome**

Channel performance in terms of effectiveness had no significant relationship with external outcome, but for efficiency, it had a significant relationship with external outcome of the business.

### **Relationship between Channel Performance and Internal Outcome**

Channel performance in terms of effectiveness and efficiency has no significant relationships with the internal outcome of the business.

## **Conclusions**

### **As to profile of the respondent companies**

The largest group of food business companies in the northern part of Bangkok is beverage Food Company, followed by pickle food group. Many of the food companies are quite new in their business, usually 10 years & below. More of the food companies in Thailand are small and medium enterprises as indicated by their number of employees and capitalization.

### **As to the level of distribution channel selection and management**

These food companies have very good distribution strategies as to distribution intensity, channel control; channel service quality in terms of product and people, which all got a descriptive equivalent of very high except channel location characteristics with equivalent of high only.

**As to differences in the level of distribution channel selection and management in terms of distribution intensity, channel location characteristics, channel control and channel service quality as to product and people**

Channel service quality as to people have significant differences to all the other four indicators.

**As to extent of channel performance of the firms**

Food industries concerned are very willing to change their contract conditions just to meet whatever changes that are needed to meet demands of the present time just to sustain their business. Firms show willingness to effect some changes to improve efficiency but have to save to replace for the expenses incurred for those changes for more efficient results. The extent of channel performance of the firms in Northern Thailand in terms of effectiveness and efficiency is very high.

**As to differences in the extent of channel performance**

There is a significant difference on the extent of channel performance of the firms in terms of effectiveness and efficiency. Efficiency is much higher (in terms of mean values) than effectiveness.

**As to the level of the firms' success**

External outcome and internal outcome of the food industries in Northern Thailand are all very high, in terms of market share, profitability and sales, and satisfaction and loyalty respectively.

**As to differences in firms' success**

There is a significant difference between external outcome and internal outcome. Food industries appreciate more the internal outcome of the business rather than the external outcome.

**As to relationship between distribution channel selection and management and external outcome.**

Except distribution intensity, location characteristics, channel control, channel service quality as to product and channel service quality as to people are significantly relating external outcome.

**As to relationship between distribution channel selection and management and internal outcome.**

Distribution channel selection and management do not have significant relationship with firm's success in terms of internal outcome.

**As to relationship between channel performance and external outcome**

There is no significant relationship between effectiveness and firm's success in terms of external outcome, but efficiency had a significant relationship with firm's success in terms of external outcome of the business.

**As to relationship between channel performance and internal outcome**

Channel performance in terms of effectiveness and efficiency has no significant relationship with firm's success in terms of internal outcome.

**References:**

- Aaker, D.A. and Kumar, V. and Day, G.S. (1997). *Correlation Analysis and Regression Analysis, Marketing Research Sixth Edition*, John Wiley and Sons Inc.
- Anderson, J. and Narus, J. (1990). "A Model of Distributor Firm and Manufacturer Firm Working Partnerships," *Journal of Marketing*, 4(January), 42-58.
- Bandopadhyay (2001), *Marketing Management: Text and Cases*, Homewood, IL: Richard D. Irwin.
- Beinstock, C., Mentzer, J. and Bird, M. (1997). "Measuring Physical Distribution Service Quality," *Journal of Academy of Marketing Science*, 25(1) p.31-44.
- Boulding, W. and Staelin, R.(1993). "A Look on The Cost Side: Market Share and The Competitive Environment," *Marketing Science*, 12(2), p.144.
- Brown, S. (1993). "Retail location theory: evolution and evaluation", *The International Review of Retail Distribution and Consumer Research*, 3(April), p.185-229.
- Brown, S., Cron, W. and Leigh, T. (1993). "Do Feelings of Success Mediate Sales Performance-Work Attitude Relationships?," *JAMS*, 21(Spring 2), p.91-100.

- Bucklin, L. (1996). *A Theory of Distribution Channel Structure* (Berkeley, Calif.: IBER Special Publications Coughlan, A., Stern, L., Anderson, E. and El-Ansary, A. (2001). *Marketing Channels*, 6<sup>th</sup> Edition, Prentice Hall, Upper Saddle River, NJ.
- Cravens, Davis W. (1994), *Strategic Marketing*, Fourth Edition, Richard D. Irwin Inc.
- Daugherty, P., Stank, T. and Ellinger, A. (1998). "Leveraging Logistics/distribution capabilities: The effect of logistics on market share," *Journal of Business Logistics*, 19(2), p.35-51.
- Davies, G. (1991). *What Next?*, Arrow, London, 1991. Day, G.S. (1990). *Market Driven Strategy, Processes for Creating Value*, The Free Press, New York, NY.
- Ellinger, Emerson, C. and Grimm, C. (1998). "Logistics and Marketing Components of Customer Service: an Empirical Test of the Mentzer, Gomes and Krapfel Model," *International Journal of Physical Distribution and Logistics Management*, 26(8), p.29-42.
- Frazier, G. and Rody, R. (1991). "The Use of Influence Strategies in Inter-firm Relationships in Industrial Product Channels," *Journal of Marketing*, 55 (January), 52-69.
- Gabrielsson, M., Kirpalani, M. and Luostarinen, R. (2002). "Multiple channel strategies in the European personal computer industry," *Journal of International Marketing*, 10(3), p.73-95.
- Gaski, J. (1984). "The Theory of Power and Conflict in Channels of Distribution," *Journal of Marketing*, 48 (Summer), 9-29.
- Ghosh, A. and McLafferty, S.L. (1987). *Location Strategies for Retail and Service Firms*, D.C. Heath, Lexington, MA.
- Ha, L. (1996). "Advertising Clutter in Consumer Magazines: Dimensions and Effects," *Journal Advertising Research*, 36(July/August), p.76-84.
- Heide, J. and George John, G. (1990). "Alliances in Industrial Purchasing: The Determinants of Joint Action in Buyer-Supplier Relationship," *Journal of Marketing Research*, (February), p.24-36.
- Hjorth-Anderson, C. (1984). "The Concept of Quality and the Efficiency of Markets for Consumer Products", *Journal of Consumer Research*, 11(2), 708-718.
- Hunt, S. and Morgan, R. (1995). "The comparative advantage theory of competition," *Journal of Marketing*, 59(2), p.1.
- Ingene, C.A. and Lusch, R.F. (1999). "Estimation of a department store production function", *International Journal of Physical Distribution & Logistics Management*, 29(7/8), p.453-64.
- Jacobson, R. and Aaker, D. (1989). "The Strategic Role of Product Quality," *Journal of Marketing*, 51(October), p.31-44.
- Klein, S., Frazier, G. and Roth, V. (1990). "A transaction cost analysis model of channel integration in international markets," *Journal of Marketing Research*, 27 (May): 196208.
- Krapfel, R., Salmond, D. and Spekman, R. (1991). "A Strategic Approach to Managing Buyer-seller Relationships," *European Journal of Marketing*, 25(9), p.22-37. Lakshmanan, T.R. and Hansen, W.G. (1965), "A retail potential model", *Journal of the American Institute of Planners*, Vol. 31, p.134-43.
- Lilien, G., Kotler, P. and Moorthy, K. (1992). *Marketing Models*, London: Prentice Hall International S. 650-675.
- Magnet, M. (1992). "Meet the New Revolutionaries," *Fortune*, 125 (February), 94-101.
- Manrodt, K. and Davis, F. Jr. (1992). "The Evolution to Service Response Logistics," *International Journal of Physical Distribution and Logistics Management*, 22(9), p.3-10.
- McCalley, R. (1992). *Marketing Channel Development and Management*, Foreword by Ray A. Goldberg, Westport, Connecticut, London.
- Mentzer, J., Flint, D. and Hult, T. (2001). "Logistics Service Quality as a Segment-Customized Process," *Journal of Marketing*, 65(October), p.82-104.
- Mols, N., Nikolaj, P., Bukh, D. and Neilsen, J. (1999). "Distribution Channel Strategies in Danish Retail Banking," *International Journal of Retail & Distribution Management*, 27(1), p.37-47.
- Naumann, E. and D.J. Lincoln, D.J. (1991). "Non-Tariff Barriers and Entry Strategy Alternatives: Strategic Marketing Implications," *Journal of Small Business Management*, 29(2), p.60-70.
- Osborne, K. (1996). "The channel integration decision for small – to medium – sized manufacturing exporters," *International Small Business Journal*, 14(3), p.40.
- Paraneswaram, R., Mohan, P. (1994). "Facets of Country of origin image: An empirical assessment," *Journal of Advertising*, 23(1), p.43.
- Peracchio, L. and Tybout, A. (1996). "The Moderating Role of Prior Knowledge in Schema-Based Product Evaluation," *Journal of Consumer Research*, 23(December), p.177-92.
- Pisharodi, M. and Langley, C. Jr. (1990). "A Perceptual Process Model of Customer Service Based on Cybernetic-Control Theory," *Journal of Business Logistics*, 11(1), p.26-48.
- Pisharodi, R. Mohan, P. (1994). "Preference for Supplier When Supplier and Customer Perception of Customer Service Levels Differ," *Logistics and Transportation Review*, 30(1), p.31-54.
- Porter, M.E. (1991). *Know Your Place*, Inc., 13 (September), 90-93.

- Rangan, V., Menezes, M. and Maier, E. (1992). "Channel Selection for New Industrial products: A Framework, Method, and Application," *Journal of Market*, 56(July), p.69-82.
- Robicheaux, R. and Coleman, J. (1994). "The Structure of Marketing Channel Relationship," *Journal of Academy of Marketing Science*, Winter, p.38-51.
- Rosenbloom, B. (1995). *Marketing Channels: A Management View*, Fifth Edition, The Dryden Press, Harcourt Brace College Publishers.
- Sherwood, C. and Nordstrom, R. (1990). "A Customer Satisfaction Approach to Introducing Physical Distribution in the Principles of Marketing Course," *Journal of Marketing Education*, 12(1), p.40.
- Stasch, S. and Ward, J. (1997). "Characteristics of competing marketing strategies when defining market leadership," *Journal of Strategy Marketing*, 5, p.23-49.
- Tynan, C. (1995). "Marketing and Entrepreneurship in SMEs: An Innovative Approach," *European Journal of Marketing*, 29(7), p.85.
- Weitz, B. and Jap, S. (1995). "Relationship Marketing and Distribution Channels," *Journal of the Academy of Marketing Science*, Fall, p.305-320.
- Williams, M.L, W. Tsai, and D. Day (1991), "Intangible Assets, Entry Strategies, and Venture Success in Industrial Markets," *Journal of Business Venturing*, 6, p.315-33.
- Williamson, K., Spitzer, D. Jr., and Bloomberg, D. (1990). "Modern Logistics Systems: Theory and Practice," *Journal of Business Logistics*, 11(2), p.65-88.
- Yeoh, P. and Jeong, I. (1995). "Contingency relationships between entrepreneurship, export channel structure and environment: a proposed conceptual model of export performance," *European Journal of Marketing*, vol. 29, p.95-115.
- Yoo, B., Donthu, N. and Lee, S. (2000). "An Examination Of Selected Marketing Mix Elements And Brand Equity," *Academy of Marketing Science, Journal, Greenvale*, 28(Spring), p.195-211.
- Zeithaml, V., Berry, L. and Parasuraman, A. (1996). *The Behavioral Consequences of Service Quality*. *Journal of Marketing*, 60(April), p.31-46.