A Simulation Model for Managing Marketing Multi-Channel Conflict

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ABSTRACT

In today’s global competition, companies are obliged to go to market using multiple channels of strategy for various reasons. However, channel conflict is inevitable in multi-channel structures causing sharp decreases in the demand of one or more channels. A system dynamic model was developed to simulate the complex multiple channel structure and factors that affect the demand and channel conflict; aiming to simulate the situation of the supplier decision maker who takes fast decisions in one of the various variables that he controls to achieve maximum profits and minimum channel conflict. The model was validated using real data of a major consumer electronics supplier in Egypt that has traditional distributors and Hypermarkets as two different channels. Various policies of inventory allocations in each channel and different promotion rates were tested in order to achieve the objective of maximizing supplier profit and minimizing channel conflict.

Keywords: Channel Conflict, Consumer Electronics, Distribution, Hypermarkets, Multi-Channel, Simulation, System Dynamics, Wholesales

INTRODUCTION

Today, intense global competition is pushing companies to go to market using a multichannel strategy in which they sell their products through two or more channels of distribution (Gassenheimer et al., 2006; Webb & Hogan, 2002). The popularity of the multichannel strategy can be witnessed through the increasing number of companies adopting it for different reasons; to increase market share, to cut costs down, to cover different marketing segments, or to meet difference in consumer behaviors (Gassenheimer et al., 2006; Sa Vinhas & Anderson, 2005). In their attempt to do so, however, decision makers are trapped in a dilemma. From one side, they are obliged to introduce new channels or new channel members that meet new trends in consumer buying behaviors and, from the other side, they are faced with ‘channel conflict’ generated as a result of the adding of these new channels, especially from old traditional distributors.

DOI: 10.4018/ijsda.2012100103

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In such complex situation, decision makers must take fast decisions concerning many variables to achieve an optimal channel structure that will generate maximum profit and, concurrently, minimum channel conflict. The difficulty of doing so increases due to the complicated network of interactions among these variables. Thus, the need for a means to simulate such complex structure and that allows decision makers to test the effect of different alternatives on channel conflict and on total profit become apparent.

This article presents a reliable generic system dynamics simulation model that helps decision maker in a supplier company to optimize their company channel structure; to achieve maximum profit with minimum channel conflict. The model is designed to act as a simulator where the decision maker tests any new policy and any decision that is thought of in the organization to see all its effects before applying that policy or decision in reality. To test its validity and to demonstrate its applicability, the model was applied to a real case study of a consumer electronics supplier in Egypt that has the traditional distributor responsible for distributing the products to traditional retailers, and a new hypermarket channel, targeting the customers who purchase from the hypermarkets, enjoying the privilege of buying all their needs from one store.

Following the introduction section, the rest of this paper is organized as follows. First, we briefly review work related to multichannel conflict. The developed simulation model is presented afterwards followed by a real-life case and finally, discussions and conclusions are given.

LITERATURE REVIEW

More and more companies become multi-channel operators (Ganesh, 2004; Coelho et al., 2003). Adopting a multichannel strategy has become a must-be for companies to have different advantages that include: increased reach (Moriarty & Moran, 1990), maximized profits (Montoya-Weiss, Voss, & Grewal, 2003), increased customers’ exposure and access to a marketer’s offerings (Rangaswamy & Van Bruggen, 2005), increased sales volume (Kumar & Venkatesan, 2005), and increased market presence (Sharma & Mehrotra, 2007). The payoff of such advantages, however, can be highly affected due to the appearance of the so-called ‘channel conflict’ leading to decreased sales. Due to their crucial effect on organizations, issues related to channel management and channel conflict became the topic of a large number of research articles. The majority of these articles, however, followed a qualitative approach in which no robust quantitative model that support decision making was developed and, furthermore, the majority of research related to multichannel strategy has been focusing on the overall strategy (e.g., Myers, Pickersgill, & Van Metre, 2004; Stone, Hobbs, & Khaleeli, 2002; Payne & Frow, 2004). This section sheds the light on some of the cited work related to channel conflict.

Moriarty and Moran (1990) proposed a model that helps companies identifying their optimal multichannel strategy by answering the question of what mix of channels can best accomplish the assortment of tasks required. Their proposed solution was to break the demand generation tasks both within and across a marketing system. They noted that channels are not the basic building block of a marketing system, but marketing tasks are. They, further, suggested breaking the demand-generation into tasks starting from lead generation, then qualifying the sales, presales, sales closing, post sales services, and account management.

A formula for measuring conflict was introduced by Coughlan et al. (2001). This formula measures channel conflict as the sum-product of conflict importance, frequency of occurrence, and intensity of dispute. The formula became the base for several researches such as Bradford et al. (2004) and this research. Webb (2002) investigated the effect of introducing the internet
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