

Modeling an Integrated and Localized Distribution Channel in FMCG Industry: Investigating Factors that Influence Choice of Channel Distribution Structure

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Abstract:

The growing number of different species of distribution in different industries and transition from single - channel distribution to multi - channel and omni-channel distribution has made it easy for consumers to purchase. It also brings management concerns to marketers in upstream and downstream sectors. The aim of this paper is to present an integrated and localized model for distribution in the FMCG industry due to the micro and macro-economic characteristics and their impact on this industry and production type of goods. This research is a descriptive correlational study. The population of the study consisted of all distribution managers and experts in FMCG industry who were selected through a random sampling method. A standard questionnaire was used to collect the required data and the data were analyzed using SEM and PLS software. Based on investigating the research hypotheses, the results indicate that there is a positive and significant relationship between macroeconomic variables and micro-economic ones. The results show that there is significant relationship between macroeconomic variables as well as microeconomic ones on firm status in industry. The position of company in industry on the chosen distribution channel has a meaningful effect and the type of goods produced, mediates this relationship. The results could implicate in all FMCG industries and their distribution channels.

Keywords: Distribution channel, Channel structure, Distribution strategy, the FMCG industry.



I. INTRODUCTION

Over the last decades, marketers witnessed big - level economic developments with the potential impact on marketing channels: growth and recession, globalization of consumption, increased competition, and an increase in internet use (Dost, 2015). However, marketing channels are related to each other by forming a marketing channel system in the big view. Such a marketing channel is interacting with the economic system; thus the dynamics of the marketing system may also be an introduction to the dynamics of the economic system (Jaffe et al., 2007). A marketing channel, offering company products and services to customers, is one of the critical success factors in a marketing system for achieving marketing goals (Ozvirmidokuz et al., 2015). In marketing channels, the various forms that connect the producers and end customers are the wholesalers or distributors, retailers, dealers, and brokers (Krafft et al., 2015). Multiple distribution channels and omni-channels are the terms that marketing professionals and academics generally use in the field of retailers or suppliers who sell directly to customers via the catalogue, offline and online channels (Ailawadi and Farris, 2017). Multi-channel marketing environment has become increasingly common in recent years. Companies and their customers can communicate via stores, e-catalogues, e-mail and in recent years' mobile platforms, and multi - channel marketing has become an important tool to encourage customers to buy more through more engagement and build sustainable relationships with customers (Chang and Zhang, 2017). As a main route to deliver services to end - users, sales through marketing channels (e. g. wholesalers, retailers, voters) accounts for about one - third of the GDP (Hyman, 2015). To manage this important issue, the distribution channel structures have to be associated with high adaptability to the business environment, channel mediators and the development of various distribution species (Watson et al., 2015). Knowledge about the system interactions on the macro level and in particular about the path and power of causal pressure among the system variables is in favor of many actors: a manager of marketing channel observes and evaluates the changes in the channel structure to their activities or system forces in better manner as the working environment of the decision maker at a level is often influenced by the characteristics of the marketing system at a higher level.

If a company does not know its own marketing channel, it can't manage it. First, the company must collect data from its marketing channel. The company then must analyze the data in order to have a competitive advantage in this sector (Ozyirmidokuz et al., 2015). Selection of a suitable combination of criteria for monitoring and managing distribution is a challenge for

even expert marketers and does not make it easier (Ailawadi and Farris, 2017). Marketing channels are one of the most important elements of any value chain and their importance stems from the fact that significant amounts of economic outputs of a country flows through them (Kraft et al., 2015).

As shown in the Bucklin (1973) literature, researches papers have tended to employ three broad categories of research - conceptual, empirical, and models of microeconomic - to study the issues between the media, namely, power independence, communication outcomes, conflicts, and strategic choices of manufacturers, according to channels such as channel structure, have choice, coordination and control. The increase in the types of channel formats, and the advancement of single - channel formats to multi-channel and omni-channel one, has made it easier for buyers, but for marketers it has raised concerns in upstream and downstream (Ailawadi and Farris, 2017). A foreign investor who enters a rapidly evolving market wants to assess how the national marketing network structure will be developed depending on the system around it (Dost, 2015). The CEO of a key marketing network wants to develop a broad view of the role that plays in an economic system and even develops what changes in the system states at a macro level that it could reachable by personal or coordinated action (Webster and Lusch, 2013).

It is no wonder that academic research on marketing channels, inter - organizational relationships, and operations have increased since the initial work of marketing scholars such as Lewis Stern and Lewis Bucklin (Kraft et al., 2015). This has led scholars investigating the distribution channels theories (Wong et al., 2013), structures (Yap et al., 2013; Kim et al., 2011) and various strategies (Guo and Iyer, 2013) to explain the fundamental changes made in distribution channels (Watson et al., 2015). While several research surveys have been published to date, none have presented an integrated and localized model for the distribution channel due to the macro and micro-economic conditions. the aim of this study is to identify the micro and macroeconomic factors and their impact on the firm status and finally selecting suitable structure of distribution by it according to the type of produced goods.

Literature Review

Theoretical background

Choice of the distribution channel is one of the most important decisions that consumers adopt when buying a product or service. This process starts with the search for information on the product and evaluation of alternative alternatives and ends with the adoption decision making with regard to the product type (Ansari et al., 2008). Considering the different types of



distribution channels, online stores, catalogs, sales forces, third - party representatives, call center) companies display complex shopping behavior when selecting a distribution channel (Lu et al., 2017).

In a study conducted by Mahajan et al., (2005), they concluded that while some customers may perform all their shopping activities only through one channel, others may benefit from multiple channels to meet their needs. For example, customers may use online channels to look for information and visit the store for a possible option, and then order their products via telephone. Such complexity increases in multi-channel environments, where a vendor may supply products from several channels (Lu et al., 2017). In a research entitled strategic choice in a distribution channel, Karray and sigue (2018) examine the selection of websites in marketing channels, and their findings suggest that the selection of an optimal website depends on the online platforms of a product, effectiveness of online communication of a company, and cross - online effects between online and offline channels. Tang et al. (2017) investigated the impact of functional conflict on marketing capacity in distribution channels and results indicate that: 1) Functional conflict can stimulate the sharing of inter organizational knowledge. 2)Knowledge sharing plays a mediator role in the relationship between functional conflict and marketing capabilities. 3) Relationship quality positively moderates the relationship between functional conflict and knowledge sharing but negatively affects relationship between knowledge sharing and innovation capacity. Neslin et al. (2006) presented six fundamental factors for channel selection. marketing efforts (e-mail, catalog and marketing communication), channel features (ease of use, price, privacy, security and quality of information), social impact (social mental norms, ease of movement among channels), situational factors (physical, social, temperature adjustment) and individual differentiation (demographics, past experiments). recently, in a research, the determinants of channel selection are divided into four categories: channel factors (features and channel shape), purchase characteristics (product group and purchase size), external effects (social effects) and individual differences (demographics) (Trenz, 2017). marketing channels make it possible to exchange information and products between producers and customers (Dost, 2015). This exchange may occur through one or more intermediaries. The channels are formed through its actors 'interactions. Customers form the channel structure through their needs in time and space and companies respond to these needs via channel management (Van Bruggen et al., 2010). Today a marketing channel is described based on retailer / wholesaler ratio and online/ offline ratio (Verhoef et al., 2007).

Ailawadi and Farris (2017) discussed the management of multi-channel and omni-channel distribution management and expressed a framework for managing the distribution and measures associated with each element of the frame work. Previous theoretical studies connected distribution structure with the type of commodity. In fact, the description of a marketing channel system depends on its structure (Jaffe et al., 2007). A marketing channel system, just like a general marketing system, consists of several layers, including micro - level and macro level. While macro levels are usually separated from the sum of lower levels, they have an impact on their condition (Webster et al., 2013). As a result, marketing channels play a critical role in the marketing and economy system. As a result, marketing channels form a system alone and describe system structures such as retailer and wholesaler or online/offline (Dost, 2015). Culture is especially important when selecting traditional or online channels (Lu et al., 2017). Although access to information on online channels is very high but information validity, the lack of specific mechanism for identifying the physical characteristics of the product (Trenz and Berger, 2013), concerns of privacy in online payments (Turban et al., 1999), concerns of privacy in providing information leads to increased risk and uncertainty that prevents customers from selecting online channels (Pavlou, 2003). Some studies emphasize the positive effects of using multiple channels (Wagner et al., 2013) while others are looking at its negative aspects. Some focus on introducing mobile channels among queries that only run through websites (Huang et al., 2016). Meanwhile, some researchers (Watson et al., 2015; Krafft et al., 2015) addressed the developments of distribution channels, trends and directions for future research and addressed a comprehensive review of all research studies on marketing channels from 1980 to 2014. Dost (2015) explored the nonlinear network of marketing channels and found a non - linear and internal subsystem that includes the online / offline structure of the retail channel. the channel structure hetween the transformation retailer/wholesaler and its consumption and competitive dynamics in the economic system.

Experimental Background

It has been suggested that repeat purchase from the internet channel is rapidly decreasing, while the total revenue increases following the retailer's mobile store. Some studies have also shown that acceptance of multiple channels may not lead to revenue increases. Further research suggests that the choice of a distribution channel is not easy to select. There are also some limitations, such as the existence of a suitable medium, traditional patterns of channels, product characteristics, firm financial status, competitive



strategies and customers 'dispersion (Silva, 2008). Similarly, Mcvey (1960) stated that selection and composition of distribution channels are not only under control of an organization and has limitations.

Webster (1976) after observing 31 manufacturers in 8 US states concluded that the current market shares of the manufacturer and intensity of competition, technical knowledge and differentiation of products is effective in selecting the distribution channel. Lilien (1980) also identified the company size, order rate and technical complexity of purchase from effective factors (Silva, 2008). In another study regarding the factors influencing the selection of product distribution channel in small companies, around 60 companies were surveyed and found that smallest companies use direct channels to distribute their products (Kamau, 2001). Zivenge and Karavina (2012) study factors influencing the selection of distribution channels by farmers in Zimbabwe, and their results indicate that the use of informal channels is the first choice of farmers than official channels. In another study, as a decision - making framework for evaluation of multiple marketing channels, the results led to a clear, logical, and practical model in Cisco (Chen et al., 2013). Wang and Zhang (2016) investigated the effect of fitness of value on the relevance, marketing channel suggesting organizational values lead to acceptable behavior and motivational dynamics and in their study they explored the values generated between the firm and its initial distributors. The study on the 278 companies concluded that the fitness of perceived value will affect the performance of the distributor. Moreover, in the research on retailer and manufacturer advertising programming in a marketing channel, the results showed that a non coordinated channel from low prices in retail would be more inclusive, at a time when these activities are integrated and cooperated (Herrán and sigue, 2017). Trihatmoko et al. (2018) explored the strategy deployment at the competitive business market in the FMCG industry, and the study investigates the activities undertaken in the distribution management, which is related to product positioning in the market, and the results indicate that product deployment depends on the following: 1) Company strategic policies 2) Number, type and roles of vendors (3) product distribution level 4) Development of customer coverage. Adesoga et al. (2019) investigated channel strategies and marketing performance of FMCG in Nigeria, suggesting that channel strategies have a significant impact on marketing performance of FMCG and suggested that management should pay significant attention to this. There is little research regarding the provision of an integrated and localized model in FMCG industry in the theoretical and experimental level, and this is a gap in the distribution of goods with unique characteristics in the industry.

The aim of this study is to identify the effective elements in creating an integrated and localized model in the FMCG industry and to examine the significance of the relevance of these factors. To develop hypotheses and conceptual models, In the quantitative part, considering that the type of research is descriptive -correlation, independent variables, dependent and moderating variables are defined and we examine the significance and intensity of relation of the variables in the model. Considering that the purpose of this study is to present an integrated and localized model of distribution channel in the FMCG industry, the below conceptual model presented in figure 1. and the research hypotheses are:

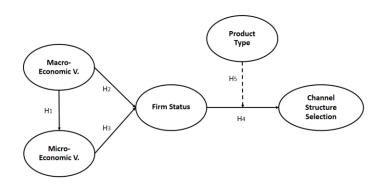


Figure 1. Conceptual model of research

Hypothesis 1: macroeconomic variables have a significant effect on the micro-economic variables.

Hypothesis 2: macroeconomic variables have a significant effect on firm status.

Hypothesis 3: micro-economic variables have a significant effect on firm status.

Hypothesis 4: the firm status in industry has a significant effect on the choice of distribution channel.

Hypothesis 5: The type of commodity produced moderates the relationship between the firm status and the selected distribution channel.

II. METHODOLOGY

The study population consisted of all managers, wholesalers, retailers and distribution representatives of Kaleh dairy products that were distributed randomly in accordance with the cochran's sampling formula in definite population. 384 questionnaires, including 40 questions, were distributed randomly. To evaluate the content validity ratio(CVR) of questionnaire based on the minimum acceptable level of questionnaire due to the number of experts, 15 questionnaires were distributed between the experts and the results were presented in Table 1.



Table 1. The CVR of the questionnaires distributed among the experts

C	questi	С	questi	C	questi	С	questi
0.7	Q31	0.8	Q21	0.7	Q11	0.7	Q1
0.7	Q32	0.7	Q22	1	Q12	0.7	Q2
1	Q33	0.7	Q23	0.7	Q13	0.8	Q3
0.7	Q34	0.7	Q24	0.8	Q14	1	Q4
0.8	Q35	0.8	Q25	0.7	Q15	0.7	Q5
0.8	Q36	1	Q26	0.8	Q16	0.7	Q6
0.8	Q37	1	Q27	0.7	Q17	0.7	Q7
0.7	Q38	0.8	Q28	1	Q18	0.8	Q8
0.8	Q39	0.7	Q29	0.7	Q19	0.8	Q9
1	Q40	0.8	Q30	0.8	Q20	0.7	Q10

The Cronbach's alpha coefficient on the basis of the independent variables, mediator and the dependent variables in Table 2 was given as follows:

Table 2. Cronbach's alpha coefficient and

convergent validity

	AV E	Comp osite Relia bility	R Squ are	Cronb ach's Alpha	Comm unality	Redun dancy
Firm status	0.6 591	0.852 8	0.4	0.742 2	0.6591	0.2114
Macro - econo mic variab les	0.5 345	0.944	0	0.935	0.5345	0

ecor mic variates	10	0.5 302	0.909	0.4 508	0.889 7	0.5302	0.2256
of product		0.7 061	0.905 5	0	0.860	0.7061	0
Sele ed distr ution char el	rib n	0.5 86	0.926	0.3 625	0.908	0.586	0.1718

Table 2 also shows the Communality and R2 values calculated for each variable and its dimensions. The model fitting results show that the fitting index value is equal to 0.493 and is greater than 0.4 and indicates appropriate fitting of the model. Therefore, the data of this study are well-fitted to the theoretical structure and factor of the research, indicating that the questions are consistent with the theoretical constructs.

In order to investigate the research hypotheses, structural equation modeling (SEM) and partial least squares (PLS) are used, which are presented in detail in the next section.

III. RESULTS

Before referring to the research model, it had to make sure of fitness of the model. The fitness indices of the model are shown in figure 2.



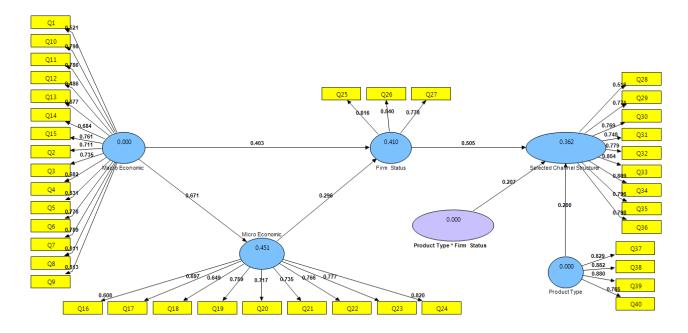


Figure 2. The research model in standard coefficients estimating mode

The results of the factor loads are presented in Table 3, all of which have a 95 % confidence level and verify the validity of the model.

Table 3. Results of factor loads

	Macro	Micro	Firm S.	Selected	Type of
0.1	FV	FV		D Ch	р
Q1	0.5208				
Q2	0.7108				
Q3	0.7354				
Q4	0.6821				
Q5	0.8309				
Q6	0.7781				
Q7	0.7887				
Q8	0.8114				
Q9	0.8135				
Q1	0.7985				
Q1	0.7861				
Q1	0.4856				
Q1	0.677				
Q1	0.6844				
Q1	0.7605				
Q1		0.6083			
Q1		0.6974			
Q1		0.6492			
Q1		0.7586			
Q2		0.7167			
Q2		0.7354			
Q2		0.7658			
Q2		0.7773			
Q2		0.8203			
Q2			0.8158		

Q2	0.840	1	
Q2	0.7784	4	
Q2		0.516	
Q2		0.7708	
Q3		0.7691	
Q3		0.7478	
Q3		0.7791	
Q3		0.8545	
Q3		0.8089	
Q3		0.7961	
Q3		0.7983	
Q3			0.8286
Q3			0.882
Q3			0.8798
Q4			0.7654

In the table 4., the sum of squared observations(SSO) and SSE shows the sum of squared errors for each block of latent variable. CV-Com is considered to be cross validity of communality. If the index of CV-Com is positive for latent variables, the measurement model has a good quality.



Table 4. CV-Com of latent variables

	CV-COM				
Total	SSO	SSE	1-SSE/SSO		
Firm Status	1152	392.6098	0.6592		
Macro E V.	5760	2862.169	0.5031		
Micro E V.	3456	1623.8818	0.5301		

Type of P	1536	451.4929	0.7061
Selected D Ch.	3456	1430.9159	0.586

If the number of samples are more than 120 and the t-values are more than 1.96, it is significant at 0.05 level of error, which is, according to the results from the t-test, all factors on the 95% confidence level are significant, as it could be seen in figure 3.

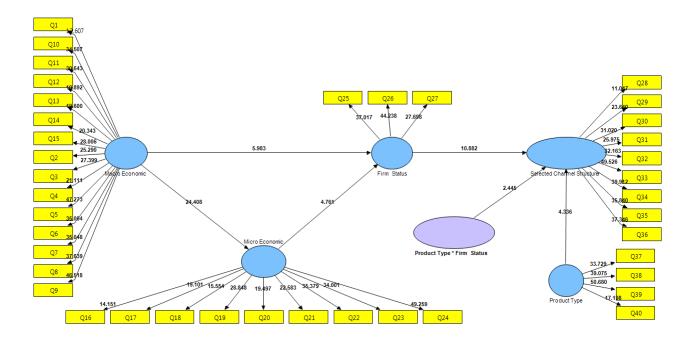


Figure 3. The significance coefficients of the hypothesis in the model

According to the path coefficient and the t-statistic obtained in Table 5, the macroeconomic variables had a significant impact on the micro-economic variables. In addition, macroeconomic variables also have a significant impact on firm structure and there is a significant correlation between the micro-economic variables and the firm's status. Moreover, the firm status in industry has a significant effect on the selected distribution channel and the type of commodity produced moderates this relationship. Due to the positive effect of the existing path coefficient, this effect is positive and significant.

Table 5. Direct effects, t statistic and the results of research hypothesis

of research hypothesis						
Research Hypotheses	Path Coefficient(β)	t statics	Results			
Macro- Economic -> Micro Economic	0.671	24.408	Approved			
Macro- Economic -> Firm Status	0.403	5.983	Approved			
Micro Economic -> Firm Status	0.296	4.761	Approved			
Firm Status -> Selected Channel Structurer	0.505	10.882	Approved			

In order to test the effect of one mediator variable, there is a commonly used test called the Sobel test that is used



to determine the significance of the mediator effect of one variable in relation to the other two variables. When the z-value of the Sobel test is greater than 1.96, it can be said that at 95% confidence level, the mediating role of the variable is significant in the relationship between the independent and dependent variables. Table 6. Presents the significant study of the moderating variable of the research.

Table 6. Significant study of the effect of mediating variable

mediating variable						
Research Hypotheses	Z Value	Results				
Product Type * Firm Status -> Selected Channel Structurer	2.327	Meaningful				

In addition to the Sobel test, the VAF statistic(table 7.) is used to determine the intensity of the indirect effect of the mediator variable. This statistic holds the value between 0 and 1; the closer this value is to 1, the stronger the effect of the mediator variable.

Table 7. Significant study of the effect of mediating variables

Research Hypotheses	VAF
Product Type * Firm Status -> Selected Channel Structurer	0.218

V. CONCLUSIONS

Marketing channel management is an important issue especially in multi - channel environments. Despite the potential benefits of multiple distribution systems, marketing channel managers have to deal with many challenging issues. For managers of the channels, the choice of optimal distribution composition in multiple distribution systems is very bewildering. Because each distribution channel has its own strengths and weaknesses. For example, direct distribution channels may target the same section that is subject to other channels. Thus, the channel conflict as an inevitable issue in managing relations between the channel can be transformed into a constructive or destructive variable and undermines the company's position in the industry. Several factors are involved in shaping the firm's status. Based on the research findings it has been found that the main economic variables at the micro and macro level have a significant and positive effect on firm status in the industry, meaning that the higher the effect of these variables, the higher the position of the company in industry will be affected by these variables. The results are a line with Mcvey(1960) and Ailawadi and Farris(2017) findings. The economic situation in which

the company operates is directly affecting the company's position. according to the research findings, market size and the amount of industrial growth that the company is distributing to its products is not also ineffective as Lillian (1980) and Kamau (2001) confirm these hypotheses. Cultural concord (trenz, 2017) between products and markets has improved consumers opinions about it and culture plays a significant role in the deployment and distribution of a product among communities. The regulations governing interactions were also included in the provision of different solutions in order to provide the product to the client. Also it was confirmed that the technology and its infrastructure in order to provide comprehensive services to customers plays a significant role in stabilizing the firm's position in the industry. The results also in a line with Trenz and Berger (2013) findings.

In order to attract customers and increase market share, marketers often use a few channels to achieve them. As Wagner et al. (2013) mentioned in their survey, it is optimal to use multiple channel to better serve customers. The company also needs to benefit from physical, financial, human or organizational resources to meet the costs of each stage of the distribution channel. Organizational values are of the underlying variables contributing to the firm's foundation and structure. These values also affect organizational culture and the type of corporate governance that influences firm performance. In fact, firms with a very high performance have taken a set of beliefs, principles, and values. All the aforementioned factors play an important role as micro-economic variables on the firm's status in industry and stabilizing it as the findings of this study also acknowledge them.

Companies need their distribution channel to provide their products and services at the right time and place and at least the cost. In this regard, they need to understand their customers 'needs well and adapt them to their competitive strategies. Lack of management of these channels will result in an irreparable conflict among the channel members. Therefore, as the research findings also testify, the firm's position in industry affects how the distribution channel is managed by the firm. This effect has resulted in a proper structural choice to be distributed through a multi-channel distribution or omni-channel distribution of products and services to customers. It should not be ignored that the type of goods produced by the firm does not affect the proper structural selection for distribution. As the findings of this research regarding type of product, especially in FMCG industry with low profit margin, wide distribution network, high brand loyalty, high sales volume and large inventory turnover confirm this issue that the use of a certain type of distribution will not meet customer's needs. The findings are a line with Trihatmoko et al. (2018) findings. Therefore, the



research findings suggest that firms, especially in the FMCG industry with its characteristics, use a multichannel distribution, i.e., the distribution in which target market customers divide into segments and each group will reach to their product or service with a particular type of distribution channel, or omni-channel, i.e., the distribution where each group of customers is served by all means of communication i.e. direct / indirect, online / offline distribution. The combination of these two broad types of distribution, which has been served by a large firm like Walmart, can be considered as a subject for future research.

Limitations

In the present study, despite the full coverage of the objectives mentioned in the research and due to limited access to resources (financial and time), there is an inevitable limitation to conducting research, the most important of which is data limitation. As the case study was held in Tehran city, the results could not be generalized to all customers of the FMCG industry. Future studies could cover the above limitation by considering sampling at a larger level. Since the present research method is mixed one and in the qualitative part of the paradigmatic and process model has been extracted by the researchers through content analysis, it is recommended that future researches also test the validity of this model.

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