The Nature of Evolution and Change of the Marketing Channel and Selected Segments of the Market in the Personal Computer Industry in Ireland

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I hereby certify that this material, which I now submit for assessment on the programme of study leading to the award of M.B.S., is entirely my own work, and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text.

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Date: _11/8/98_

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Abstract

Title: **The Evolution and Changing Nature of the Marketing Channel**
and   **the Market in the PC Industry in Ireland**

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Abstract:

From its inception the computer industry has been characterised by fast paced change and future uncertainty. The rapid growth and profitability experienced by companies in the 70's and 80's have been replaced by:

- Growth, in terms of profitability, is slowing rapidly.
- Competition has intensified as entry barriers and boundaries drop. Product segments have shifted from large scale computers to PCs and workstations.
- Profit margins have been squeezed. The advent of the direct selling manufacturers with their lower costs brought with them 'Price wars', which still continue as prices drop constantly, squeezing margins.

The traditional three tier structure came under threat when Michael Dell pioneered the direct selling model for PCs. It was since copied by other companies most notably Gateway 2000. Even established companies like Digital and IBM experimented with it before returning to the indirect dealer channel. However, now it is not as straightforward as direct and indirect. All the players in this fiercely competitive market are looking to other channels to increase their customer base and consequently their market share.

One of the major trends in the computer industry at present, is the rapidly increasing home consumer market. This customer market is expected to account for up to 50% of the PC market in the next couple of years.

This research seeks to investigate the changing market and marketing channel in this industry. Exploratory interviews were completed with the primary distributors in Ireland who were willing to partake in the study. The purpose of these was to fill in gaps in the literature, and also as a basis for the survey questionnaires in the next two stages of the research. These stages consisted of (1.) a home consumer survey with a structured questionnaire and, (2.) a business consumer survey with a structured questionnaire. These were then analysed according to the research objectives using the statistical program SPSS for windows. Following that several conclusions were made, leading to recommendations to the industry and for further research.

Chapter 1

Introduction to the Study

1.1 Introduction

"Making personal computers used to be a war of engineers, each seeking a cleverer way to solder circuit boards. Now often it is the accountants who rule the battlefield. With PC manufacturing largely reduced to snapping together preassembled parts, the distance between market winner and loser is measured more often in inventory turns and stock management than megahertz and kilo bytes"

<div align="right">(The Economist:Oct.5th,1996:79)</div>

The above statement demonstrates how much the PC industry has changed in the last decade. The consumer no longer needs to be an expert to buy a PC. The PC has almost become a commodity, with most having similar applications and facilities. Therefore, the PC manufacturers have had to compete on different terms. Dell in recent years has entered the market and competed very effectively. Dell pioneered the direct sell channel. Consequently, costs were reduced leading to much lower prices. It also pioneered the idea of quality services and support, which now has to be provided by all companies in order to remain competitive. This is also the area where profits will be made in the future. As competition intensified, margins have been squeezed, which means that little profit is being made in the area of PC hardware. Consequently, the way forward for differentiation and creating competitive advantage is services and support in this industry.

Since the advent of companies like Dell, the channel has been constantly changing. The existing manufacturers, with their much higher prices, felt they should try the direct route which had proved so successful for companies like Dell and Gateway. This venture, however, failed and all reverted to their dealer channels and concentrated on improving them (Evans 1995, Rothery 1994, D'Arcy 1995, Elsden 1994). The direct sellers were a little more successful in entering the indirect route, employing VARs (Value-Added Resellers). However, the overall conclusion was that the "channel conflict" which occurs in these situations will keep each to their own.

Another area of importance which has changed is the actual market. The potential market for PCs is increasing. Some expect the home consumer market to reach up to 50% at least of the total market. Some draw a clear distinction between the home and business markets, and the various applications needed. Others point to the trend of teleworking as blurring the differences between the two. Tim McCarthy of Dell remarks that a lot of companies are buying PCs for their workers for use in the home. Linked to that modem sales 'are really going through the roof', he said. (D'Arcy & Smith:1996:54)

1.2 Rationale for the Study

It was decided to conduct this study on the marketing channel in the PC industry in Ireland for two main reasons. First, the PC industry is very important in the Irish context with some of the largest PC names having their European base here, such as IBM, Compaq, Dell, Gateway 2000 etc. These companies employ increasing numbers of people in this country, and so their continued success and growth is vital to the Irish economy.

Second, little has been written on the marketing channel in the PC industry and the effects it has had on the industry and the market. It has been claimed that, of all marketing decisions, the ones regarding distribution are the most far reaching (Stern & Sturdivant 1987). This premise is based on the fact that companies can easily change or modify prices, advertising campaigns, or even products. However, once distribution channels are set up, a company will find it difficult to change them because it is very costly, there exists a potential loss of control, and competitors many gain a competitive advantage while the change is being employed (Gaski 1986, Rangan, Menezes & Maier 1992). Furthermore, the selection of the best channel to accomplish company objectives is challenging because the alternatives are numerous, marketing goals differ, and the variety of business market segments often requires that separate channels must be concurrently employed (Hutt & Speh 1992).

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Added to this, very few combine the view of both the manufacturer and the consumer, both business and home consumers, to determine what influences the channel. Rangan et al (1992) was one of the first to pay attention to the considerations of customer channel function requirements. Wadsworth (1995) followed this up by applying the model to the timber industry and posed some questions regarding the model. He found some problems, identifying differences between manufacturers' and end-users' evaluations, furthering the need for research to be carried out with both the manufacturer and the end-users with regard to channel requirements.

However, in the meantime, very few have looked at channel requirements from the point of view of the consumer as well as the manufacturer, with little, if any, reference to the PC industry. Consequently, this research involves research from the manufacturers'/primary distributors' perspective, as is the norm in this area, and it also involves primary research from the end-users' viewpoint. This is in order to determine requirements of and from the channel and how they have evolved.

1.3 Research Objectives

Following a critique of the relevant literature and an analysis of the PC industry, the following research objectives were formulated.

Objective One: To determine current patterns in the marketing channel in the PC industry in Ireland and how they have evolved.

Objective Two: To determine changes that are taking place in the different customer markets and the implications they have for the marketing channel.

Objective Three: To determine how the business and home consumer segments compare and/or contrast.

Objective Four: To examine what, if any, differences exist between consumers utilising differing marketing channels.

1.4 Segment Selection

Geographic: The sample selected was based in the Greater Dublin area. Taking the time and cost constraints of this study into consideration it was decided to confine the sample population to Dublin. Although this is not representative of the population of Ireland at large, it does represent one third of the country's population, and 48% of companies.

Demographic: The ideal population for this study is all homes who own personal computers. However, the sample used consisted of those in the AB, C1, C2 social classes. This is due to the small number of homes in the DE social class owning personal computers. Only 18% of homes in Ireland posess personal computers, of which the DE social class only accounts foe 9%. To reach that small number would be time consuming and costly, again a limitation. Consequently, it is accepted that some bias may result.

1.5 Chapter Outline

Chapter 1 is an introduction to the study. It introduces the marketing channel and how it alludes to the PC industry.

Chapter 2 explains the area of distribution and how it has changed since its acceptance as one of the original four P's. It explains the areas of physical distribution and logistics, and also examines the marketing channel. This chapter deals with definitions of the channel, functions of the channel, and channel behaviour.

Chapter 3 examines the nature of change in the marketing channel. This includes changing relationships, changes in channel structure, channel lifecycles, and channel design. It demonstrates how changes are made to the channel and how these changes are managed. It also looks at marketing channel evolution and how this differs from planned changes.

Chapter 4 is a study of individual and organisational purchasing behaviour, relevant to PC purchase for home and business consumers.

Chapter 5 is an analysis of the PC industry, in particular the PC industry in Ireland. It examines industry trends and practices. It also gives a brief summary of the major PC manufacturers based in this country.

Chapter 6 details the steps taken to fulfil the objectives of the study. It provides a rationale for the choice of research paradigm undertaken. It also explains the analysis techniques used for the study.

Chapter 7 examines the findings of both, the exploratory research and the main body of research. It details the findings with regard to the objectives they are fulfilling. It also examines the conclusions under each objective.

Chapter 8 consists of the overall conclusions of the study. From this recommendations are made for the future. Future research in the area is also recommended.

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Chapter 2

The Nature of Distribution

2.1 Distribution - A Neglected Area

2.1.1 Introduction

It is generally agreed that the subject of marketing owes its origin to economists' inquires into the nature of the distributive process at the end of the last century. However despite this early interest, it is only in recent years that the firm has turned its attention to the role which distribution has to play as an element of competitive strategy (Baker(A):1991:339/40). Consequently, it is only now that organisations are looking at distribution as a valuable method of gaining a comptetitive advantage. For example, in 1984 Michael Dell recognised the potential of selling PCs directly to the consumer. This has been hugely successful for Dell and has given Dell a competitive advantage and their own niche in this highly competitive market.

2.1.2 The Value of Distribution

It has been traditionally argued that distribution adds cost not value. Contrary to this, effective logistics and physical distribution management create time and place utility, in ensuring that the right goods and commodities are in the right place at the right time - and at competitive cost (McLeish, Fawcett & Ogden:1994:3). They also stress the importance of high levels of service and quality. Attwood & Attwood (1992:2) back this up by saying that the company must measure distribution value in terms of the service offered to customers and its cost. Value can be increased by providing a better service or reducing the costs.

However, distribution value has not stopped at the service stage. Now there is more and more being asked of distribution. In the past distribution merely serviced the customers' demands. It was up to the producer to develop the product. Now, customers and suppliers are asking distribution to participate more in the product development process (Church 1994).

These increasing and changing demands on distributors mean they must look beyond responding to purchasing requirements, and look towards services that cut costs. They need to add value to the 'time-to-market' cycle. Even the term adding value is changing for distributors. It is becoming less task oriented and more strategic in nature. They need to anticipate customers' needs as well as the overall industry's evolving needs. (Cohodas 1994)

2.1.3 Distribution Effectiveness

As with the value of distribution, distribution effectiveness, both direct and indirect, was frequently overlooked when organisations looked for ways to improve overall performance and productivity. Novich (1991:215) saw that the effectiveness of an organisation's distribution operations is a critical issue for the 1990s for two reasons:
~ Distributors are capturing a steadily increasing share of end user purchases.
~ The cost of direct sales is increasing faster than the profitability of those sales.

However, now distribution effectiveness is becoming an important issue for organisations to consider. The distribution channel must be managed effectively in order to keep costs down through methods such as on time delivery, competitive prices, good quality and services that reduce costs for both the manufacturer and the consumer, thus giving the consumer more value for their money.

2.1.4 The Total Distribution Concept

When looking at distribution and its value and effectiveness, individual definitions for physical distribution and logistics provide an insight into the mechanisms of distribution, but in order to understand the concept fully we must broaden our idea of distribution and look at the 'total distribution concept' (TDC).

A look at the standard definitions given by West (1992:3) explains further:

"Physical distribution involves the planning and controlling of the physical movement of goods from the manufacturer to the end user."

"Logistics involves the planning and control of the interaction of materials management and the distribution of the finished product"

The TDC is further expanded by West (1992:4) as including order administration/information support, distribution channels, physical distribution systems and logistics. TDC involves a series of interlocking factors, each requiring careful consideration before a company can be sure that successful integration can be achieved cost effectively. The complexity of this, ensures that optimising a company's distribution system will be both difficult and demanding, as each element will be affected by company sales, investment and customer expectation. A whole series of trade-offs exist within the individual elements of the system, and across the complete range of distribution activities. Only by understanding these interactions is it possible to develop an effective distribution policy.

The total distribution concept is very valuable in our dynamic business environment. It involves all the elements of the distribution system from the moment of manufacture to the final receipt by the customer (West:1992:4).

In practice, the terms physical distribution and logistics are used interchangeably (Christopher:1995:18). In the literature, also, some refer to physical distribution and logistics as one concept (Bradley 1995). However, Alan West distinguished between the two with the definitions given above. David Mercer (1992) and McLeish *et al* (1994:2) state that materials management and physical distribution management make up the overall logistics management concept. Bowersox, Closs and Helfrich (1986) demonstrate this in figure 2.1 on page 12. They demonstrate that physical distribution is only one element of the logistics system. Therefore, while it can be concluded that the terms physical distribution and logistics may be used interchangeably in practice, physical distribution is, in fact, only one element of the logistics concept.

2.2 Physical Distribution

Both marketing and manufacturing people consider distribution activities as part of their responsibilities. Marketing tends to be responsible for physical distribution, which includes activities such as field warehousing, customer service and to some extent inventory management. On the other hand, manufacturing people manage such logistic activities as traffic, finished goods inventories at the factory, purchasing and overall production scheduling.

It is necessary to distinguish clearly between the concept of 'channels' and the concept of 'physical distribution'. Channels are defined as the vertical marketing system of forces, conditions and institutions associated with the sequential passage of a product or a service through two or more markets, or sets of contractual relationships through which the exchange of goods or services is consummated (Bucklin & Stasch 1970). Marketing channels have also been viewed as 'sets of interdependent organisations involved in the process of making a product or service available for use or consumption' (Stern & El-Ansary:1988:3). Physical Distribution on the other hand, is viewed as 'the functional area of marketing associated with inventory and transportation, or the temporal and spatial inputs to the logistic system within the channel' (Baker(B):1991:208).

2.2.1 Marketing and Physical Distribution

"There are two aspects to any distribution channel - a commercial one, and a physical one. The former is linked more closely with marketing, the latter to logistics and distribution management" (Fawcett, McLeish & Ogden:1994:19).

The relationship between marketing and physical distribution is not clearly defined. Some authors (for example, Kotler 1967) include physical distribution within a broad definition of marketing, while others (for example, Stewart 1965; Wentworth 1976) consider marketing and physical distribution to be separate though possessing inter-related activities. Kotler(1967) distinguishes broad and narrow definitions of physical

distribution. The broad definition embraces decisions on the number of outlets to be supplied and choice of intermediaries, as well as the physical organisation of transport and storage operations. The narrow definition assumes that the basic framework of outlets and intermediaries is already established, and sees the role of physical distribution to be the efficient movement of goods through these predetermined channels.

2.3 Logistics

The Concise Oxford Dictionary defines logistics as 'the movement, storage and supply of troops and equipment'. Chambers Dictionary defines it in a military context too. Having previously modelled its basic management style and structure along army lines, industry has again slightly adapted another military term to include the management of commercial supplies.

It can be variously defined, but expressed most simply it is the process of strategically managing the movement and storage of materials, parts and finished inventory from suppliers, through the firm and on to customers (Bowersox:1978:60). Another straightforward definition is given by Alan West (1992:3); "Logistics involves the planning and control of the interaction of materials management and the distribution of the finished product". Logistics is viewed as 'a bridge between demand creation and physical supply (Christopher:1990:2).

2.3.1 The Concept of Logistics Management

'Logistics management' is the term classically given to management of the whole process which takes physical materials through the various production stages and thence, by the distribution system, to the end user (Mercer1992).

The logistics concept is based on a total systems view of the materials and goods flow activity from the source of supply through to the final point of consumption. It

recognises the interconnections and interrelationships between the multitude of functions involved in this movement from source to user, and in doing so forces management to think in terms of managing the total system rather than just one part of it (Christopher:1990:4). Bowersox *et al* demonstrate the logistics process as follows:

Figure 2.1 The Logistics System
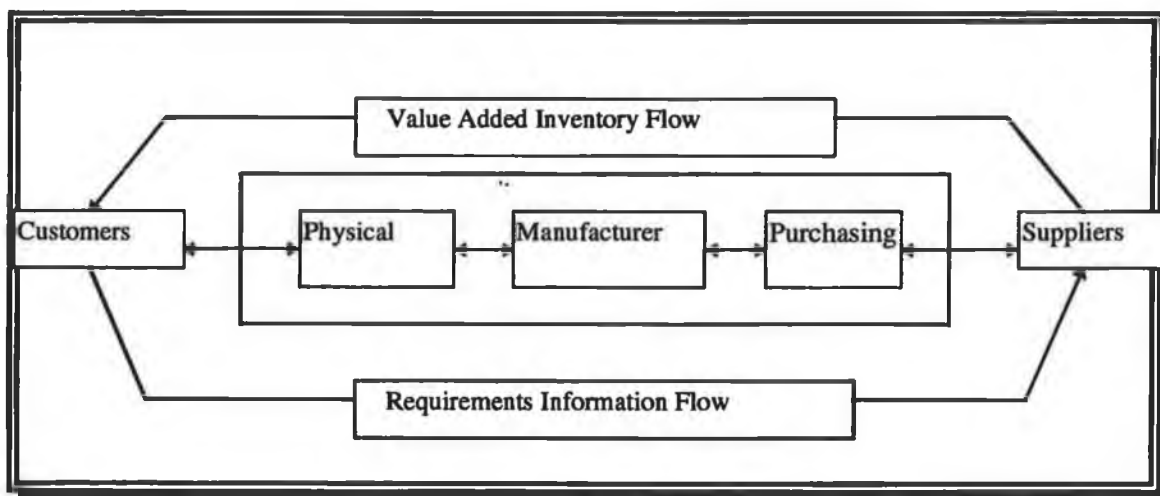
Source: Bowersox, Donald J., Closs, David J., and Helferich, Omar K. (1986), <u>Logistical Management</u>, 3rd edition, MacMillan Publishing: New York, pp15-18.

As figure 2.1 shows, Bowersox *et al* view the logistical process as a system that links an enterprise with its customers and suppliers. Information flows from and about customers in the form of forecasts and orders, and is refined through planning into specific manufacturing and purchasing objectives. As materials and products are purchased, a value added inventory flow is initiated, which ultimately results in ownership transfer of finished products to customers. Thus, the logistical process is viewed in terms of two interrelated efforts (1) value added inventory flow and (2) requirements information flow.

2.3.2 Respective Roles

Logistics and distribution, therefore, are about bridging the time and space gaps between the suppliers of goods and those customers who demand them. Although marketing and distribution are very closely linked, they can be seen as having two distinctly different but complementary roles. Marketing can be seen as 'demand creation', whereas distribution's major role is 'demand satisfaction' (Fawcett, McLeish & Ogden:1994:10). The validity of this statement brings into question the old cliché that distribution as a service 'distinctly adds cost, not value'. It is exactly the time and place value, which efficient logistics and distribution management adds to the product, which disproves the above statement and satisfies consumer demand created by marketing efforts.

2.3.3 Logistics Strategy

"The goal of logistics strategy is to organise companies to compete across the span of their markets without having to over charge some customers or under serve others. It means building distinct approaches to different groups of customers" (Fuller, O'Connor & Rawlinson:1993:91).

The basic aim of a logistics strategy is to achieve the highest possible levels of customer service at the lowest possible cost. Such a strategy will normally consist of four main elements: manufacturing locations; transport methods; stockholding policies and management systems. Effective planning and control of these elements is crucial to good supply chain management. But such management must be sufficiently flexible to detect the need for and implement changes in what are essentially areas of long term business planning. (McLeish, Fawcett & Ogden:1994:4)

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2.3.4 Gaining Competitive Advantage Through Logistics

Of the many changes that have taken place in the last decade perhaps the most significant has been the emphasis placed upon the need to find a strategy that will provide superior value in the eyes of the customer. Most of the credit for this goes to Michael Porter, the Harvard Business School Professor who through his research and writing has made managers aware of the importance of gaining a competitive advantage in today's fiercely competitive business environment.

One concept in particular that Porter brought forward is that of the 'Value Chain'.
"Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a bias for differentiation...
...The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors." (Porter:1985:11)

Value chain activities can be divided into two categories - primary activities and support activities. Competitive advantage grows out of the way in which firms organise and perform these discrete activities within the value chain (Christopher:1992:8).

Logistics management, it can be argued, has the potential to assist the organisation in the achievement of both a cost/ productivity advantage and a value advantage (Oliver 1990). For example, it can achieve a value advantage by providing a tailored service and promoting good customer relations, and it can achieve a cost advantage by maximising capacity utilisation or improving the asset turn ratio. Opportunities for better capacity utilisation, inventory reduction and closer integration with suppliers at a planning level, are considerable. Equally prospects for gaining a value advantage in the market place through superior customer service should not be underestimated.

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The mission of logistics management, simply put, is to satisfy customers. Customer service has been described as 'the quality of performance of a distribution system' and 'matching the pace of supply with that of demand' (Fawcett, McLeish & Ogden:1994:10).

LaLonde and Zinszer (1976), in a study of customer service practices, found that in the industries they surveyed a range of views existed as to the definition of 'customer service':

"All the activities required to accept, process, deliver and bill customer orders and to follow up on any activity that erred".

"Timeliness and reliability of getting materials to customers in accordance with the customers' expectations".

"A complex of activities involving all areas of the business which combine to deliver and invoice the company's products in a fashion that is perceived as satisfactory by the customer and which advances company objectives".

All these definitions are concerned with relationships at the buyer/seller interface. This same study suggested that customer service could be examined under three headings: pre-transaction elements; transaction elements and post-transaction elements. The pre-transaction elements of customer service relate to corporate policies or programmes, for example, customer service policy statements. The transaction elements are those customer service variables directly involved in performing the physical distribution function, for example, product and delivery reliability. The post-transaction elements of customer service are generally supportive of the product while in use, for example, after-sales service.

Since then many commentators have defined elements of customer service. The most common are as follows (Mercer 1992 & Martin 1992): Order cycle time; consistency and reliability of delivery; inventory availability; order-size constraints; ordering convenience; delivery times and flexibility; and invoicing procedures and accuracy. These deal with the pre-transaction and transaction elements of customer service, but

they fail to deal with the post-transaction elements. This area of post transaction, i.e. after sales service, is rapidly becoming an important element of distribution.

It is because of the multivariate nature of customer service and because of the widely differing requirements of specific markets that it is essential for any business to have a clearly identified policy towards customer service.

2.3.5(A) Customer Service Vs Costs

Notwithstanding the importance of customer service level as a marketing and distribution variable, some form of trade-off against the costs of providing that service must be determined. Numerous cost elements can be identified, but the main three service cost issues are as follows (Christopher:1990:14):

* *Stock Availability:* Investment in inventory to provide required levels of stock and product availability is one of the most costly items. Such costs, in reality, are not limited to investment in the stock, but include the total costs incurred in servicing the higher levels of inventory needed.

* *Order Cycle Time:* Models can be created to calculate the optimum number of stock locations to make transport costs at the best possible level. Even though stockholding costs increase as the depot network increases, the nature of the transport curve will still produce a dip in the total distribution cost curve when transport and stockholding costs are added together. Thus a cost-based optimum number of depots can be calculated and, where cost is the predominant criteria, such a solution would be acceptable. In many cases, companies might choose to go beyond this optimum network, incurring increased costs. The reason for this is that a larger number of depots will provide higher levels of customer service, because each stock location will be closer to its market area. Consequently, order cycle times will be shorter.

* *Delivery Frequency:* In recent years, the trend has been for companies to hold less stock and require suppliers to deliver smaller quantities more frequently. As a result, distributing companies have had to look carefully at the transport cost implications of keeping their customers satisfied. However, in order to

compromise, many manufacturers and distributors have introduced minimum order quantities for direct delivery - a fact which some customers might see as a reduction in the level of service on offer.

So the literature leads one to understand that in establishing customer service needs, there is a trade-off between the provision of the service and the cost of doing so. Therefore, a manufacturer or distributor must ascertain whether or not the required levels of service can be justified in financial terms. However, recently there is some evidence that this is not necessarily the case. For example, Dell have high levels of service. They get the product to the customer in a much faster time than the next company - Compaq - in order to reduce the risk of obsolesence (Economist 1996). This alone gives Dell a 3% cost advantage over Compaq and twice that over more typical indirect PC makers, demonstrating that efficient service provision does not always mean higher levels of cost. Also, all companies have to face the basic fact, that there will be significant differences in profitability between customers. Not only do customers require varying quantities of different products, but the cost to service these customers will typically vary considerably.

Pareto's 80/20 rule will often be found to apply (Christopher, Schary, Skjott-Larsen 1979), i.e. 80% of the company's profits come from 20% of their customers. Furthermore, 80% of the total costs of service will be generated from 20% of the customers, but probably not the same 20%. Therefore, the challenge to customer service management is to identify the real profitability of customers, and then to develop strategies for service that will improve the profitability of all customers. Companies must recognise that there are costs as well as benefits in providing customer service and therefore the appropriate level and mix of service will need to vary by customer type.

2.4 Marketing Channels

2.4.1 Introduction and Definitions

The marketing channel as an area of study is perhaps the only major concept in marketing not borrowed from another discipline (Mallen 1967). However, it is also an area which has been relatively neglected by marketing academics, particularly in terms of 'the analytical tools and concepts required for the objective description, measurement and comparison of channel components and channel systems' (Bradley:1995:751).

In defining a marketing channel there appears to be some debate regarding the inclusion of the transfer of ownership. An early definition by the American Marketing Association (1962) excludes it. They define marketing channels as:

"The structure of intra-company organisation units and extra-company agents and dealers, wholesale and retail, through which a commodity, product or service, is marketed."

More recently the MacMillan Dictionary of marketing and advertising (1990) further explains the concept.

"A channel consists of all those steps through which a product must pass through between its point of production and consumption."

Although this includes transfer of title, it also includes the physical movement, storage functions, etc. Therefore, in attempting to define this more rigorously one encounters several difficulties:

♦ First, transfer of ownership must be distinguished from the physical movement of the good.

♦ Second, if one then defines a marketing channel as a 'channel through which ownership is transferred', facilitating agencies, such as hauliers and public warehousing, who do not take 'title' of the goods they handle, should be excluded (Kotler 1991).

♦ Third, there has also been some disagreement over whether channel membership should be extended to producers or confined to intermediaries.

Therefore, a marketing channel can be defined as (McKinnon:1991:27):

" an organisational channel through which the ownership of goods
flows from producer to consumer via one or more intermediaries. "

This definition, however does not allow for the marketing channel that does not contain intermediaries, i.e. where the ownership of goods flows directly from the producer to the consumer. However, this appears to be a problem with most definitions who assume that "marketing intermediaries make up a marketing channel" (Kotler:1997:530). Yet when dealing with channel levels Kotler (1997:533) deals with a direct-marketing channel which consists of a manufacturer selling directly to the final consumer.

Bradley (1995:752) defines a marketing channel as:

"a set of interdependent agencies that by the exchange of products and services,
provides time, place and possession utilities to make that product/service available
for final consumption."

This introduces the issue of the interdependent nature of channel membership.

2.4.2 Functions of a Marketing Channel

As economies develop there is an increasing emphasis on specialisation and the division of labour. As a result a 'gap' develops between the producer and the user. The purpose of a distribution channel is to bridge this gap by 'resolving spatial and temporal discrepancies in supply and demand' (Baker(A):1991:341)

Irrespective of the extent of these discrepancies certain essential functions need to be performed which may be summarised as:

1. Title to the product to be transferred from the manufacturer to the buyer (Bradley:1995:755).

2. Physical movement from the point of production to the point of consumption (Baker:1991(A):341).

3. Storage functions (Baker:1991(A):341).

4. Information. The collection and dissemination of market research information about potential and current customers, competitors and other actors and forces in the marketing environment (Kotler:1991:509). The communication of information concerning the availability, characteristics and the price of the product (Baker:1991(A):341).

5. The financing of goods in transit, inventory and on purchase (Baker:1991(A):341).

6. For many distributors, adding value to the service, by providing a range of functions from product customisation to logistical and materials management services, is an important function (Cespedes & Corey:1990:71).

There is general agreement in the literature as to the above functions. The question, however, is not whether these functions need to be performed - they must be - but rather who in the channel is to perform them. All functions have three things in common:

◊ They use up scarce resources.

◊ They can often be performed better through specialisation.

◊ They are shiftable among channel members.

The issue of who should perform them is one of relative efficiency and effectiveness (Kotler:1991:510).

2.4.3 Channel Management

Once the firm has come to a decision on its distribution strategy and channel design, it must manage the channel to achieve a high level of efficiency and effectiveness from its members. This is done by selecting channel partners, motivating them and evaluating them (Bradley:1995:775). Channel motivation is extremely important, without it the channel will not actively sell the marketer's product and will deliver an inadequate level of service to the final customer, Channel evaluation, like all control-

oriented procedures in management, can only work if standards of performance are set and behaviour measured against these standards. (Murray and O'Driscoll 1996).

Channel management is supposed to be a co-operative marketing activity between the channel members. Manufacturers augment their direct sales channels with indirect channels of distribution to reach different segments more efficiently and effectively.

Resellers carry the manufacturer's line because they can do things for the manufacturer and end-users better than either can directly, and make money in the process. As a result, everyone should benefit (Cespedes & Corey:1990:67).

The challenges and opportunities presented by channel management are likely to multiply over the next few years as technological developments accelerate channel evolution. However, Bucklin et al (1996) state that despite this, few companies manage to make their channel work in their favour. For every successful channel innovator, there are a dozen others that fail to recognise the opportunity or use it to their advantage. To win in channel management, companies must take a rigorous, systematic, and continuously innovative approach to finding and capturing these opportunities (Bucklin, DeFalco, DeVincentis & Levis III 1996).

2.4.4 Legal Limitations Restricting Distribution Controls

In various ways, organisations may try to exercise control over the distribution of their product as it moves through the channel. Generally speaking, any attempts to control distribution may be subject to some legal restraints. European companies are restricted under the E.U. Commission Regulations of 1983. These regulate exclusive purchasing agreements and exclusive distribution agreements. These restrictions hinge on Article 85 and 86 of the Treaty of Rome.

Although in recent years Ireland has set up its own controls with the Competitions Authority in Ireland and the Legislation Authority. These authorities are based on E.U.

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Legislation with some control of their own. It is run by the Minister for Enterprise. This body ensures that large organisations do not abuse their dominant position in the market by trying to control it, and they do not work in ways to reduce competition in the market. For example, when Statoil put in a bid to buy over Jet, this body interceded because, this move would mean that Statoil would become extremely dominant and control 20-30% of the market - a high level of control, which would work against a competitive environment.

2.4.5 The Need For Intermediaries

Marketing intermediaries are used when the producer is willing to delegate some of the selling job to intermediaries. This delegation means relinquishing some control over how and to whom the products are sold. The producer appears to be placing the firms destiny in the hands of intermediaries.

Intermediaries, according to traditional marketing theory, exist between producers and consumers because (a) they are efficient in the exchange process, (b) they adjust the discrepancy of assortments through a sorting out process, (c) they are able to routinise transactions and (d) they simplify both the buyer's and the seller's search process.

Typical functions performed by an intermediary can include carrying inventory, selling, providing after sales services, credit extension (Coyle & Andraski 1990).

In theory, it would be possible for producers to sell their output directly to the final customer, thereby obviating the need for intermediaries. In practice, very few products are sold in this way, however in certain industries this is changing, e.g. personal finances services, personal computers.

McKinnon (1990:29) justifies the intervention of the middlemen mainly on the grounds of transactional efficiency, product assortment and functional specialisation.

◊ Transactional Efficiency: The presence of an intermediary between producers and retailers can substantially reduce the number of trading links in the marketing system, streamlining the network of product and information flows. The presence

of an intermediary can reduce the number of transactions to the sum of the numbers of producers and retailers. The insertion of additional intermediaries between any two levels in a marketing channel can improve its efficiency by reducing the number of transactions and consolidating flows of products and information on a smaller number of links.

◊ Product Assortment: Intermediaries assemble a wide variety of products drawn from many different producers and sort them into mixed orders for distribution to agencies or customers further down the channel. Alderson(1954) argues that sorting is fundamental to the distribution process and the need for separate agencies to consolidate and sort diverse product ranges is the prime 'raison d'être' for the development of marketing channels.

◊ Functional Specialisation: By specialising on distributive functions, intermediaries can develop greater expertise in this field than producers and provide a superior marketing service to that which producers themselves could mount.

Mallen (1973), explains this process of 'functional spin-off' in terms of the relative efficiency with which producers and intermediaries can perform distribution activities. McKinnon (1990:31/2) states that intermediaries can also relieve producers of much of the financial burden of stockholding and spreads the risk of ownership.

Intermediaries can carry out physical distribution functions, such as the breaking of bulk, consolidation of mixed loads, decentralised storage and local delivery, more economically than individual producers, because they handle the output of numerous producers and can, therefore, secure larger economies of scale.

However, much of this may have been less relevant through the increase in technology over recent years. For example, software can be ordered and sent anywhere via a modem. As the technology becomes more advanced people may order many goods via their PCs, thus obviating the need for intermediaries in certain areas.

However, Martin Christopher (1992(A):131) understands the presence of intermediaries to be in line with Alderson's (1954) early theory of filling gaps between production and consumption. They are as follows:

Time gaps: Consumers purchase items at more or less discrete intervals, whilst the majority of firms, particularly in the fast moving consumer goods markets, produce on a continuous basis in order to reap production economies.

Space gaps: Consumers are usually dispersed throughout the market; producers are located in a few areas and are often separated by distance from their customers.

Quantity gaps: Firms produce large quantities at a time; consumers normally produce in smaller quantity.

Variety gaps: The range of products manufactured by a firm is limited; consumers have many needs which require a wide variety of products to satisfy them.

To this Guirdham (1972) later added a further gap:

Communications Information gap: Consumers do not always know the availability and/or the source of the goods they want; producers may not know who and where are the potential purchasers of their product.

These tasks need not be carried out by intermediaries; they can be and sometimes are carried out by either the buyer or the supplier. However, quite often the case is that the most cost effective means of closing these gaps is through the use of channel intermediaries such as agents, distributors, wholesalers, retailers etc. Put simply, the use of an intermediary becomes appropriate when the cost of closing one of the gaps is greater without one than with one.

The above reasons for using middlemen are all valid, but Kotler (1997), gives the simplest, most practical reasons for producers to use middlemen as they are less theoretical and directly applicable to the producer. They are as follows:

◊ Many producers lack the financial resources to carry out direct marketing.

◊ In some cases direct marketing is not feasible. It may require producers to become middlemen for the complementary products of other producers in order to achieve mass distribution economies.

◊ Producers who can afford to establish their own channels can often earn a greater return by increasing their investment in their main business. Some producers, however, will set up partially owned distribution systems.

The use of middlemen is mainly due to their superior efficiency in making goods widely available and accessible. Marketing intermediaries, through their contacts, experience specialisation and scale of operation, can offer some firms more than they can usually achieve on their own.

The decision to utilise intermediaries to perform all or part of the organisation's distribution activities requires careful evaluation of the costs and benefits involved.

Figure 2.2 Benefits and Costs Offered by Intermediaries

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┌─────────────────────────────────────────────────┐
│   BENEFITS OFFERED BY INTERMEDIARIES            │
├─────────────────────────────────────────────────┤
│  Lower selling costs - More outlets - Stock     │
│  holding - Lower costs - Better coverage -      │
│  'Product range' extension -                    │
│  Customer appeal - Market development -         │
│  Increased sales information - Improved market  │
│  knowledge - Customer finance - Increased sales │
└─────────────────────────────────────────────────┘
                        │
              ┌──────────────────┐
              │     MARGIN       │
              │   TRADE-OFF      │
              └──────────────────┘
                        │
┌─────────────────────────────────────────────────┐
│      COST OF USING INTERMEDIARIES               │
├─────────────────────────────────────────────────┤
│  Loss of control - Could reduce sales - Loss of │
│  'Central focus for product' - Information      │
│  could be: Limited, Biased - Customer service   │
│  at risk                                        │
└─────────────────────────────────────────────────┘
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Source: Gattorna, John (1990), Gower Handbook of Distribution and Logistics Management, 4th edition, Gower Publishing, pg.95.

The main reported advantages of using a distribution service company as an intermediary would appear to be:

◊ ability to meet stringent customer service requirements at reasonable cost;

◊ reduction in the amount of capital employed in distribution;

◊ flexibility of capacity;

◊ increased geographical coverage;

◊ lower operating costs, both overall and in peripheral areas;

◊ spreading of the industrial relations risk;

◊ availability of specialist services;

◊ ability to redeploy management resources;

◊ reduction of overall risk.

On the other hand there can be a number of disadvantages to set against these benefits. Some of these disadvantages are:

◊ loss of direct control;

◊ inadequate feedback;

◊ reduced stock rotation/product control;

◊ increased costs of stock-holding due to higher stock levels;

◊ lack of priority consideration;

◊ problems of establishing accountability, such as for stock losses;

◊ inability to respond to special demands;

◊ higher direct costs;

◊ higher costs due to damage and stock losses;

◊ communication problems with customers.

Whether or not the company should use intermediaries in the distribution system is therefore a complex decision. It involves both benefits and costs which vary from product sector to sector and market to market

From the point of view of the economic system, the basic role of marketing intermediaries is to transform the heterogeneous supplies found in nature into assortments of goods that people want to buy.

According to Stern & El-Ansary (1988:6):

> *"Intermediaries smooth the flow of goods and services. This procedure is necessary in order to bridge the discrepancy between the assortment of goods and services generated by the producer and the assortment demanded by the consumer. The discrepancy results from the fact that manufacturers typically produce a large quantity of a limited variety of goods, whereas consumers usually desire only a limited quantity of a wide variety of goods."*

Wroe Alderson (1958) previously made the same point:

> *"The goal of marketing is the matching of segments of supply and demand."*

In general the position of intermediaries is defended on the basis that they

> *"appear in a channel when the incremental cost of their presence is less than the savings they provide to other agencies in the system."*

(Bucklin:1972:15)

2.4.6 Channel Behaviour

Distribution channels are more than simple collections of firms tied together by various flows. They are complex behavioural systems in which people and companies interact to accomplish individual, company and channel goals (Kotler & Armstrong:1993:324).

A distribution channel is made up of unlike firms that have banded together for their common good. Each channel member plays a role in the channel and specialises in performing one or more functions. Ideally, because the success of individual channel members depends on overall channel success, all channel firms should work together smoothly. They should understand and accept their roles, co-ordinate their goals and activities with those of other channel members and co-operate to attain overall channel goals.

Successful working partnerships are marked by co-ordinated actions directed at mutual objectives that are consistent across trading partners. Communication and conflict resolution techniques are also in force (Mohr & Spekman:1996:38). However the definition of a successful working partnership is somewhat tenuous as both parties are looking to get something slightly different from the relationship. Donald Fites (1996) reinforces this idea of making your dealers your partners. However this is a complex issue with a whole series of integrated channel behavioural issues to be considered.

2.4.6(A) Communication, Co-ordination & Control

If the distribution channel is to provide time, place, possession, and form utilities for its customers, marketing strategies and channel functions must be co-ordinated among independent channel members (Stern & El-Ansary 1992).How suppliers communicate with distributors plays a critical role in the channel co-ordination process. However, Mohr and Nevin (1990) demonstrate that our understanding of how personal communications can be used to aid co-ordination of the channel is at an early stage.

"Communication can be described as the glue that holds together a channel of distribution. Communication in marketing channels can serve as the process by which persuasive information is transmitted, participative decision making is fostered, programs are co-ordinated, power is exercised, and commitment and loyalty are encouraged" (Mohr & Nevin:1990:36).

Communication is an important issue for managers to consider, the lack of which is a prime cause of channel conflict. However, there is a lack of literature available in this area and so a difficulty arises in suggesting efficient and effective communication strategies. The methods available, i.e. more, improved and open communication (Eliashberg & Michie 1984), are extremely simplistic and provide no practical guidelines for implementation. Mohr and Nevin (1990) attempt to address this issue by using organisational and communication theories and research. Their integrative model of channel communication matches communication facets to channel

conditions, it also develops the notion of using communication strategy as a moderator between channel conditions and outcomes. They do not, however, have any empirical test of the propositions they have developed. Consequently, as it stands, it can be used only as a guideline.

Co-ordination of the members within the channel is critical for the channel to function effectively and, consequently, is a challenge. Within an organisation, formal authority relationships facilitate the monitoring of employee behaviours, the use of performance evaluations, and the attainment of control. However, between independent channel organisations, formal authority relationships are not nearly as strong, making monitoring and evaluating distributors' behaviours and specifying desirable behaviours relatively difficult (Celly & Frazier:1996:200). If, on the other hand, the focus is switched to co-ordination, and not control, the channel becomes more manageable.

But individual channel members rarely take such a broad view. They are usually more concerned with their own short-run goals and dealings with firms next to them in the channel. Co-operating to achieve overall channel goals sometimes means giving up individual company goals. Though channel members are dependant on one another, they often act alone in their own short-run best interests. They disagree on the roles each should play - on who should do what for what rewards. Such disagreements over goals and roles generate channel conflict.

However, no matter how well channels are designed and managed, there will be some conflict, if for no other reason than the interests of independent business entities do not always coincide. According to Stern & El Ansary (1988:285) channel conflict occurs when one channel member perceives another channel member to be engaged in behaviour that is impeding or preventing him from achieving his goals.

2.4.6(B) Types of Conflict and Competition

An organisation, setting up a vertical channel consisting of wholesalers and retailers, hopes for channel co-operation, as it normally generates greater total channel profits than if each channel member acted only on self interest. By co-operating, the channel members can more effectively sense, serve and satisfy the target market.

Yet vertical, horizontal and multi-channel conflict can occur.

Vertical Channel Conflict: Exists when there is conflict between different levels within the same channel (Kotler:1991:530). Vertical channel conflict has been a noticeable feature of increased retailer power in the consumer sector. Less noticeable, though just as relevant, is the concentration of industrial activity in many sectors. Retail purchasing power has affected the ability of the manufacturer to distribute products in a number of ways. An additional feature of vertical conflict is that, for the supplier, new products face a steadily shorter proving period. Retailers have reduced the time to three months for a new product to become established. When linked with end user purchasing power, these developments influence the supplier's pricing strategy and may have the effect of lowering the profitability within the distribution channel for the supplier. (West:1992:36)

Horizontal Channel Conflict: Exists when there is conflict between members at the same channel level within the channel (Kotler:1991:530). Horizontal conflict is increasingly a feature of many market sectors in the developed world due to the growing market shares of intermediaries. For example, in Belgium 70% of grocery sales is in the hands of four chains due to intense competition in the market to increase market share. The four demand steadily increasing promotion expenditure to increase and maintain their customer base; they wish access to the supply of exclusive product (West:1992:36).

Multi-channel Conflict: Exists when the manufacturer has established two or more channels that compete with each other in selling to the same market (Kotler:1991:530). It is less apparent in most market sectors but becomes more

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relevant as the groups in each of the major channels reach the limits of growth and seek opportunities for expansion by entering new sectors (West:1992:37). This has been particularly noticable in the PC industry, where companies with established dealer channels added a direct channel to their distribution network, most notably IBM and Digital (Elsden 1994, Rothery 1994, D'Arcy 1995). This provoked conflict between their dealers and themselves, as the dealers felt that the manufactuers were going in direct competition with them. Consequently, IBM and Digital relinquished the direct channel.

2.4.6(C) Causes of Channel Conflict

It is important to distinguish the different causes that might produce channel conflict, in order to go about resolving them. Kotler (1991) discusses the following causes of channel conflict:

* A major cause is goal incompatibility. For instance, if channel members are more concerned with their own short-run goals instead of co-operating to achieve overall channel goals.

* Sometimes the conflict arises from unclear roles and rights. For example, IBM sells personal computers to large accounts through its own salesforce, and its licensed dealers are also trying to sell to those large accounts. Territory boundaries, credit for sales, etc., are confused and causing conflict.

* The conflict can also arise from differences in perception. The manufacturer may be optimistic and want the dealers to stock up on inventory. But the dealers may be pessimistic about the near term outlook and want to keep inventory to a minimum.

* It may also stem from the great dependence of the intermediaries on the manufacturers. Exclusive dealers' success depends on the product design and pricing decisions of the manufacturer. High potential for conflict exists here.

* Another possible source for conflict is discrepancy in sophistication (Gattorna 1990). Manufacturers have become more *au fait* with marketing theory and the value of such concepts for strategic planning than retailers. This, however, has begun to change as some retailers begin to accept the burden, and benefits, of strategic planning themselves.

However, some amount of channel conflict can be constructive. It can lead to more dynamic adaptation to a changing environment. Some conflict takes the form of healthy competition. This competition can be good - without it, the channel might become passive and non-innovative. At the same time, too much conflict is dysfunctional. The problem is not one of eliminating conflict, but of managing it better (Stern and El-Ansary:1988:290)

Channel researchers have attempted to determine the effects of various conflict management strategies. Stern (1971) found membership exchange to be an effective means of reducing conflict if member interdependence was high. Stern et al (1973 & 1975), using a laboratory simulation, examined the effects of an exchange of persons programme and the induction of subordinate goals on channel conflict. Results were inconclusive with regard to the subordinate goal approach but the exchange did achieve a reduction in conflict. Conversely, Hunger & Stern (1976) in a similar experiment found the subordinate to be effective in reducing channel conflict.

The studies cited above indicate that the use of various strategies to control channel conflict produced mixed results. However differences in the level of interdependence among channel members may partially account for the variances. As channel member interdependence increases, the potential for conflict among channel members increases. This has been agreed on by Gaski (1984), Lucas & Gresham (1985), Reve & Stern (1979) and Stern & El-Ansary (1982).

So, for the channel to perform well as a whole, each member's role must be specified and channel conflict must be managed. Co-operation, role assignment and conflict management can be attained through strong channel leadership. The channel will perform better if it contains a firm, agency or mechanism that has the power to assign roles and manage conflict. In all likelihood, there will be a channel leader in each channel exerting a major influence and often acting as an incubus of conflict.

2.4.6(D) The Channel Leader

Channel leadership behaviour is defined as (Schul, Pride & Little:1983:22):

"Activities performed by a distribution channel member to influence the marketing policies and strategies of other channel members for the purpose of controlling various aspects of channel operations."

The primary function of the channel leader is to engage in channel management, using its power to improve co-ordination and dampen dysfunctional conflict. (Stern & El-Ansary 1982). The channel leader can play an important role in expediting the diffusion of new products or concepts. It can also influence the conduct of negotiations and the level of promotion that is demanded by the entire sector.

Schul et al (1983) identify three types of channel leadership behaviour used to manage the channel i.e. coercive, directive and participative. (Two of these leadership behaviours, directive and participative, appear to parallel the modes of co-ordination.) Channel leaders use both participative and directive styles to co-ordinate channel activities and achieve channel goals.

March and Simon (1958) indicate that standardisation, (directive leadership), rather than feedback, (participative leadership), is the simplest and least costly method of co-ordinating workflow in a unit. Members of low interdependent channels may feel that participative decision making is not worth the additional cost and complication, given the relatively small percent of sales derived from a particular channel partner. Consequently, participative leadership might do little to reduce channel conflict. Members of low interdependent channels may simply desire guidelines concerning the best way to sell their channel partners products. Schul et al (1983), suggest that directive leadership helps channel members to understand better and appreciate channel policies and procedures. Consequently, they are likely to be more satisfied with the channel arrangement and experience less conflict with the channel leader.

However, Price's (1993) study on the effects of channel leadership behaviours suggests that directive leadership increases conflict significantly in high

interdependence channels rather than reducing it in low interdependence channels. It is possible that highly interdependent channel members feel bound to follow the conflicting directions of channel leaders, whereas less interdependent channel members simply ignore them. Consequently, channel members in highly interdependent situations may experience more conflict when confronted with directive leadership than channel members in low interdependent situations. This study also indicates that participative leadership is important in terms of significantly improving channel satisfaction and reducing conflict, regardless of the level of interdependence.

However, these conclusions must be viewed with some caution due to the limits of the research. Price's findings suggest that in low interdependent channels, leaders should be aware of the need to be more directive in co-ordinating channel member activities by providing guidelines and instructions on how to improve performance. Leaders of highly interdependent channels should place a greater emphasis on participative leadership styles by consulting with other channel members and considering their suggestions when designing channel wide policies and procedures. Such practices should help minimise conflict and improve overall channel relations.

2.5 Conclusion

It is clear that distribution is now being looked at as a valuable area in the marketing strategy. Distribution consists of logistics and the marketing channel, both are very important if implemented effectively. Effective and efficient distribution is becoming an important means of gaining a competitive advantage.

This study is concerned with the marketing channel. This chapter has examined how effective management, through control and co-ordination of the channel can increase the value of the channel and help reduce channel conflict. It also looks at the need for, and functions of intermediaries, and questions their role in the future, with technology advancing at a rapid rate obviating the need for intermediaries in certain

circumstances. It is clear that the role of distribution will continue to change, with more value being required from it.

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Chapter 3

The Nature of
Evolution & Change
Of the Marketing
Channel

3.1 Introduction

Revolutionary changes in technology, continued government deregulation, the shortening of product life cycles, proliferation of product lines and shifts in traditional manufacturer-retailer relationships, have replaced the continuing expansion, soft markets, comfortable margins and good returns of little more than a decade ago (Gattorna 1990). An important feature of the last decade has been the increasing sophistication, abetted by new technology, in channels of product and service distribution (Murray & O'Driscoll:1996:16)

"Distribution is the management of inventory to achieve customer satisfaction" (Tompkins:1994:22). Therefore, it is not surprising to find distribution in the limelight. However, whether the distribution professionals are prepared to meet the demanding needs of the customer, the pace of change or the true integration of the distribution function, remains to be seen.

Since customer satisfaction is an ongoing process and customers continually change their requirements, distribution must be more adaptable. In distribution, adaptability is the ability to respond to different distribution requirements. Herein lies the confusion: Tompkins (1994) states that there are two different perspectives on being adaptable. Distribution requirements may differ by changing the tasks to be done or the volume of tasks to be done. *Flexible distribution* is required to address changes in tasks to be done. *Modular distribution* is required to address changes in the volumes of tasks to be done.

3.2 Changes in Distribution

With a rapidly changing external and competitive environment, companies must be able 'to alter and reappraise their distribution structure over a short period of time' (West: 1989:241). The changes in distribution channels have been incremental and

gradual, but the totality of change is substantial. Major changes have occurred as follows (Dawson & Shaw 1990).

♦ Increasingly complex technologies which are often substituted for labour with fewer people directly involved in channel activity.

♦ More variety in channel relationships with increasing use both of non-traditional organisational forms, such as joint ventures, strategic alliances, administered channels, and also of non-traditional methods, involving techniques such as Just In Time (JIT) and Value Added Network (VAN).

♦ Attempts being made to manage vertical relationships (integrated supply chain management) with the objective of maximising horizontal competitive performance.

♦ Changes in behaviour and expectations among channel participants, usually associated with shifts in power which make retailers more powerful in the channel.

The list of changes above illustrates the range of evolution which has occurred. The various changes are not independent but interact strongly with each other. Further, although almost universally characteristic of distribution channel evolution, the extent and significance of these various components of change in the distribution channel differ in degree among product groups and among countries (Burt 1989)

Change in distribution can also be an area of competitive advantage, and the acceleration of this change is necessary as time based competition is also becoming an area of competitive advantage in areas such as product development, service responsiveness and manufacturing processes. The quicker a company adapts to change, the greater the likelihood of succeeding (Jick:1995:79).

3.2.1 Changing Relationships

In the 1990s, there is growing evidence that channel relations will hold an ever increasing importance in the study and practice of distribution in the 21st century (Coyle & Andraski 1990). A number of environmental changes are creating additional growth in the importance of channel relations. Such structural changes as

selling direct to customers, supply chain perspectives, and a wealth of innovative intermediary services are not only redefining the role of traditional channel members, but the very nature of channels (Mentzer:1993:27/8). Mentzer lists the major factors influencing the management of channel relations for the next decade:

1. The internationalisation of markets,
2. The changing government regulatory environment,
3. Reconfiguration of the corporate environment,
4. The rampant pace of technology, and
5. The shift to Total Quality Management (TQM) as a source of competitive advantage.

3.2.2 The Modelling of Changing Relationships

The way the changes have occurred may be modelled in a variety of ways. Carlisle and Parker (1989) have suggested a three-phase model of the relationship between a distributor and supplier at the micro level. In phase one, 'Pioneer', the relationship is purely a trading relationship. This phase ends when either the buyer or supplier gains a dominant position and obtains a better negotiating stance. Phase two, 'Rational/Scientific', is a phase of negotiation with each party having a set of objectives related to their perceived relative position. Both parties are trying to negotiate improvements in their respective power positions. Here information is used as a major tool in the negotiations which adjust the power relationship. Phase two breaks down as conflicts increase. This leads to phase three 'Integrated', where joint activities and joint ventures are undertaken or activities become internationalised within a firm (Anderson & Weitz 1986). The move to joint activities means that mutual benefits are sought as the outcome of negotiations between buyers and suppliers who aim to manage the supply chain.

Empirical evidence of the changes in relationships in the distribution channel points to a move towards either manufacturer or retailer domination, and then to a subsequent shift towards a more associative form of relationship in which relationships are more stable and mutually supportive (Frazier & Sheth 1985, Reve & Stern 1979). This was

supported by Denis O'Sullivan (1993), in his study of relationships within the distribution channel, who pointed towards the emergence of partnerships. However some in the channel disagree. What is agreed on is the fact that the distribution chain is predominantly demand driven, which would coincide with the increase in consumer orientation.

3.2.3 Channel Relationship Trends

3.2.3(A) Structural Trends

Several trends affect channel structure and some of the resultant relationships are supply chain management, strategic alliances and third party arrangements.

Supply Chain Management: This concept tends to reduce the number of suppliers and often streamline the entire channel. It concentrates on relational factors over transactional ones (Cavinato 1992).

Strategic Alliances: These are co-operative arrangements that transcend organisational boundaries to achieve channel goals. They focus on innovative intermingling of the business functions to achieve customer satisfaction. In essence, they form a distribution superorganisation, with leadership typically provided by the member with the greatest risk (Bowersox *et al* 1989). Thus they cement the long-term, co-operative channel relations.

Third-Party Arrangements: Third-party arrangements emphasise the orientation of the concept of division of labour, by utilising specific organisations with singular competencies. Since specialisation of channel members means more interdependency and increased risk, channels involving third-party arrangements also emphasise relationships that are co-operative, look to mutual benefits and risk sharing, and are long term in orientation (Mentzer:1993:32/3).

3.2.3(B) Trends in Channel Orientation

These orientations affect not only the structure of the channels, but perceptions and performance of the individual members as well.

◆ *Information Performance Emphasis:* The diffusion of information technology (IT) into the channels is having a profound effect on how managers look at the problem of managing the channel and the resultant channel relations. The availability of this IT significantly affects channel member relations. Performance measurement is considerably more accurate and timely, and thus corrective adjustment between members is more of an on-going process. Further, conflictual factors such as role ambiguity and differing perceptions of reality are reduced. In numerous channels, the advent of such technology has streamlined the channel and led to the elimination of some members, with enhanced communication and performance measurement allowing some channel functions to be absorbed by other channel members (Mentzer 1993).

◆ *Service Drive Channels:* This issue of customer service within the channel of distribution has received considerable attention over the last 20 years. Marketing has concentrated on measuring the service quality that a distribution channel delivers to the customer (Parasuraman, Zeithaml and Berry 1988). Logistics literature has concentrated more on the cost of delivered logistics service and its sales/profit implications (Mentzer, Gomes and Krapfel 1989). It has been recognised throughout the world of distribution that "The distribution channel begins with an understanding of an end user's needs and desires for a level of service" (Coyle & Andraski 1990). Consequently, channel structure is largely determined by the level of service required, with the number of channel members changing with the level of demanded service. Channel structure is dynamic with respect to customer service requirements and the resultant channel member relations (Bucklin 1966).

◆ *Quality Based Channels:* Total quality management (TQM) has become the overriding orientation in many channels - an orientation that transcends customer service and is based upon the notion that all management decisions be right the first time and every time (Langley & Holcomb 1992). TQM demands research to understand the needs and requirements of customers. It demands communication, co-ordination and co-operation from all personnel within the channel, regardless of organisational affiliation. As such, TQM raises the need for intimate channel relations to a higher level than in traditional channels (Mentzer 1993).

♦ *Value-Driven Channels:* These channels emphasise not just the delivery of the quality customers require, but also the guarantee that customers perceive the quality they are receiving. "Value attainment occurs when the firm and channel create product and service attributes that meet the expectations of the customer and are perceived by the customer" (Novack, Rinehart & Wells 1992) Thus, value-added channels transcend a quality focus and require the delivery of quality and the delivery of the marketing of that quality to the customer as a vehicle for competitive advantage.

3.3 Changes in Channel Structure

"Channel structures are not static or universal; they can and do evolve over time and vary from market to market" (Gattorna:1990:94).

Most firms will have faced the dilemma of whether or not to replace a distribution channel member for failing to meet its expectations. Changing channels often demands major structural reorganisation and must be carefully evaluated and planned. The company considering changing distribution channels has to resolve a number of problems.

The cost of terminating an existing agreement will include both the compensation that may be payable to the current channel members and the interval between leaving one channel and starting distribution via another. European legislation, as laid out under the EU Commission Regulations 1983, can lead to distributors or other intermediaries being able to claim substantial compensation for the loss of distribution rights, thereby causing further delay in litigation. A proposed change in channels might in addition reduce control over the market. Furthermore, in a situation where competitive pressures are strong, the effect of the changeover to new distribution channels my be to allow competitor companies to become established in core markets (West 1990).

This may give newcomers to the market an advantage as they do not carry this baggage with them. In many cases newcomers cause other to make structural changes to their channel, thus giving themselves an advantage while their competitors are tied up in the process of change. For example, Dell entered the PC market pioneering a direct selling channel, with lower costs and prices and added services. This forced others in the market to change their channels in order to compete. IBM tried the direct route, which didn't work, and thus lost at lot of ground to Dell. This meant that they had to revert to their dealer channel and spend time working on that in order to compete effectively. Giving the newcomer, Dell, time to establish themselves.

3.4 Managing Structural Changes in Marketing Channels

3.4.1 Increased emphasis on functional shiftability

A comprehension of how and why producers spin off marketing functions will lead to an understanding of change in all dimensions of channel structure. A theoretical rationale has been established for shifting channel function by developing the perspective that a business firm must not be viewed in terms of its input-output relationships, but more in terms of the functions it carries on. Moreover, the firm can improve its competitive position by shifting such functions to firms that can perform them more efficiently and by assuming those functions it can perform more efficiently Stigler 1951).Figure 3.1 shows the concept of functional shiftability.

Figure 3.1 The Concept of Functional Shiftability
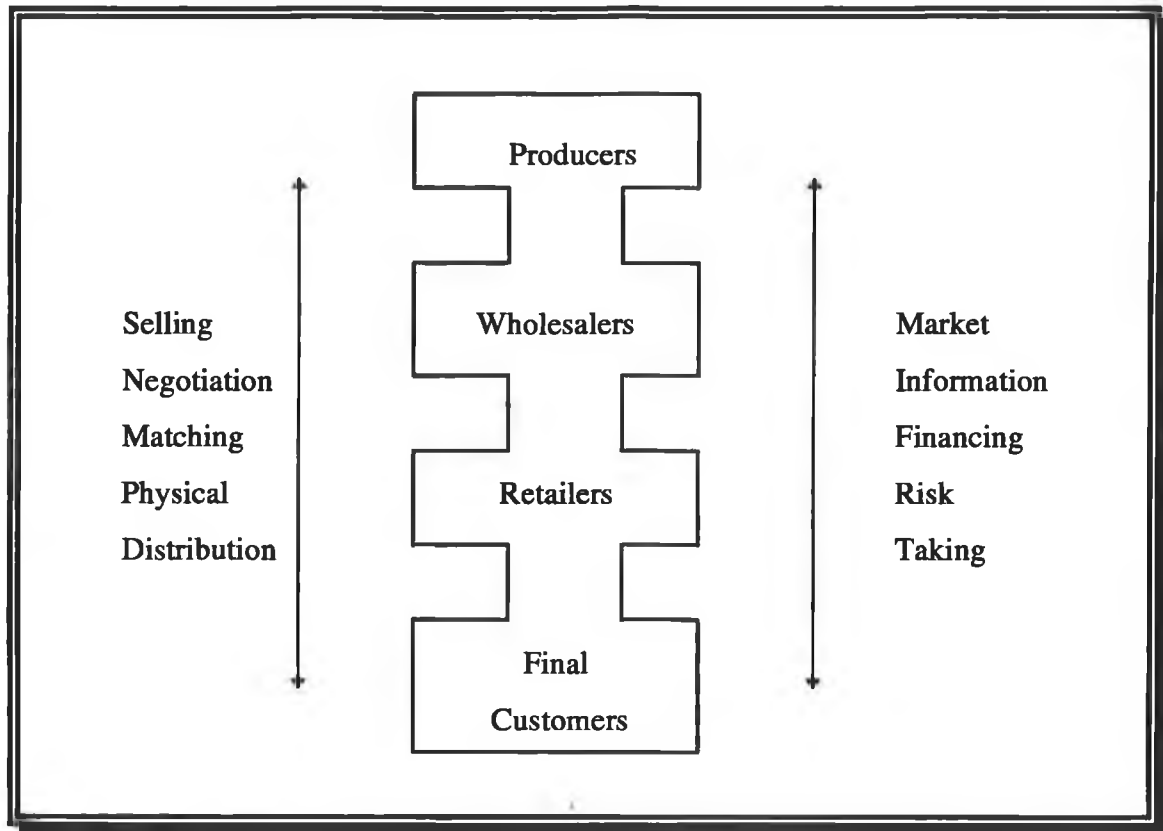
Source: Ronald D. Michman, "Managing Structural Changes in Marketing Channels", Journal of Business and Industrial Marketing, Vol.5 No.2, Summer/Fall, 1990, p7.

This concept is fundamental to understanding the development of marketing channel systems. A particular distribution function may be performed by the manufacturer, shared with other firm, contracted out, or shifted backward or forward in the marketing channel. Vertical diversification focuses on the assumption of new marketing functions (Michman:1990:6), in other words, while the end product is not changed, the production and marketing channels are. Backward assumption of functions may find the manufacturer assuming responsibility of product design that was formerly performed by its supplier (Harrigan 1985).

3.4.2 Functional Shiftability and the Product Life Cycle

Buyers prefer to deal with fewer suppliers and, because of technological innovations and shortened product life cycles, closer ties between manufacturers and wholesalers have become essential (Spekman 1988). Therefore, it would seem that functional shiftability will be explored by more firms in the future. Functional shiftability accelerates during the maturity stage of the product life cycle as more and more products fall into this classification. Also, with increased intense competition, together with the shortened PLCs , shorter channel lengths have become essential to bring the manufacturer closer to the consumer on order to anticipate changing consumer needs.

3.4.3 The Changing Product Life Cycle

Much has been written about the product life cycle and its implications for marketing strategy. Yet the subject remains a controversial one. Most products have an identifiable life cycle. Nevertheless such cycles are too irregular to permit the PLC concept to be used as a forecasting tool (Doyle 1989).

Some believed that the channel could be matched to the product lifecycle and that different channels should be used for different stages of the product lifecycle (Lele 1986). This has been proved true in certain industries, for example, microcomputers were sold initially through users' clubs, hobbyist stores and specialist catalogues. As sales took off and markets expanded, speciality retailers evolved into chains such as ComputerLand or into sub-specialists - "value-added resellers"- then they became available from mass merchandisers.

However, the distinguishing characteristic of the last decade has been the increase in the pace of change. The pace at which new concepts, products and technical innovations are introduced, gain popularity and are themselves superseded, has increased to the point where it can now take longer to source the components for an item of consumer electronics than the lifecycle of the product itself (Gattorna:1994:386).

3.4.4 Channel Lifecycles

Channels, like products and retail formats, have life cycles. New channels are constantly emerging. Suppliers, once dependent on a single channel for distributing their products, are now facing matrixed markets. These are markets in which multiple channels sell a supplier's lines. (Magrath 1996)

Magrath then suggests the following to address these coverage dilemmas, which have gained acceptance:

- Suppliers are accepting that multiple channels are a reality, and are dealing with this by offering different brands or lines to each channel (Magrath:1996:59). However, organising for multichannel distribution is increasingly a key element of marketing success, but it is often done on an ad hoc basis that entails repeated, costly, and often traumatic iterations in distribution strategy(Cespedes & Corey:1990:68).

- New channels are being opened selectively or declining ones are being de-emphasised. Either of these is done while trying to preserve the strongest possible position with what the firm deems to be core channels (Magrath:1996:59).

- Specialised channels are being created as a subset within a larger channel matrix. In this solution, the firm selects some subset of its primary "core" channel to develop new sets of customer needs or segments (Magrath:1996:59).

3.5 Retailing

3.5.1 The Wheel of Retailing

At the end of the 1950s, Malcolm McNair (1958) postulated the idea that retailing also moved through a cycle. According to this hypothesis, retailers enter the market as low-status, low-cost enterprises, taking business away from the established retailers.

In time, as they grow with success, they too upgrade their outlets; and charge high prices - exposing themselves to new competitors entering the 'wheel'. This is a widely accepted concept in retailing despite the fact that there is little empirical evidence to support it and others (e.g. Mercer 1995) give examples which dispute it.

Other academics are postulating the idea of the retailing lifecycle to complement the product life cycle. They start with 'innovation' leading to 'accelerating development' before the traditional stages of maturity and decline. However, although this appears reasonable, most retail chains are in the 'maturity' stage, and retaining their position by incremental development.

3.5.2 Retailing Stages and Lifecycles

In discussing lifecycles, a distinction must be made, for example in the product lifecycle, between product class and product form lifecycles. A similar distinction is warranted between total retailing and its particular forms (Oliver:1995:410). Bucklin (1972) offers a fourfold classification of the stages through which retailing has historically developed:

1. Periodic markets - participants in these markets were principally local producers with excess supplies of foodstuff or homecrafts to trade.

2. Permanent markets - 'in addition to being open for business on a regular basis, they usually boasted a variety of goods beyond local foodstuffs....they reflected the presence of an improved wholesale mechanism'.

3. Fragmented markets - 'customers .... turned with greater frequency to stores carrying a more limited range of goods in depth that allowed better display and product information, and more freedom of consumer choice'.

4. Vertically integrated markets - 'the idea evolved in the US to allocate responsibility for each group of merchandise to a trusted employee. This was the first real delegation of management responsibility in retailing.

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Brown (1988) has investigated cycles in the evolution of retailing and shown some strategic implications. Building on Porter's generic strategies he typifies four broad retailing approaches (See Figure 2.2).

Figure 3.2 Retailing Changes: Cycles and Strategy

	Price-led	Image-led
Wide variety	Cost Leadership	Differentiation
Narrow range	Cost Focus	Differentiation Focus

Source: S. Brown, 'Retailing change: cycles and strategy', Quarterly Review of Marketing, Vol. 13, No.3, 1988.

He emphasises the dynamic nature of retailing and finds evidence of movement between these strategies. This dynamism creates opportunities for others to occupy the vacated position. Environmental and competitive forces drive such changes. Developments in economic, social, legislative and technological conditions unfold new opportunities for alert retailers. Also Brown (1988) states that retailing is a very combative and highly imitative industry and any successful innovation or exploitable differential advantage is quickly analysed, avoided and/or adopted (sometimes unwillingly) by rival retailing concerns. He illustrates this point with the example of the successful move up market, incorporating higher service levels in the UK, by Sainsbury and Tesco, which has been belatedly followed by Asda, the Dee Corpration and Argyll (through the acquisition of Safeway).

3.6 Marketing Channel Evolution

Three major frameworks are evident in the marketing literature describing marketing channel evolution: economic, behavioural and managerial models. These are explained by Filser & McLaughlin (1987):

♦ Economic models of channel evolution have been applied from classical microeconomic paradigms as developed most recently by Mallen (1973). Marketing channels depend on the cost minimisation goals of producers. A consequence of this is that distributors are perceived as totally dependent on producer choices, and their own strategy is ignored. Similarly, total marketing productivity becomes the important factor of channel performance. The major limitations of this are; (a) that it lacks any empirical validation, (b) the evolution of marketing channels has mainly been dominated by distributor initiatives, and (c) there is no apparent justification for the survival of certain channels that appear to be 'uneconomic', i.e. channels whose costs are noticeably higher than competitors. It is similarly difficult to explain why some distributors can adapt to change quickly and others hesitate to introduce innovations that would result in increased efficiencies.

♦ As a result of the economic limitations, the behavioural models have come about. They suggest that channel evolution is a result of the combined behaviour of all members in the channel, i.e. producers, intermediaries and distributors. Channel dynamics are based then upon behavioural aspects, e.g. power, leadership, co-operation and conflict. These models also have limitations. Firstly, validation of the models has proven very difficult since there is no agreement regarding the proper variables to include and how to measure them (Lusch & Brown 1982). Secondly, the narrow scope of analysis presents problems. Relationships tend to be examined only within particular dyads of channel members (Reve & Stern 1986).

♦ Consequently, by integrating the two models of channel evolution, the final model was classified as 'managerial'. These are ambitious attempts to incorporate a wide spectrum of variables into one model.

Filser and McLaughlin (1987) proceed by proposing their own model of marketing channel evolution. They do this by defining categories of strategic, or action, variables that are generally controlled by distributors, and propose nine basic hypotheses of channel evolution. The main contribution of this paper is the integration of many of the major conclusions of economic, behavioural, and managerial models of channel evolution into a single framework that turns on the concept of distributor strategy. However, there is little validation of this model, some examples are given regarding one channel in two different environments. There is no empirical evidence to back up the hypotheses or the model and therefore, its usage is limited.

3.7 Marketing Channel Change

"It has been claimed that, of all marketing decisions, the ones regarding distribution are the most far-reaching" (Stern & Sturdivant:1987:34).

This premise is based on the fact that companies can easily change or modify prices, advertising campaigns or even products. However, once distribution channels are set up a company will find it difficult to change them. Furthermore, the selection of the best channel to accomplish company objectives is challenging because:

♦ the alternatives are numerous

♦ marketing goals differ

♦ the variety of business market segments often requires that separate channels must be concurrently employed (Hutt & Speh, 1992).

Consequently, the channel component of business marketing strategy has two important and related dimensions which are channel design and channel management. Few companies have managed this process successfully, perhaps, because it involves radical re-thinking in a corporate field which is traditionally hostile to change. Among the challenges in the design of a distribution channel are specifying channel goals, evaluating constraints on the design, analysing channel activities, specifying channel alternatives and selecting channel members, each requiring evaluation.

3.8 Channel Design Change

Channel design literature has dealt mainly with the choice between direct and indirect channel structures, although later authors also included the choice of hybrid channels (Hutt & Speh, 1992).

* Direct distribution is a channel strategy that does not use intermediaries. The manufacturers own sales force deals directly with the customer and the manufacturer has full responsibility for performing all the necessary tasks.

* Indirect distribution uses one or more types of intermediaries. Indirect distribution is generally found where markets are fragmented and widely dispersed, low transaction amounts prevail and buyers typically purchase a number of items, often different brands in one transaction.

* Hybrid channels occur when various combinations of intermediaries and direct selling are employed in the marketing channel. This is also known as multichannel marketing, with a twist, i.e. it is, for some, multichannel marketing built around a core of independent sales representatives. Avon, Mary Kay and Uni-Vite are creating hybrid channels for reaching American consumers using database marketing to supplement its 500,000 independent salesforce. They are discovering the benefits of combining direct marketing and direct selling (Smith:1992:33). Others are combining direct marketing and selling together with some VARs, for example, Dell Corporation. Mitsubishi Electric are another company who have introduced a direct dimension to their traditional dealer channel, but have also re-evaluated their dealer channel. Consequently they reduced the number of dealers in the channel and began working more closely with their most effective dealers. They also began to increase its level of direct business, which had proven very successful while working on a promotion with Guiness Ireland (Fahy 1995).

It has been noted in the past that the majority of channel systems appear to have developed more by intuition that by design, but it is not clear whether this is cause or effect of the absence of accepted analytical tools and depth research in the channels area. Proudman (1988:289) states that any attempt to design new or improve existing

channels, must be focused on the functional acts, or units of marketing work, necessary to achieve the channel objectives of all the parties. This design process should encompass the needs, capabilities and objectives at the terminal points of consumer and producer, as much as those of the intermediaries.

Mitsubishi Electric Irl., is an example of a company whose channel evolved, but was also planned to some extent. The nucleus of Mitsubishi's dealer base could be traced back to the managing director and the relationships he had developed before forming the company. It targeted the dealers he identified as being the strongest in the local areas. This decision was made as part of a company image and not necessarily a tactical distribution one. It created the atmosphere of a club. It has five classes of dealers ranked on the basis of annual turnover. Over the last decade there has been significant movement within the dealer classes which has caused further evolvement of their channel. So although the original channel was planned based on the MD's knowledge, this has continually evolved since and now contains a direct level of business. Whether or not this grows is undecided. (Fahy1995)

Others (e.g. Bowersox and McCarthy 1970) have demonstrated how planned distribution systems approach peak efficiencies sooner than ones that just evolve. This is demonstrated by Proudman (1988) in figure 3.3:

Figure 3.3 Movement Toward Peak Performance of Two Channel Systems
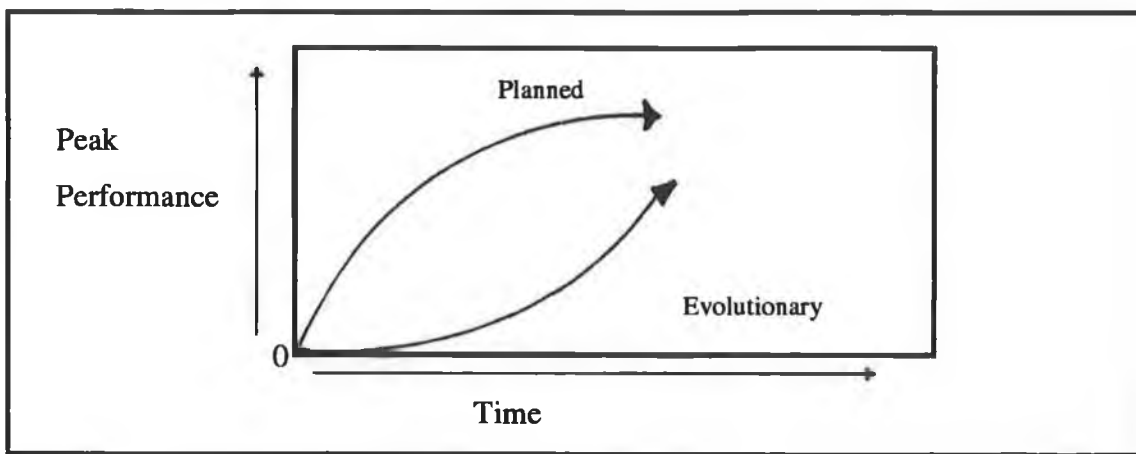
Source: A.J. Proudman, "Distribution Channels: Analytical Aspects of The Marketing System", The Marketing Digest, 1988, M.J. Thomas & N.E. Waite (ed.s), p289.

They stress the importance of channel design in the strategic plans of the firm and maintain that, while promotion or pricing elements of the marketing mix may be changed within relatively short time scales, the channel decision is difficult to change, and relations between producers, middlemen and intermediaries are built up over long periods of time.

Similar evidence of the advantages of planned versus evolutionary systems comes from the accelerated progress towards technological and economic growth achieved by many under-developed nations by directly applying the systems and processes evolved over time by the developed nations (Proudman:1988:290).

3.8.1 Designing the 'Ideal' Distribution System

In developing an 'ideal' channel, the marketing analyst will need to achieve a subtle blending process of the needs and objectives of all members in the channel. To deal with the channel design issue, some have developed processes to aid the analyst in this matter. Louis Stern and Frederick Sturdivant (1987) suggest an eight step process for organisations to use in determining the best type of distribution system for their products or services. The approach is customer-focused; the result comes mainly from the market rather from the company's perspective. The key word here is process, i.e. what process should a company use to select or structure the best possible distribution channel(s) for its products. This is primarily because management will gain by clarifying what its customers want and how to serve them. The process suggested is as follows:

Step 1: Find out what your customers want.

Step 2: Decide on appropriate outlets.

Step 3: Find out about the costs.

Step 4: Examine the existing distribution system in the context of company strategy and orientation.

Step 5: Uncover management's constraints and put together the ideal distribution.

Step 6: Examining the gaps among the 'ideal', existing and 'management-bounded' distribution systems.

Step 7: Confront the constraints.

Step 8: Evoke and implement an 'optimal' distribution strategy.

While all of the above activities do not add up to the 'ideal' distribution system, they do represent major changes for most companies. The process laid out above is not a simple one. With all the effort re-evaluating the system requires, it could be assumed that the process always justifies itself by the constructive changes it brings about. But its real value is in the clarity it brings to a critical aspect of doing business.

The problem with this system is the major changes it may require and since channel decisions, in contrast to other elements of the marketing mix, are long-term in nature, it is very difficult to re-shape or re-structure channel systems. But underlying this is the fact that channels are a peculiar mix of economic, social and political variables (Stem & Reve 1980, and Frazier, Gill & Kale 1989). These variables provide the reasons why there are often insurmountable obstacles between channel strategy and channel implementation.

Rangan, Menezes and Maier (1992) have since produced an operational model for the design of distribution channel structure. Rangan et al's research pays particular attention to considerations of customer channel function requirements. Combining the views of manufacturers and customer lead users, the channel function requirements can be quantified and predictions about the degree of 'directness' of the channel structure can be made. Further consideration of the types of intermediaries available and financial limitations produces a distribution channel that best fits the manufacturers' objectives, budget and customer requirements.

First, Rangan et al disaggregate a distribution channel into eight functional components, as follows:

1. Product information. Customers seek more information on certain kinds of products (Miracle 1965), particularly products that are new and/or technically complex (Williamson 1985). Literature indicates that direct channels are preferred if information requirements are high.

2. Product customisation. Some products inherently need technical adjustment; they require customisation to fit the customer's production requirements. A direct channel is also preferred here if customisation requirements are high.

3. Product quality assurance. A customer might place emphasis on product integrity and reliability because of the consequences the product has for the customer's own operations (Corey, Cespedes and Rangan 1989). A direct channel is preferred to ensure product quality.

4. Lot size. This function reflects the customer's dollar outlay for the product. If lot sizes are large a direct channel is sought.

5. Assortment. A customer may need a broad range of products and may require one-stop shopping (Corey, Cespedes and Rangan 1989). An indirect channel is favoured if a customer has broad assortment needs.

6. Availability. Some customer environments require the channel to support a high degree of product availability (Miracle 1965). Customers usually select indirect channels when they have intense product availability needs.

7. After-sales service. Customers need services such as repair, maintenance, etc. Customers generally opt for indirect channels to fulfil their after-sales requirements.

8. Logistics - Transport, storage and supply of products to the end-user involves levels of complexity. Customers normally use direct channels if logistics requirements are complex.

These functions are representative of the various product-market factors influencing channel choice.

In designing a distribution system, evaluation of the alternatives is extremely important. Murray and O'Driscoll (1996) suggest criteria for the evaluation of alternative channels which they believe will help to clarify most choices of this nature:

1. fit with customer behaviour and preferences

2. fit with the rest of the marketing strategy

3. economic performance - this may vary considerably among channel alternatives

4. control - channel control is an important consideration in arriving at any decisions

5. adaptive capability - the adaptability and flexibility of the channel alternatives open to the marketing manager must be examined to assess their ability and willingness to

change as markets, competition and customers change. Adaptability is one of the most important criteria as change is the only constant for the future.

3.8.2 Channel Management Issues in Change

Two related channel management considerations become important at this stage of the channel design. The first consideration originates from the difficulty of changing distribution channels once they are in place (Bonoma 1981). Such a change could cause disruptive conflicts and lead to a 'dysfunctional exercise of power' (Gaski 1984). As a product matures, customers' requirements of the channel functions evolve (Lele 1986). The implemented channel structure therefore must be capable of dovetailing with customers' channel function requirements as the product-market evolves without unduly disrupting existing channels. The second consideration involves the constraints a company may find when developing and implementing the selected channel profile(Rangan et al. 1992).

When the management and design considerations are combined, several options may emerge that can deliver customers' channel function requirements. The best option is obviously the one that maximises the company's primary goal without sacrificing some of its secondary objectives. Financially, this may translate to maximising sales or profits, or minimising distribution costs subject to attaining managerial goals on factors such as market share or return on investment (Bowersox et al. 1980).

The next stage proffered is a three-step method that involves:
1. Obtaining evaluations of the product on each function from several experts, i.e. customer lead users and managers,
2. Analytically combining those evaluations, and
3. Identifying the channel alternative that effectively and efficiently addresses customer requirements of those functions.

This method requires extensive management participation to facilitate its implementation.

The Rangan model for the design of distribution channel structure, like the Stern et al. model, realises that the channel should be customer driven not company driven. However, it has its limitations. Channel selection can be truly optimal only when considered with other marketing components. The drawback with the Rangan method is that channel selection does not influence sales targets and other marketing mix elements; it is sequential rather than iterative. Also, the eight channel functions need to be tested over a wide variety of industrial marketing situations. Another criticism of this model is provided by Wadsworth (1995). In his opinion the approach used by Rangan et al. where both groups of experts' evaluations are combined without investigating possible differences in the results between the two groups, could hide potential differences between manufacturers' and end-users' evaluations. Wadsworth then performed statistical analysis on the results to investigate these potential differences before considering combination. The results showed that a combination of the evaluations of the different groups may be unrealistic because there were significant differences in the evaluations in a lot of cases. Generally the manufacturers overestimated the importance of most of the variables. It could be argued that, manufacturers could have insufficient market information and consequently overestimate the importance of variables in order to 'cover' themselves. From this analysis, it can be seen that most of the evaluations are significantly different and at best, a compromise channel structure would be predicted, should the results be combined. If the Rangan et al model was followed through to its final stage, where a channel structure is designed using a combined evaluation profile, it would seem that the resultant channel would not be the optimum for either the manufacturer or end-user and a substantial loss of resources could occur. Nevertheless, if used solely as a guide or framework, it would prove useful for viewing the importance of channel choice.

3.8.3 Channel Modelling and Analysis

The purpose of channel modelling and analysis is often to determine the extent of change over a period of time within channel structures, or to examine factors determining the structure of specific channels. Proudman (1988:285/8) examines this

through 'channel tree' analysis. This is based on designing a tree to describe the various channel types that carry a specific product. The tree starts with channel sets, which are made up of the different channel types. Each channel type is then further divided into subsets, each with a common number of title flow levels, and further subsets according to the number of physical product flow levels.

Using this dynamic analysis can aid understanding of channel system change, and can contribute quantitative dimensions to the conceptual models of channels, such as the 'wheel' and the 'evolutionary' theories of structural change in marketing channel systems. Then, having identified the change, and measured it statistically, the underlying environmental, structural, entrepreneurial or behavioural reasons can be examined to explain this change, and aid future predictions of change.

3.9 The Gap Between Insights and Action

From the literature it can be inferred that it is much more difficult to get businesses to implement specific marketing channel suggestions than it is to get them to participate in and verbally endorse them. In other words, while lots of companies say they want to be customer-driven and employ channel strategy to achieve that objective, when it is time to take action, they are more comfortable staying safe and holding onto their current channel strategy. There are many internal barriers to re-shaping channel systems.

Stern and Reve (1980) talk about the economic, social and political variables. These variables provide the reasons for the difference between channel strategy and channel implementation.

* Economic channels exist to divide the labour of distribution among the members of the value chain which ranges from raw material sources to finished goods consumers. Compensation for each party's role is given on the basis of the degree of participation in the distribution functions (Stern & El-Ansary 1992). The monetary rewards for these value-adding services are at the heart of channel economics. Conflicts over the division of labour and appropriate compensation have destroyed channels just as

labour-management disputes have destroyed corporations and unions (Stern et al. 1993).

* Social - channels are social systems as well. As with all social systems, there are bonds and commitments formed among the members. These bonds and commitments are frequently stronger than economic ties. These bonds are built up over a long time and a rapport develops, making them difficult to break and start from the beginning again.

* Political - the political aspects of channels further challenge implementation progress. The politics of power flow through the entire system. Control, or loss of control, is a major issue. The politics of channels can also be messy, especially if a plan calls for reducing the compensation levels of channel partners, changing their numbers or role. or introducing a new alternative channel (Stern & Reve 1980).

Given all of the political, social and economic stumbling blocks that exist inside the organisation or in the organisation's environment, it is necessary to reduce the fear factor and increase the chances for positive action and enable the changes to take place.

3.10 Conclusion

Given the increased importance of distribution strategy and tactics, it is essential that decisions about distribution be made rationally and carefully. It is also imperative that they be market-driven not company-driven. Changes in an existing distribution system should be tested on a small scale before committing resources to them, because once established it will be very difficult and costly to change.

From the literature it is clear that distribution is fast becoming an important opportunity for gaining competitive advantage. Companies which decide to use marketing channel strategy as a major weapon in their competitive wars must redefine the rules of the game, seize greater control of their own destinies in serving their customers, build first mover advantages, and differentiate themselves from more cautious, less imaginative competitors.

Newcomers to the market are often a key factor in forcing change in the market. In many cases, newcomers are the driving forces behind market and channel change, this is illustrated on page 43, with the example of Dell's entrance to the personal computer market, pioneering a channel a new method of selling to that market thereby causing their competitors to make substantial changes in order to remain competitive. In this way Dell had an advantage and differentiated themselves from their competitors with lower prices and high quality services and support.

Consequently, instead of merely watching their channels develop organically or playing the reactionary game of catch-up, firms must think creatively about how they can deliver superior value to their customers and their champions must meet head-on the challenges of implementation. These are seen to be the ingredients for success in this too often neglected area of marketing.

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Chapter 4

Behavioural Issues
of
Channel Change

4.1 Consumer Behaviour

In many ways consumer behaviour is a subtle phenomenon. The reasons for our behaviour are not always clear, while consumers' actions are sometimes difficult to predict. Wilkie (1994:14) gives this formal definition of consumer behaviour:

"The mental, emotional and physical activities that people engage in when selecting, purchasing, using, and disposing of products and services so as to satisfy needs and desires."

The premise of consumer behaviour for the marketer is that marketing strategies must be based on factors that influence it (Assael 1995).

Although many variables influence consumer buying behaviour, they differ for different products and target markets. So it is impractical to consider all the possibilities for every market situation. However, there are general behavioural principles that marketing managers can apply to learn more about their specific target markets.

William Wilkie (1994) examines the implications of buyer behaviour in his "Seven Keys" to consumer behaviour. The "seven keys" present important generalisations about consumer behaviour. These are seven of the most basic characteristics on consumer behaviour as viewed by experts in the field.

Key 1: Consumer behaviour is motivated, i.e. consumer behaviour is motivated behaviour aimed at satisfying needs and desires.

Key 2: Consumer behaviour includes many activities. Consumers have thoughts, feelings, plans, make decisions and purchases, and have the experiences that follow. Marketers must study this range of activities since it provides a varied set of possible ways to reach, appeal to, and satisfy consumers.

Key 3: Consumer behaviour is a process. The concept of a process, in which a series of related stages occur, has become a major feature of the field of consumer behaviour in the last 20 years. Note that the definition referred to "selecting, purchasing, using and disposing of products", i.e. a process.

Key 4: Consumer behaviour differs in timing and complexity. Timing refers to when the decision takes place and how long the entire process takes. Complexity refers to the number of activities involved in a decision and the difficulty of the decision itself. Timing and complexity will typically be correlated. That is, all other factors being equal, the more complex a decision is, the more time will usually be spent on it.

Key 5: Consumer behaviour involves different roles. There are at least three significantly different functions performed within the consumer process. Each of these functions has a consumer role associated with it. In short, a consumer can be an influencer, a purchaser and/or a user. A consumer can play different combinations of these roles on any given occasion. Also, for any particular purchase, more than one person can be involved in one or more of the roles.

Key 6: Consumer behaviour is influenced by external factors. Many external sources act to influence our consumer behaviours. The major types are as follows: culture, subculture, life-styles, family, reference groups, external conditions, the marketing environment, and situational effects.

Key 7: Consumer behaviour differs for different people. It is obvious that each of us undertakes somewhat different consumer activities, in somewhat different proportions, and makes somewhat different purchases in line with somewhat different preferences. The reason that this topic, formally termed individual differences, is raised is that to understand consumer behaviour it must be understood why people would engage in different behaviours. This problem is a very real one for marketing managers who must attempt to predict who will respond favourably and how many of those there are in the market. Finally, the fact that there are so many consumers, with their individual differences, makes it extremely difficult to summarise consumer behaviour.

McCarthy and Perreault (1994) examine the individual consumer as a problem solver who is influenced by psychological variables, social influences, and the purchase situation. These issues are particular to the individual consumer as opposed to the organisational consumer, especially areas such as psychographics. Organisational buying behaviour is dealt with in section 4.4.

* The psychological variables deal in individuals needs and wants. Consumers select varying ways to meet their needs because of differences in perception. It also deals

with learning. It has been agreed in the literature that almost all consumer behaviour is learned (e.g. McSweeney & Bierley 1984). Attitudes and beliefs are also examined. Marketers generally try to understand the attitudes of potential customers and work with them rather than trying to change them, except in the case of negative attitudes. Changing attitudes is probably the most difficult job that marketers face (Urbany, Dickson & Wilkie 1989). Another issue dealt with is psychographics. Psychographics focus on activities, interests, and opinions. Psychographic analysis assumes that marketers can plan more effective strategies if they know more about their target markets.

* The social variables look at how the individual interacts with family, social class and other groups who may have influence. Relationships with other family members influence many aspects of consumer behaviour. Family members may share many attitudes and values, consider each other's opinions and divide various buying tasks. Marital status, age, and the age of any children shape the nature of these family influences. Together, these dimensions tell us about the life-cycle stage of a family. Another consideration is how society looks at an individual in terms of social class. Marketers want to know what buyers in various social classes are like, as in many marketing situations the social class groups are distinct. Various classes shop at different stores, prefer different treatment from salespeople, buy different types of products, and have different spending-saving attitudes (McCarthy & Perreault 1994). Opinion leaders can also be very important for marketers to reach. An opinion leader is a person who influences others. They are not necessarily wealthier or more educated, but each social class tends to have its own opinion leaders. Lastly, culture surrounds the other social influences. Culture is the whole set of beliefs, attitudes, and actions of a reasonably homogeneous set of people. People from different ethnic groups may be influenced by very different cultural variables. Cultural influences vary even more in international markets. Each foreign market may need to be treated as a separate market with its own submarkets. Ignoring cultural differences in international markets almost guarantees failure. From a target marketing point of view, a marketing manager probably wants to aim at people within one culture or sub-culture. A firm developing strategies for two cultures often requires two different marketing plans (McCracken 1986).

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* Another variable is the fact that individuals are affected by the purchase situation. The reason for the purchase can vary. Time also influences a purchase situation. When the purchase is made, and the time available for shopping, will influence their behaviour. Surrounding is another influencing factor. For example, a nice clean friendly atmosphere in a shop encourages, while a dark, dreary, unfriendly atmosphere discourages purchasing. Needs, benefits sought, attitudes, motivation, and even how a consumer selects certain products, all vary depending on the purchase situation. So different purchase situations may require different marketing mixes - even when the same target market is involved (Park, Iyer and Smith 1989).

4.2 Consumers Use Problem-Solving Processes

The variables discussed affect what products a consumer finally decides to purchase. It also needs to be understood how buyers use a problem-solving process to select particular products. Zaichowsky (1991) suggests the following five-step problem solving process:

1. Becoming aware of, or interested in, the problem.
2. Recalling and gathering information about possible solutions.
3. Evaluating alternative solutions.
4. Deciding on the appropriate solution.
5. Evaluating the decision.

However, this is a very basic problem-solving process. It shows the stages that consumers may go through to satisfy their needs, but it doesn't show how long this process will take or how much thought a consumer will give to each step.

Therefore, it would be more meaningful to also look at the three levels of problem solving as suggested by McCarthy and Perreault (1994), (See Figure 4.1) :

* Extensive problem-solving - used for a completely new or important need. A lot of effort is put into the process. This may be particularly prevalent for a high-involvement, high risk product.

* Limited problem solving - used by consumers when they are willing to put some effort into deciding the best way to satisfy a need. It is generally when a consumer has some previous experience in solving a problem but isn't certain which choice is best at the current time.

* Routinized response behaviour - is typical when they regularly select a particular way of satisfying a need and needs no additional information. It is used for low involvement purchases, i.e. purchases that are of little importance to the customer.

Figure 4.1 - Problem-Solving Continuum
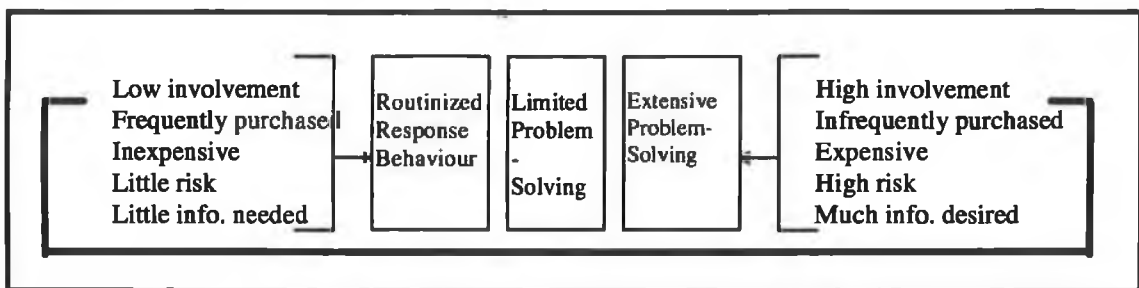
Source: Essentials of Marketing - A Global-Managerial Approach, 6th edition, Jerome McCarthy, Ph.D. & William D. Perreault, Jr., Ph.D., Irwin, 1994, pg.152.

4.3 Perceived Risk

4.3.1 The Nature of Perceived Risk

A consumer's perceived risk may be a result of little or no experience with the product because (s)he may never have used it, have had bad experiences with other brands on previous purchases, the product is technologically complex, the price is high or maybe the product is a new product on the market. For many high involvement products, there is typically a need to gather an immense amount of information to evaluate the goodness of the product (Dodds:1996:16). From the literature (e.g. Assael 1992, Schiffman & Kanuk 1992) it would appear that personal computers are perceived to be high risk products, so this area must be looked at to see what implications it may have for the marketer, i.e. how to reduce the level of risk perceived. It seems to be especially prevalent in the area of organisational buying, where a bad purchase could have serious repercussions. Hence IBM used this to their advantage. The common

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expression, "No one ever got fired for buying IBM", is based on the feeling that no one would question the decision to buy IBM if something went wrong, whereas buying from a lesser known firm and then encountering a serious problem could get you fired (Hawkins, Best & Coney:1989:736). Various factors may have contributed to a change in this process.

The degree of risk that a consumer perceives to be associated with a product or service is a critical determinant of the purchase decision. Risk has been the topic of considerable research in psychology, economics and marketing. Unfortunately, there is no generally agreed upon definition of risk. Raymond Bauer (1960), who pioneered the study of risk perception and its effects on consumer behaviour, suggested that much of the behaviour of consumers is influenced by risk, in the sense that any action of a consumer will produce consequences which cannot be anticipated with anything approximating certainty, and some of which, at least, are likely to be unpleasant.

Perceived risk is defined by Schiffman & Kanuk (1992:214) as "the uncertainty that consumers face when they cannot foresee the consequences of their purchase decisions". The degree of risk consumers perceive and their own tolerance for risk taking, serve to influence their purchase strategies. It should be emphasised that consumers are influenced only by the risk they perceive, whether or not the risk actually exists. Risk that is not perceived, no matter how real or dangerous, will not influence consumer behaviour. It is important to recognise that risk is subjective. That is, the risk involved in a purchase decision is perceived by the consumer and may, or may not, bear a strong relationship to what actually exists (Louden & Della Bitta, 1993).

Consumption behaviour was theorised to depend upon an individual's subjective perception of the risk inherent in particular buying propositions (Bauer, 1960 and Cox, 1967). In other words, risk is relative, not absolute, and tolerance to risk will vary according to the nature of the problem, situation, product or service and will be affected by a variety of factors, such as, economic, political and social environments.

Risk is generally held to be a function of two elements: uncertainty and consequences. The former relates to the buying goals. The latter refers to the likelihood that a given product or service will satisfy expectations. A consumer will weigh up the risks involved in purchasing particular products or brands and select the one that minimises perceived risk. Punj and Stewart (1983), for example, suggest that risk is the result of an interaction of the magnitude of potential consequences and uncertainty associated with those consequences. Risk is certainly high when the costs of an incorrect decision are high and uncertainty is great. There is little risk when the consequences of a consumer's behaviour are likely to be trivial and uncertainty is low. However, as Sternthal and Craig (1982) point out, some people may be risk seekers and others risk averters, so precise measurement is not feasible.

A problem in defining risk arises in the situation where uncertainty and the costs of an incorrect decision are not uniformly high or low. Even when uncertainty is low, high costs of an incorrect decision may create the perception of high risk among some consumers. High levels of uncertainty and moderate costs may also be perceived as risky.

4.3.2 Types of Risk

Complicating the problem of defining risk is the fact that risk may take many forms. Assael (1992:185/6) lists five different types of risk:
1. *Financial risk* - the risk that a product will not be worth its cost.
2. *Social risk* - the risk that a product may not meet the standards of an important reference group.
3. *Psychological risk* - the risk that a product important to the customer does not conform to his or her self-image.
4. *Performance risk* - the risk that the product performs as anticipated or may fail. It is greatest when the product is technically complex or when ego-related needs are involved.
5. *Physical risk* - the risk that the product may be dangerous or harmful.
   Schiffman and Kanuk (1992:215) add a sixth type to the list:

6. *Time risk* - the risk that the time spent in product search may be wasted if the product does not perform as expected.

Different sets or combinations of these elements are likely to be present in specific situations, and decisions will be affected by personal assessments of the total risk involved.

Several factors are likely to increase the risk the consumer sees in purchasing. Assael (1992:185) states that perceived risk is likely to be greater when

* there is little information regarding the product category,

* the product is new,

* the product is technologically complex,

* the consumer has little self-confidence in evaluating brands,

* there are variations in quality between brands,

* the price is high, or

* the purchase is important to the consumer.

He goes on to say that perceived risk in purchasing a personal computer is high because most of the listed criteria will be met. As the product category is still relatively new, many consumers have little experience with alternatives. Moreover, the product is technologically complex, making evaluation more difficult. As a result, consumer confidence in selecting one brand over another is low. Furthermore, substantial variations between brands and incompatible systems heighten risk. High price will also contribute to high risk. Finally, such a purchase is probably important to the consumer (Assael:1992:185). However, whether such factors are as important now in 1997 remains to be seen.

4.3.3 Risk Reduction

Consumers deal with risk in different ways and some consumers have a higher tolerance for risk than others (Schaninger, 1976). Consumers generally seek to minimise risk and use a wide range of strategies for this purpose. These strategies are designed to either increase the certainty of the purchase outcome or reduce the consequence of failure.

There are numerous strategies outlined in the literature. Some of the more common ones are listed below:

◊ Information seeking (Assael, 1992),

◊ Brand loyalty (Chisnall, 1995),

◊ Major brand image (Chisnall, 1995),

◊ Store image (Schiffman & Kanuk, 1992),

◊ Most expensive model (Louden & Della Bitta, 1993),

◊ Reassurance, money-back guarantees, warranties, pre-purchase trial (Runyon & Stewart 1987).

Research into consumers' preferences for methods of reducing risk in buying was undertaken by Roseluis (1973). Attitudes towards various 'risk relievers' were measured on a five-point scale. In all, methods of risk relief were selected for their representativeness, applicability to various methods of purchase, and applicability to kinds of products. It was found that buyers generally preferred some risk relievers to others, depending on the kind of loss applicable. In general, brand loyalty was viewed more favourably than all other risk relievers; the second favourite was major brand image. The least favourite risk reduction strategy was buying the most expensive model of a product even though price and quality perceptions are linked (Rao & Monroe 1989), and price is one of the many cues that consumers use in product evaluations (Rao & Monroe 1988). This risk reduction strategy, however, generally depends on the type of product; i.e. a 'search' or 'experience' product (Rao & Bergen 1992). Products whose quality can be determined prior to purchase are called search products and those whose quality can be determined after purchase are called experience products. Therefore, only 'experience' products incorporate this method of risk reduction.

Bauer and other researchers have noted that risk relievers were influenced by personal perceptions which varied according to types of buyers. Roseluis (1971) suggests that a seller should first determine the kind of risk perceived by the customers, and then design a mix of risk relievers suitable for particular kinds of buyers and types of loss. For instance, warranties have proven to reduce potential financial loss (Shimp &

Bearden 1982). A creative approach to risk reduction would benefit both buyers and sellers.

A fairly basic approach would be to ensure that consumers have ready access to information about the types and varieties of products and services on offer, through well designed brochures and, of course, from sales staff who are sensitive to the anxieties which may be experienced in some buying situations. Also, the availability of efficient after-sales service and guarantees associated with products should help to reduce the levels of risk perceived.

Dowling & Staelin (1994) postulate two different general strategies for accomplishing risk reduction. The first, is to routinely conduct an information search in order to acquire general product information. The second, is to reduce the specific perceived risk of the product being considered to an acceptable level. This might be achieved by collecting new data about the brand being considered or other brands, or by modifying the selection of products in the choice set. The major finding of their study is that product specific perceived risk, i.e. a particular product in a product class, can greatly affect the intensity of the intended use of risk reduction strategies, and that there appears to be an acceptance value below which this product-specific risk has little effect on intended behaviour. This model, however, is limited to situations where consumers contemplate the purchase of a product in a known product class. They have assumed that the purchase is a high involvement one, and that consumers perceive some level of perceived risk in purchasing the product. The risk reduction strategies dealt with concentrate on the search for information relative to the amount of risk perceived and does not deal with other risk handling behaviours.

4.3.4 Risk in Organisational Buying

Risk reduction is a particularly important element in the behaviour of organisational consumers. The performance of a product often reflects upon the competence of the decision maker and will effect career enhancement. As a result, many organisational purchasers will select the 'safe' product over one that carries greater risk, even when there is a good chance of the riskier product being better (Runyon & Stewart 1987). The use of large well-known suppliers is a common risk reduction strategy.

This concept of self-preservation and improvement influences the decisions which are made in day-to-day business transactions. It is likely, for instance, to avoid excessive risk in decision-taking, not only for their company's sake but also for the personal reputation and advancement of the decision taker. As observed in earlier literature 'A great part of the efforts of business executives is directed towards minimising uncertainties' (McClelland, 1961): therefore, buyers will carefully assess the degree of risk related to specific purchase decisions(Chisnall, 1993). Newell (1977), in his model of perceived risk in organisations, found that the type of purchase was the most important factor in determining the level of perceived risk, and that modified rebuys posed the highest risk and straight rebuys the lowest. Modified rebuys involving a change in product class considered for purchase, or a possible change in source of supply, showed significantly higher levels of risk. Other findings were:

1. Dissatisfaction with current equipment, acting as a purchase reason, was associated with high risk.

2. Perceived risk has two dimensions: pyscho-social risk and performance risk. The former is related to the extent to which the buyer feels accountable for the consequences of the purchase.

3. DMU (Decision Making Unit) size did not appear to be related to the level of risk. It is more systematically related to the degree of decision centralisation and size of the company.

4. High levels of risk are associated with extended purchasing deliberation.

5. Source loyalty was not conclusively proven to be a method of handling risk.

4.4 Organisational Buying Behaviour

4.4.1 The Nature of Organisational Buying

Organisational buying is in some ways similar to consumer buying since it is not 'organisations' making the buying decisions but people within those organisations. But there are significant differences that must be understood.

Organisational buyers make purchase decisions in order to satisfy their goals, as do final consumers. But the goals differ. Organisations have the goals of producing a good, providing a service, or reselling an item, and consequently, buy products and services that will allow them to engage in these activities. Therefore Webster and Wind (1972:2) defines it as:

"the decision making process by which organisations establish the need for purchased products and services, and identify, evaluate, and choose among alternative brands and suppliers."

4.4.2 Complexity of Organisational Buying

Organisational buyers are subject to complex influences in servicing the needs of their companies and other institutions. The complicated pattern of influences and relationships involved in purchasing decisions defies simple explanation. Both within an organisation and external to it, buyers are subject to diverse motivations; furthermore, these may be from time to time in conflict. Organisational buyers have to deal with demands arising within their own organisation and imposed by other functional managers, and those emanating from negotiation with suppliers of a wide range of goods and services. Organisational buying is, therefore, complex in that it deals with supplies often far more sophisticated in nature than most consumer products; the process of buying is seldom the responsibility of one person; the scale of purchases is generally substantial; and the repercussions from purchasing a specific product such as capital equipment may be profoundly felt both within an organisation and the market it serves (Chisnall 1993).

4.4.3 Organisational Buyers Versus Final Consumers

There are several major ways in which organisational markets and their buying behaviour differ from consumer markets and their buying behaviour. The major variations are in market structure and demand, buyer characteristics, and decision processes and buying patterns (Cooke, 1986).

◊ *Market Structure and Demand* - The organisational marketer should recognise that several factors, related to market structure and demand, distinguish these buyers. For example, with geographic concentration, organisational buyers are more concentrated than in consumer markets. Buyers are also concentrated by size in the organisational market. Organisational demand is derived from consumer demand. Total industry demand for industrial goods is relatively unaffected by changes in price in the short run, compared to the price influence on demand in consumer markets (Louden & Della Bitta:1993:661).

◊ *Buyer Characteristics* - There are several important organisational buyer characteristics typically cited that differentiate them from final consumers (Fern & Brown 1984). For example, products purchased by organisational buyers are often costly and complex, consequently, a group of individuals may be involved in the decision. Professional buyers, if not knowledgeable about the products or services being bought, may be directed by other technically competent individuals to the appropriate decision based on a group decision. As a result of the skilled, technical nature of most purchasers, organisational buyers are often directed by rational motivations. In addition to such rational motivations, though, buyers are also influenced by emotional motivations, and these are often difficult for a vendor to assess.

◊ *Decision Process and Buying Patterns* - Organisational buying patterns are characterised by a number of differences from final consumers in their decision process and purchase patterns. For example, much organisational buyer behaviour is typified by greater formality than that of final consumers. Often proposals, quotation requests, and purchase contracts are involved, which add to the formality. Organisational buying behaviour can be far more complex than consumer behaviour because many products and services are more technically complex, and the financial risks are generally much higher than those faced by consumers. Much

organisational buying requires more extensive negotiation over a longer period of time. Especially if (a) it is a large order in which the purchase price is very important, (b) if there are a large number of people involved in the decision, or (c) if the product is complex and specifications must be carefully agreed to (Louden & Della Bitta:1993:664/5).

4.4.4 Influences on Organisational Buying Behaviour

Webster & Wind (1972) list the four broad categories of factors that influence organisational buyer behaviour: environmental, organisational, interpersonal and individual. They later expand this into a general framework for buying behaviour.

4.4.4 (A) A General Framework

Figure 4.2 shows some of the key factors to be considered in organisational buying behaviour. General environmental factors will be the backdrop to these influences. Webster and Wind point to ecological, technological, economic and political trends as particularly pertinent. *Ecological considerations* - businesses not insulated from society. As society becomes more concerned with the ecological impact of production, then industry's buying decisions will be affected. *Technological development* - both the rate and direction of technical change can affect what is required and what is offered in industrial purchasing. It provides the most important factor in the dynamics of industrial markets. Computer and related markets are a prime example of this.

Figure 4.2 General Framework for Organisational Buying Behaviour
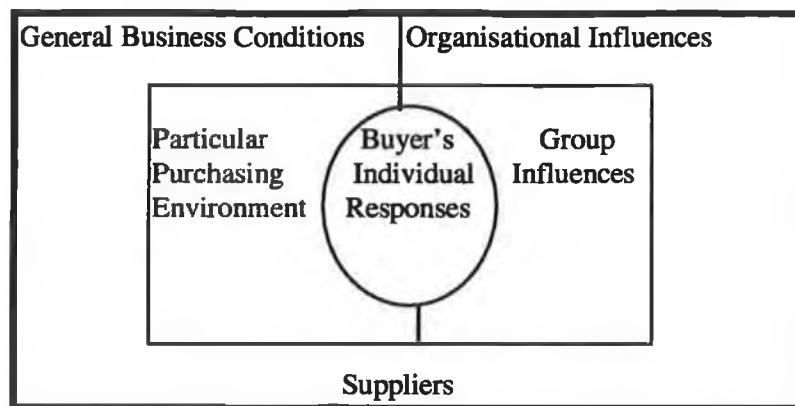
Source: F.E. Webster and Y. Wind, Organisational Buying Behaviour, Englewood Cliffs, NJ, Prentice Hall

4.4.4 (B) General business conditions

Companies selling to industry need to predict the trend in business conditions. Leading indicators such as unemployment rates, economic growth, growth of industry profits etc. need to be monitored. Then, if companies know how the overall industry is performing, they can act accordingly.

4.4.4 (C) Organisational influences

Because organisational buying occurs within the framework of a formal organisation, the organisation's objectives, policies, procedures, structure and systems of rewards, authority, status, and communication will all have an important influence on every part of the buying decision process. Louden and Della Bitta (1993) suggests four aspects of the organisational buying process in order to design an effective strategy to influence that process. These four sets of interacting organisational variables have to do with the tasks, structure, technology, and people involved with buying.

Tasks: The buying task is performed by the organisation in order to accomplish its objectives. These tasks may be classified in different ways such as type of good or service purchased, extent to which the process is routine or not, or extent to which responsibility for purchasing is centralised or decentralised.

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Structure: The buying structure of the organisation has an effect on the purchasing process (Stern & Spekman 1979). The structure and style of an organisation predetermines much of what goes on within it. Firstly, the degree of centralisation can shape the purchasing procedures. There may be fixed policies or some central list of approved suppliers in a highly centralised system. Consequently, a single standardised approach to organisations with differing degrees of centralisation would be inappropriate. Ideally, the selling company will know the buying organisation's purchasing structure, relationships between divisions, key purchasing procedures and the important people involved (Oliver:1990:82).

Technology: Technology may influence, not only what is bought, but the buying decision itself. While manual systems for directing and controlling the buying process are widespread in industry, computerisation is rapidly taking over.

People: The people in the organisation who are involved in the purchasing situation will be a major determinant of the organisational buying process. These people are interdependent and interact with each other to influence members' buying behaviour.

4.4.4 (D) Group influences

Apart from the mixed motivations that influence organisational buyers, it is also important to study how buying decisions are taken. Industrial buying decisions are frequently group, not individual decisions. This is known as the decision making unit (DMU), sometimes referred to as the 'buying centre'. The DMU may be large or small, formal or informal, constant or varying in membership, and the people involved may be aware or unaware of its very existence. Johnston and Bonoma (1981) report a study which attempts to trace the structure and interaction of DMU members. Definition of DMU membership is problematic. It is not confined to those who place the order or make the final decision, it properly contains all those with some influence at any stage of the buying sequence. There might also be more than one DMU with which to contend. Another problem concerns the variable significance of DMU members and their motives. Some will be more important than others, and this will not necessarily come from the formal authority structure of the organisation. There could be differing ideas regarding the product being considered. This suggests the

need for specific information about the relative strengths of the DMU members, their individual sets of evaluative criteria, their perceptions of the nature of the problem and some indication of the conflict resolution procedure employed (Ryan & Holbrook 1982).

Chisnall (1993:223) quotes Brand's research which demonstrated how UK companies with over 250 employees reached their purchase decisions; these were shared, equally or, in some cases, to a greater degree, between general/technical managers and purchasing executives. Then, in 1983, a pilot study of 300 firms was undertaken, followed by the main survey later in the year, with a stratified random sample of 2,963 companies. Again, this research indicated that buying responsibilities were shared by management and were significantly influenced by the type and cost of specific products, the size of the organisation, and the degree of specialised management skills available. In 1985, a multinational research study, concerned with the buying process was conducted in various industries in Australia, Canada, the USA and the UK. It was found that

"managers do differentiate between the various stages of the buying process and the responsibilities for these are assigned to different functional areas or departments within the company. Another important finding was that the industrial buying process is more concerned with what is purchased than with any national characteristics. The buyer-seller relationship is of paramount importance and the various roles in buying appear to be much the same wherever business is being transacted." (Chisnall:1993:223)

4.4.4 (E) Roles in Organisational Buying

Five roles are typical of organisational buying processes, and form the buying centre: gate keeper, influencer, user, decider and buyer (e.g. Chisnall 1993, Rice 1993). To this Louden and Della Bitta (1993) add the role of initiator. These roles are sometimes undertaken by the same person, but very frequently different people are active in these various roles and are influential in the buying process. Between the

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members of the buying team there will be a complex interplay of personal and organisational motivations and objectives that will influence their behaviour and the purchase eventually taken.

Initiators are the first to recognise a need for the product or service in the organisation. They perceive a discrepancy between desired goals and actual performance. The *gatekeeper* controls the flow of information into the buying centre. Such a role may be at a senior level or it may simply be the secretary who controls the Buyer's diary (Rice 1993). Gatekeepers may significantly influence purchase decisions because they play a role in identifying the organisation's buying alternatives. *Influencers* may directly or indirectly influence purchase decisions by supplying information for evaluating alternatives or by defining buying specifications related to design, quality, delivery etc.(Louden & Della Bitta 1993). Influencers are particularly important in the technical and the problem solving type of decisions. It is likely that the patterns of influence will also be a function of the culture and the orientation of the organisation (Rice 1993). The *user*, in the industrial situation, may also be a significant influencer of the decision. They often initiate the buying process and may help develop product specifications. They will have decided influence on the type of product and brand bought, particularly where technical supplies are involved (Chisnall 1995). The *decider* has the most crucial role in the decision process as the person who has either formal or informal authority to select suppliers and make the final buying decision (Louden & Della Bitta 1993). Deciders are often the most important members of the buying centre to the selling organisation, but they may be difficult to identify. *Buyers* have formal authority to select vendors and negotiate the terms of the purchase. However, it must be clear that the buyer may not make the final decision and in some cases, the role can be solely administrative (Rice 1993).

From the above, it is clear that the process is complex. Hence, identifying the individual influencers and the decision makers within the organisation poses a major problem for the potential supplier.

4.4.4 (F) Particular Purchasing Environment

Purchasing situations are likely to be highly variable. To distinguish alternative levels it has been agreed in the literature to refer to three generalised 'buy classes' (Oliver 1990, McCarthy & Perreault 1994 and Oumlil & Williams 1989).

◊ *New-task buying* occurs when an organisation has a new need and the buyer wants a great deal of information. New-task buying can involve setting product specifications, evaluating sources of supply, and establishing an order routine that can be followed in the future if results are satisfactory.

◊ *A straight rebuy* is a routine repurchase that may have been made many times before. Choice criteria are well established with wide experience of use of the product. Often, there may be a list of approved suppliers already determined.

◊ *Modified rebuy* is where there is some review of the buying situation, though not as much as in new-task buying. There exists some experience with the product class, but perhaps there have been changes in some of the circumstances surrounding the purchase.

An important implication of these buy classes is in the role of the DMU. It will be active in the new task and dormant in straight rebuys (Oliver 1990).

4.4.4 (G) Individual Influences

As stated previously, people, not organisations, make decisions. Individual factors, therefore, present another set of influences on the buying decision. Therefore some of the individual determinants of consumer behaviour will be relevant in an organisational buying setting.

Motivation: Motivations of buying-centre members are difficult to assess accurately. They have been categorised by Webster and Wind (1972) into task-related (e.g. needs such as product quality, price, service, delivery etc.) and non task-related motives(e.g., variables such as potential for promotion, salary increases etc.). The marketer must be prepared to effectively show how buying-centre members may achieve their goals.

Perception: Organisational buying-centre members' perceptions are important to marketers' development of effective strategies. Two dimensions of this element are

significant: perceptions of the selling company's products and people, and perceptions of their own role in the buying-centre decision process (Louden & Della Bitta 1993).

Learning: Learning is another variable strongly influencing the individual in the organisational buying process. Learning occurs as buyers make decisions that are satisfactory and this reinforcement increases their tendency to make the same decision in future similar situations (Louden & Della Bitta 1993).

4.4.5 The Organisational Buyer's Decision Process

Because organisational decisions typically involve more individuals, in more complex decision tasks, than do individual or household decisions, marketing efforts to affect this process are much more complex (Abratt 1986).

The organisational buying process could be distilled to the same four steps that apply to final consumers, namely problem recognition, information search and alternative evaluation, purchasing processes, and postpurchase processes (Louden & Della Bitta 1993). However, Wind and Thomas (1980) subdivided these stages into greater detail, to aid understanding of what organisations do exactly, as follows: problem recognition, need description, product specification, vendor search, proposal request, vendor selection, purchase routine selection and postpurchase evaluation.

It would seem that the more complex the decision, the more stages there are in the decision making process and the more sources of influence that exist at each stage, both within and outside the decision-making unit.

4.5 Conclusion

The PC industry has changed rapidly in recent years. These changes have occurred at many levels, i.e. the channels, the products, the requirements, and lastly the customers. All these changes have effected consumer buying behaviour. For example,

as consumers become more knowledgeable, their requirements differ, and as a result their behaviour changes.

Consequently, it is important for the marketer to examine the buying behaviour of their potential and current customers. This must be understood in order for the marketer to effectively target them. The consumers' reasons for behaving in a certain manner, and for purchasing to satisfy their needs, should be studied, so that their needs and desires can be satisfied as much as possible by the supplier.

Risk is an inherent feature of life and is a major factor in high involvement purchases, such as PCs, in consumer behaviour. Consumers use different strategies to reduce the risk applicable to their situation and the type and level of risk occurring. The marketer should aid this risk reduction in their marketing strategy to help the consumer in their buying decision. Risk is a particularly inherent feature in business deals. Consequently, risk policies should be carefully thought through.

Like households, organisations make many buying decisions. However, unlike households, organisational decisions typically involve more people in each stage of the decision process. In some instances these buying decisions are routine replacement decisions and at other times new, complex purchase decisions. Each of the purchase situations will elicit different organisational behaviour since the decision making unit varies in size and complexity as the importance of the purchase decision increases. A clear understanding of organisational buying habits, needs and attitudes can aid marketing strategy planning. Also, since there are fewer organisational customers than final customers, it may be possible for some marketing managers to develop a unique strategy for each potential customer.

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Chapter 5

Industry Review

5.1 Introduction

From its inception the computer industry, as a whole, has been characterised by fast-paced change and future uncertainty. It is generally agreed that continued technological developments, shifts in products and market demand, standardisation, and intense competition are fundamentally changing the nature of the computer industry. In the 1970s the focus was on centralised computing; in the 1980s it switched to personal computing power; from 1990 until 2010 it is thought that the emphasis will be on mass connectivity. After that multimedia content will be the focus (Bradbury:1995:18)

5.2 Challenges for the PC Industry in the 1990's

Conditions in this industry have become very tough. Power, to some extent, has shifted to the components' suppliers. These components have added to the increasingly commoditised nature of the PC. For example, most PCs have "Intel Inside" and Microsoft Windows. These are becoming important players in the PC arena. The rapid growth and profitability experienced by companies in the 70's and 80's have been replaced by:

♦ Growth, which slowed rapidly, may not return to past levels in the foreseeable future. Although unit sales are still quite high and growing, the ongoing price war in recent years has meant that prices are being cut dramatically, which means that manufacturers need ever higher volumes to stay profitable. Digital's Peter Donnelly is wary of equating volume growth with revenue growth. "I expect it to be a growth industry in terms of number of units," he said. "Growing revenue in line with that will be a challenge" (D'Arcy & Smith 1996).

♦ Competition has intensified as entry barriers continue to drop and boundaries blur. Product segments have shifted from large-scale computers to PCs and workstations. Although, at IBM, Marketing Director Sean McElwain sees a rejuvenated mainframe market as a sign of the times. "1995 was our best mainframe year for years," he says. "We did three times more business in

mainframes than we did last year." Smaller players are exiting the market. As AST's Frank O'Brien says "You need to have deep pockets to survive."(D'Arcy & Smith 1996). Competition is especially fierce in the Irish market, with some of the top PC names having a significant presence here: IBM, Compaq, Dell, AST and Gateway.

♦ Profit margins, which are being squeezed, will continue to be squeezed (Bohlin & Guiniven:1991:107). As the price war rages, leading manufacturers, like Compaq, are implementing reductions in price to enable more consumers to buy their products, in order to maintain their market share as number one PC manufacturer. Consequently, margins are often getting slimmer with each round of reductions.

The number of companies actively marketing PCs under their own brand name has dropped dramatically due to the price wars of recent years. With a maximum of around 20% difference between the cheapest and most expensive machines, it is becoming difficult for larger corporations to justify choosing a small-scale supplier. (Bird:1994:63)

At the start of this decade the newest form of competition was the Internet. Larry Ellison (1990), chief executive of Oracle, believed that the market was moving towards 'Internet domination', making the hardware item of choice an 'Internet appliance' which would be significantly cheaper than the PC. However, he also believed that it would not replace the PC, and within the next decade the number of PCs in circulation would dramatically increase, so there would be enough room for both types of technologies.

5.3 Pricing

Falling prices stems partly from the advent of the direct distribution manufacturers like Dell and Gateway 2000, who have eliminated the reseller markups. This created major problems for companies like IBM and Compaq with their high, suddenly uncompetitive, pricing policies. Prices fell dramatically as consumers began to use the highly competitive environment to their advantage, and demanded lower prices.

"The double digit growth and high margins which had sustained the PC industry through the 80's had vanished" (Toor:1992:18).

It is generally agreed that Compaq now tend to start each round of price cuts amongst the major brands (Business & Finance Computing 1994). But Compaq Ireland's General Manager, Tom Keating says "Price cutting is part of any business cycle. The original rationale behind Compaq's price cuts in the US was a reduction in the price of some components. This reduction we passed on to our customers." On the other hand the company's marketing strategy is very aggressive, "Our continuing aim is to be the dominant supplier in every market in the world. To maintain our market share we further reduced prices to enable more consumers to buy our products." The 'price war' has continued into 1996, with IBM and Compaq declaring a price war (McEnaney 1996). IBM dropped prices of machines aimed at the corporate market by between 7% and 24%, Compaq dropped prices aimed also at the corporate market by between 7% and 32%.

However, David Prais of Gateway 2000 says that price cuts are simply manufacturers passing on savings they have been receiving from suppliers.

5.4 Distribution Channels in the PC Industry

The traditional channel in the industry is the three tier structure, using third party dealers. The PC market blossomed as dealerships were established, first with larger consultancies, followed by hundreds of smaller high street shops. For the customer there were two distinct advantages to this arrangement. The dealer was not tied solely to one manufacturer, which allowed them to offer 'mix 'n match' solutions. Secondly, this arrangement was based on the idea that the dealer sold added value services, and was able to do so. This arrangement worked very well for companies like IBM. They found their corporate customers preferring to buy from PC dealers. IBM even offered some of the larger organisations the chance to set up their own "dealership" in-house. These retail distribution channels enjoyed high mark-ups. However, a lot of them

were not very efficient and the people selling the machines did not know much about them. (Jarvis 1990)

Michael Dell realised this and pioneered the direct selling model for PCs. It has since been copied by other companies, notably Gateway 2000, and even Digital experimented with it before returning to the indirect dealer channel. Dell has constantly reaffirmed his company's commitment to the direct-sales approach. At a press meeting he explained the benefits of the approach. "There are three fundamental drivers. First, you eliminate reseller mark-ups. Second, we can operate on 30 to 35 days of inventory (Dell 1995)". Dell's method eliminates the two months or more of a delay in which a PC typically languishes in warehouses and on store shelves waiting to be sold (The Economist 1996). Consequently, new technology reaches the customer far quicker than those going through the indirect route. "Third, the model lends itself to the more knowledgeable user, and there's a lot more of them now" (Dell 1995). Direct sales also help with one of the trickiest parts of the industry: forecasting. For example, Dell receive around 500,000 calls from customers each week. Consequently, they can gauge trends in demand more quickly - and so plan more effectively - than firms that get their data indirectly from stores (The Economist 1996). Direct sales now account for 20% of the European PC market (D'Arcy 1995). However, direct PC sales have gone in and out of fashion for more than a decade, rarely rising above a market niche. In the past, big corporate customers generally wanted some local intermediary who was within reach when things went wrong, while individual consumers usually preferred to touch a PC before they bought it (The Economist 1996).

The nature of the indirect channel itself changed. As the direct sales began to blossom, it forced computer retailers to euphemistically change their names to 'resellers'. Slowly but surely the term reseller replaced the term dealer. With this new name they hoped to imply an emphasis on consultation, support and service as a way to separate themselves from the pack of vendors that sold direct to the end-user. However, even on the service side, resellers were being surpassed by the direct selling vendors, like Dell, who offered strong product lines, excellent guarantees and service policies as well as lower prices and competitive technology. These service policies allowed a

return to the traditional values of service, quality control and customer satisfaction (Schwedelson 1990). Now, however it is no longer even a three tier structure. The indirect selling manufacturers are trying to turn their resellers into their partners. IBM for example, have made their dealers their business partners, and work very closely with them to provide solutions for their customers. Mary Gleeson (1996) of IBM says they use their integrated set of skills to discover ways of providing their customers with the best service and solutions possible. This brings the indirect channel to another level. A partnership assumes a lot more than the previous relationships. It requires co-ordination, commitment, trust and a level of interdependence (Mohr & Spekman:1996:38). It moves the relationship from a transactional level to a strategic level where all involved work equally hard to achieve a strategic advantage and customer satisfaction (Burnes, New & Young:1995:8), and may also shift the focus towards complementary products, e.g. software, services and maintenance.

However, it is as clear as direct or indirect. All the players in this competitive market are looking at other channels to increase their customer base and consequently their market share. Dell sells through some VARS (Value Added Resellers). Although in 1995, they discontinued their retail channel in the US (Dell Annual Report 1995) Compaq and IBM have also had to look at the direct market, as it takes such a large share of the market. However, as previously stated, conflict arises when manufacturers try channels which compete with the current channels, particularly when indirect selling manufacturers add the direct channel to their distribution. Their long-term partners are bound to object to it, as it is in direct competition to themselves.

However, buying direct is still only one method of obtaining PC equipment, and not everyone is comfortable phoning a supplier and giving their credit card details. This is further demonstrated by the new PC channel, i.e. the computer superstore, and its success in recent years. Some still prefer the tactile nature of these channels, and that will remain one customer preference that direct sellers cannot address. (Elsden 1994)

This concept originated in the USA where there are now several hundred office requisite hypermarkets targeted primarily at small and medium sized organisations(SMEs). These new retail sheds are clearly a new distribution

opportunity for many suppliers, who have to date focused on either wholesale or direct marketing channels. But these new outlets are not just targeted at the home market. Their attention is increasingly being focused on corporate IT departments. PCs command a growing chunk of an organisation's IT budget and, through a policy of 'cut-throat' pricing, the new retail chains aim to change the way the small and medium sized companies buy. They are attempting to lure these customers, not only with low prices, but also with off-the-shelf delivery and support packages, which they claim match those of the traditional dealer (Murphy 1995).

5.5 PC Services and Support Systems

The personal computer marketplace is becoming increasingly competitive. The PC is becoming more and more of a commodity, with each company offering an almost identical box with similar peripherals and facilities. This partly arises from the increasing dominance of certain component suppliers, such as Intel. Consequently, PC companies are realising that creative innovative technology alone is not enough to succeed. Companies must be viewed as value leaders that are customer-driven instead of technology-driven. Customers expect, and demand more for their money. This means that sellers must offer their PCs at lower prices with efficient delivery. Products and services must be adapted to meet customer needs and effective customer support has to be provided at all times.

Consequently, PC suppliers are having to offer IS (Information Systems) managers new service and support options. Where once IS managers depended primarily on either resellers or in-house staff to provide service, they are now looking more to PC manufacturers. The change means a more direct relationship between the IS manager and the PC manufacturer. Now most PC companies are offering warranties that include on-site service, a toll-free hotline, overnight parts delivery and an automated fax response system.

One major reason for the shift to direct service and support is that servicing complex networks and PCs is getting beyond the scope of many local dealers' expertise. Also,

PCs have gone beyond personal productivity. It is now part of the business processes of an organisation. This means that PC managers do not have the time to spend solving every technical issue that arises (Francis 1993).

Many analysts and IS managers say that support has become one of the few factors distinguishing PC companies. For example, Digital Equipment Corporation was long declared a loser in the PC wars, but in 1992 Digital made a substantial comeback, to some degree by upgrading its service and support. Compaq resisted this new trend, but Tom Keating, General Manager of Compaq Ireland, acknowledges this mistake and says they are rectifying the situation, with their service and support options. After years of reliance on its dealer channel for primary service and support, Compaq is now developing direct relationships with IS managers through several channels. They include telephone support lines and on-site repair services delivered through at least eight different third-party providers.

Another new trend in this area is the custom fitting of services to meet individual customer needs. This appears to be the path to be followed by many PC suppliers in the future (Francis:1993:49).

With the PC manufacturers supplying these support services the need for third-party maintenance agreements is in question. Traditionally, maintenance prices have been calculated as a percentage of hardware prices, and as hardware prices continue to drop, maintenance prices are being squeezed. Competition in this market is intense with the third party maintenance companies being squeezed out of the market by the manufacturers who provide most of these services. These have a natural advantage in that they know their own kit well and are best placed to get hold of vital spare parts. Also, they can usually build on an existing business relationship.(Goodwin 1994)

5.6 The Market

In this industry the market was traditionally segmented into three very different markets: the corporate market, the small business market and the home market. The home market traditionally went through the high street retail outlet, where they could see the product, get a demonstration and be shown how to use it (The Economist 1996). However this has all changed. As Michael Dell said "you are only a first time buyer once" and people are becoming much more knowledgeable and gaining confidence in their own expertise (D'Arcy 1995). This was also true of the business markets. The smaller businesses used consultants to help them choose systems (Business and Finance Computing:1994:9), and big corporate customers generally wanted some local intermediary who is within reach when things go wrong (The Economist:1996:79).

Opinion is divided on the PC's position between the home and business markets, and the various applications needed. Some draw a clear distinction between the two. Mitsubishi's Des Hughes claims that the home market is seasonal rather than consistent all year round and cannot see the split being more than 50/50. Others point to the trend of teleworking as blurring the differences between the two. Tim McCarthy of Dell remarks that a lot of companies are buying PCs for their workers for use in the home. Linked to that, modem sales "are really going through the roof," he said. (D'Arcy & Smith 1995/1996).

The home market is expected to continue to boom in the next couple of years and consequently must be catered for. This part of the business has increased and will continue to increase considerably. (Rothery, 1994)

This blurring of the market has implications for the distribution of the products. Direct sellers who concentrate on the corporate market must change their focus. As the home market continues to expand, it is becoming too large a segment to ignore. Also the requirements of the home market is becoming less dissimilar than that of the business market. As people increase in expertise, they rely less on the personal

support of the retailers. They want the same level of support from the manufacturer as the business customers. In fact, a lot of the home market is an overflow from the business market with people working from home or bringing work home.

The home market in Ireland consists mainly of those in the ABCI social class grouping (JNRR 1995/96), which would imply that they are professional people who have gained a level of expertise with PCs in work, and have purchased them based on this knowledge or through a work contact, e.g. purchase the PC from the same company that supplies their workplace. This is a further reason for the blurring between the business and the home markets.

5.7 Industry Trends

The PC industry is evolving so rapidly that trends are constantly coming to light. Driving the market will be the continued growth of the economy as a whole, the rapid growth of networking in general and the Internet in particular, and the continued proliferation of multimedia technologies with its attendant demands for greater processing, bigger memories and high-bandwidth networks (D'Arcy & Smith 1995/1996).

The IT market in Ireland was predicted to grow by 12% in 1996, whereas GNP was to grow by 6-8%. This would make the Irish IT market one of the fastest growing in Europe. Throughout 1995 and 1996 the worldwide PC market has grown by 20% (The Economist 1996). However, one must be wary of equating volume growth with revenue growth. It is expected to be a growth industry in terms of the number of units sold. However, revenue will increase at a much slower rate, if at all.

Among the trends predicted is the expected steady growth in midrange machines as well as a healthy growth in facilities management contracts. These would span all types of machine.

Revenue from software and services overtook hardware revenues three years ago, and services continues to be a growth industry. As the PC has become a commodity, so services and support have become the basis for gaining a competitive advantage. This has been dealt with in section 5.5.

The 'war' in the PC arena is expected to continue. Nevertheless, those most involved in that market remain bullish. It is expected that competition in the Irish market will intensify in the form of new PC makers entering the Irish market. (D'Arcy & Smith 1996)

One trend that John Shepheard of Gateway foresees is a more rapid growth in sales of portable PCs. 'Portable technology used to be 50% more expensive than an equivalent desktop computer. Now the differential is down to 25%.' (Dunne:1995:38)

The final trend is one which has been dealt with previously, that is the increase in the size of the home market and their changing needs. The blurring of the business and home markets also requires examination to determine if these can be clearly segmented in the future.

The future for the PC industry is very difficult to foresee beyond the next year or two. At the moment it is booming in Ireland and Europe. However, considering the rapid pace of change, technologies and methods of distribution that exist now can change in a short time. All that can be done is to monitor and map the changes as they occur and use this knowledge to attempt to facilitate some long-term and contingency planning.

5.8 The Irish Competitor Profile

The PC market in Ireland is intensely competitive, with most of the big names in PC manufacturing having operations here. Consequently, it is very important to examine these companies and their individual operations. As of the beginning of 1996 market share with regard to sales of PCs in Ireland stood as follows (Aughney 1996):

Table 5.1 PC Companies Market Share

PC Company	Market Share %
Dell Computer Corporation	18.3
IBM	11.9
Compaq	7.8
AST	7.7
Apple	7.6
Digital	7.3
Siemens Nixdorf	6.5
ICL	5.7
Gateway 2000	5.4
Hewlett Packard	3.6
Others	18.2
Total	100

5.8.1 Gateway 2000

Gateway 2000 was founded in 1985 by Ted Waitt. He and his brother set up in the Waitt Cattle Company offices. They focused on marketing PCs through the direct market channel. Today Gateway 2000 is a Fortune 500 company. In October 1993, Gateway 2000 established European headquarters at Clonshaugh Industrial Estate in Dublin with 120 staff. The company began by marketing its PCs to the Irish and UK markets. Marketing activities began in France in May 1994, followed by Germany in September 1994. In 1995, Gateway expanded European activity into Belgium, Luxembourg, Austria and Switzerland. After one year in business, Gateway 2000 Europe reported sales of over $120 million. (Dunne:1995:36)

The Dublin based branch is very autonomous, but if there is a decision to be made on a particular component from a particular supplier they do it jointly with the US. This is to examine if they can use the component in all of their markets and across the whole range. If so, it allows them to buy in bulk, which is a key to keeping down the cost of the finished product. (Dunne:1995:39)

Product development is carried out in the US but there is a major input by the Irish operation. Between the product management, marketing and purchasing departments, they actively look for products that would suit the market. The European operation is dealing with different cultures, different barriers and different needs, and this must be accommodated in the new product development. (Dunne:1995:41)

Production: Gateway 2000 manufacture PCs to order and sell direct to the end user. This allows them to offer the latest technology at the lowest prices. They operate in a 100% build to order environment and the quantities of PCs ordered can range from one to one thousand, consequently, from the materials point of view, it is critical that their forecasting of the numbers and mix of the types of machines to be built is highly accurate.

Marketing: Gateway has focused more on consumers as opposed to businesses (The Economist:1996:79). They market aggressively, encouraging people to phone them on freephone lines throughout Europe. A large proportion of their marketing budget goes on advertising directly to their client base, which is the consumer market, the SOHO(small office/home office) market and the corporate market. Through print advertisements, Gateway encourages people to ring their freephone numbers to gather further information on whatever products they are interested in. The phone is answered by their highly trained multilingual sales staff in their call centre in Dublin, who take orders and deal with queries in English, French or German. The sales team assist callers in deciding what configuration of PC would best suit their needs and pocket. Once the decision has been made and the sale confirmed, the order is immediately processed and sent down to the production line. There the system is assembled and subjected to a comprehensive quality process.

Distribution & Supply: Gateway 2000 is involved purely in direct sales. They employ no outside distributors, they sell direct to their customers. The speed of the operation is such that deliveries can take place within two days of the order being taken. Consequently, J.I.T. is crucial. They cannot afford to have large quantities of components in stock. Because they build to order and because of their rapid growth rate, they need easily sourcible materials in case there are any dramatic changes in the

requirements that they had forecasted. If feasible, products are sourced in Ireland. One of the benefits of their fast growth is that they can ask suppliers to move locally and support them by putting in a warehouse locally, and sometimes, manufacturing locally.

Cost, quality and J.I.T. delivery are Gateway 2000's major criteria when assessing a potential supplier. Before approving a supplier, their quality engineers are sent out to do an audit on the potential supply company and then make the decision. Because of the way they operate, they depend hugely on their suppliers delivering exactly what they want when they want it.

Structure: The company is structured under a head of operations, with seven groups or functions within the company - purchasing, materials, shipping, new product introduction, quality, engineering and production management. All of the groups are highly integrated.

5.8.2 Dell

Dell Computer Corporation pioneered the direct marketing of personal computers in 1984, and became the first company in the PC industry to offer manufacturer-direct technical support. The company is headed by Michael Dell, who began the business in his college room. It was in 1983, while a first year student in the University of Texas at Austin, that he spotted the potential for selling computers directly to the end-user. (Jacob 1995) He says he realised that while the normal retail distribution channels enjoyed high mark-ups they were not very efficient. People selling the machines did not know much about them.

Dell began by selling mainly to computer enthusiasts who were prepared to tinker with machines themselves and came to realise that corporate customers would not bite in large numbers unless he added back-up services - crucially on site PC repairs, which began in 1987. Dell was the first PC manufacturer to offer a toll-free hot-line for technical problems; guaranteed next day on-site service for its products and

replacement machines by overnight delivery, and is now the first company in the industry to offer-four hour on-site service under a program called Critical Care. It also runs a service which lets customers, using an automatic telephone system, get instant faxed copies of pages of Dell's technical computer manuals. The company has given its telephone technicians the power to replace machines on their own initiative, without referring to more senior management. Dell also offers a 30-day toll-free "Getting Started" help-line specially designed to assist customers who are unfamiliar with computers. (Francis 1993)

Dell's achievement is due in large measure to the 'commoditisation' of the PC market. Personal computers have become so standardised in their technology and reliable in performance that customers have grown reluctant to pay the premium prices demanded by companies such as IBM and Compaq.

Production: Dell assembles PCs at plants in Texas and Ireland and sells the products direct to customers, avoiding retail outlets with their high-markups. This has allowed it to undercut the larger companies (Dickson 1991). The company's manufacturing line has the flexibility to customise orders to buyers' specific needs and Dell is now loading software on the production line. Most PCs are shipped in five or less days from the date of order.

Distribution: Dell predominantly sells direct from the point of manufacture to the customer. Dell has also had to establish account executives in major US cities to handle its biggest corporate customers, and at the other end of the market it has begun to sell machines through computer "superstores", which allow manufacturers extremely thin profit margins. In 1991 around 55% of Dell's US sales went to Fortune 1000 companies and government departments, about 12% to so-called Value Added Resellers, and the remainder to medium and small businesses (Dickson 1991). However, Dell now are extremely wary of moving away from their core channel as in the early 1990s, concerned that by sticking to direct sales it would miss out on the fastest growing market, i.e. the home market, it dived into retail sales. It soon discovered that the market punishes companies that try to have both ways. The moment Dell offered a new computer model through its direct channel, the older

computers still on shop shelves immediately lost a big chunk of their value, forcing Dell to compensate retailers (The Economist:1996:79). Consequently, they have reduced their indirect sales to VARs (value added resellers).

In 1995 Dell made the decision to renew their focus on the direct channel for distribution of their products. This is the channel which best suits their "integrated, build-to-order business model, with its emphasis on service and support". Accordingly, Dell no longer distributes products through traditional retail stores in the US and Canada. Approximately $72m in revenue during the first half of the fiscal 1995 was derived from retail-outlet sales in these two countries. (Dell Computer Corporation Annual Report:1995:2/3)

Marketing: Dell uses what they like to call "direct relationship marketing", a formula which has made the company one of the fastest growing businesses in the US and a phenomenon in the personal computer industry (Condon 1996). However, Dell is much more than a simple cut-price 'mail order' firm, for it tries to forge a close, direct relationship with its customers and offers them some of the best back-up services in the industry, all of which are designed to build brand loyalty. This relationship is based mainly on the telephone. This constant talking to customers gives Dell another edge, fast feedback on buyers' likes and dislikes. This allows it to respond extremely quickly to changing market demands, and keep product inventory low.

Although Dell's prices are lower, they pride themselves on having built up a reputation for inexpensive, well-designed computers. They also have a high quality service and support system, which they themselves pioneered.

To maintain and expand its position, Dell will have to keep up a flow of quality new products and keep innovating in its marketing methods and back-up services, clearly identifying itself as unique creator of competitively-priced added value.

1995 Figures

In 1993 net sales fell to $2 billion, in 1994 net income fell to -$40 million (Jacob 1995). Following those bad financial years 1995 was a record year for Dell. Although,

the figures were not quite as high as estimated. Revenue increased 21%, from $2.9bn in 1994 to $3.5bn. Net Income was $149.2m compared with a loss of $35.8 in 1994. Gross profit margin represented 21.2% of sales compared with 15.1% in 1994. (Dell Annual Report 1995)

	1994	1995
Revenue	$2.9bn	$3.5bn
Net Income	($35.8)	$149.2m
Gross Profit Margin	15.1% of Sales	21.2% of Sales

Revenue growth in Europe in 1995 was approximately 50%.

In 1995 Dell Europe doubled manufacturing space at the plant in Limerick; expanded their major accounts program throughout Europe; strengthened the management group; and focused on execution for profitability and growth. Sales increased 22%. (Dell's Annual Report 1995)

1996 has also been a good year for Dell. Since January share price has risen by more than 250%. Its profits as of 30/9/1996 were up nearly 60% over a year earlier. Throughout 1995 and 1996 Dell has been growing at nearly 50% a year in a market growing by just 20%. This has pushed its share of the market up to nearly 4%, making it the world's fifth largest PC maker in a fragmented business (The Economist:1996:79). As of the third quarter in 1996, sales were $2.02 billion, which was an increase of 43% on the same time in 1995. Pre-tax profits increased by 92% to $145 million (Sunday Times 17/11/1996).

5.8.3 IBM

In 1914 T.J. Watson Sr. took over a mechanical calculating machine in the U.S. Ten years later he gave the company the name International Business Machines. IBM set

up in Ireland in 1956 and was the first to popularise the PC, taking over from Apple (IBM Euro Review 1989).

In the early eighties IBMs business management was alarmed to find that the cost of selling some of its entry level machines was becoming prohibitive. Unless these machines formed part of a larger contract then the profit margins were being hit badly. IBM's solution was to bring in a third party. The PC market blossomed as dealerships were established, first with larger consultancies, soon followed by hundreds of smaller high street shops which could sell you anything from a rapidly increasing IBM PC range. Dealers had to pass certain criteria in order to become IBM dealers. As a fail-safe, buyers could also get access to IBM's own help facilities (Jarvis:1990:25).

However, with the arrival of companies like Dell and Gateway 2000, who distributed purely by direct means, undercutting prices, IBM was forced to set up International Computer Products International (ICPI) in June 1992. This subsidiary of IBM sold the Ambra range of PCs direct to users and dealers (Massey 1992). This, however, was not to succeed. IBM now have a policy of only dealing directly with their business partners, and are working very hard to build up a close relationship with their business partners, so together they can provide solutions for their customers (Gleeson 1996).

IBM could no longer dictate and dominate the PC market. Customers now had choices, and they based them on quality, service and price (Clark & Jaben:1993:24). In 1982 IBM had a market share of 85% and in 1992 this market share had fallen to 15%. Customers, past and present, repeatedly complained about the unresponsiveness of IBM's sales and service operation.

Consequently, in 1993 IBM undertook a major remarketing strategy to try and regain some of the lost ground and retaliate to its competitors who were negatively using IBM in their advertising and eating into IBM's market share, especially Dell, Compaq and Gateway 2000 (Spangler 1993). The key to this strategy was that IBM had to do a better job of individually tailoring its products and services to meet each customers' needs, including providing solutions to problems in systems where IBM equipment

may be mixed with hardware or software from several other vendors (Rock:1993:26). IBM had to become more flexible in searching for ways of doing business to suit their customers. In other words, IBM had to become more customer oriented.

IBM was selling a lot of PCs but not making much money at it. In 1992, IBM's PC revenue was $7.89 billion, down from $8.5 billion in 1991, and $9.64 billion in 1990. IBMs direct sales force was too pricey to make money in a low profit business like PCs, so IBM's independent PC company had to look elsewhere. This prompted perhaps the most surprising advertising campaign; "IBM for less than IBM" (Clark 1993). This also suggested that one of IBM's toughest competitors in the market may be itself (Spangler:1993:47). They also moved into direct mail. After its designation as a separate company in September 1992, the PC company shipped 1.4 million units in the fourth quarter of 1992, up 40% from the comparable period in 1991. Still it didn't make money. (Clark 1993)

However, things have improved in the last couple of years, since IBM have refocused their efforts on the dealer channel, making their dealers their partners. Their aim is to work closely with their business partners and use their integrated set of skills to provide solutions for their customers. However, IBM's PC company will have no direct contact with the customer, every thing will go through the dealer/partner (Gleeson 1996). This moves their dealership channel to a new level. It is no longer a three tier, almost hierarchical, structure, it is now a very integrated framework and relationship. Though IBM utilises resellers, mass merchants, marketing alliances and direct response, the company's network of authorised dealers sells more PCs than any other channel (Clark:1993:38).

Structure: IBM has four main headquarters world-wide (Mullich 1993):
* IBM North America, based in White Plains, New York.
* IBM Latin America, based in Mount Pleasant, New York.
* IBM Asia Pacific, based in Tokyo.
* IBM Europe/Middle East/Africa, based in Paris.

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As IBM struggled with its remarketing strategy in the U.S., overseas subsidiaries were gaining even more manufacturing and marketing autonomy to pursue new areas of opportunity. In April 1993, IBM Asia Pacific announced internally that they were decentralising operations to local operations in the 18 countries that make up the region. Each country has its own distinctly local corporations, staffed by locals who decide on their own advertising and marketing strategies. (Mullich 1993)

In late March 1993, the $25 billion IBM European division concluded a two year process to carve itself into some 200 autonomous business units with individual focuses and profit centres. Advertising is generally handled on a country-by-country basis. Europe was in the forefront of changing branch offices into autonomous units and independent profit centres. (Mullich 1993)

With their growing autonomy, subsidiaries are being challenged to bring more cash in. In Europe and fast-growing Latin America, IBM factories have been instructed to sell their capabilities and services to other companies as well. In April, two of the three manufacturing plants in IBM Latin America were transformed into completely autonomous "industrial business centres". (Mullich 1993)

1995 figures (IBM Ireland):
After two years of major cost cutting IBM had a good fiscal 1995. Pre-tax profits increased by 63% at IBM Ireland from £4.9 million to £8 million. Turnover increased to £68.4 million. Operating profits went up from £3.8 million to £6.1 million. (O'Kane 1996) After tax profits were up to £5.7 million from £4 million in 1994, on a 2% increase in turnover. Domestic revenue increased by 8% from £52.4 million in 1994 to £54 million in 1995 (Casey 1996).

The IBM group, at the end of the second quarter in 1996, bettered their forecasts with profits of $1.3 billion. Revenue increased to $18.18 billion from $17.55 billion. However, hardware sales fell by 1%, but PC sales increased. IBM earned $46 million in new service contracts as its services business revenues increase by 23%. In the first six months of 1996 IBM earned $2.11 billion on revenue of $34.74 billion (Irish Times 26/71996).

IBM & Apple - A Strategic Alliance:

Recognising the increasing customer need to improve links across different computer systems, IBM Corporation and Apple Computer announced a strategic alliance in July 1991 to share previously propriety technologies (Bertrand 1992). Unlike buyer-seller or manufacturer-distributor partnerships, co-marketing alliances are lateral relationships between firms at the same level in the value-added chain and represent a form of "symbiotic marketing" (Bucklin & Sengupta:1993:32). In their study they found that alliances end to be more successful in turbulent environments. The implication is that alliances provide a superior vehicle for gaining access to new complementary products or technologies without all the risks of internal development. Consequently, by this move IBM expands its influence into certain classes of personal computers, which it would be unlikely to achieve through internal development, and Apple Computer obtains improved connections to mainstream corporate computing.

However IBM have since formed other major technology alliances with big computer names such as Motorola Inc., Siemens Corp. and Hewlett-Packard Co. This is part of a business program which has existed for more than two decades, but its 1992 sales of $2.5 billion shattered records. There are 20,000-plus "business partners" selling IBM products.

5.8.4 Compaq

Compaq computing was founded by Joseph "Rod" Canion. For much of its first decade it wanted to be like IBM. But now it has drawn abreast of IBM in the PC market by producing high quality, reliable products that did not try and lock consumers into a proprietary IBM-style environment. But Compaq has found that being at the top also has its dangers, especially as experienced by Compaq's cofounder Joseph Canion when he was ousted from his position as chief executive after third quarter results in October 1991, which recorded Compaq's first loss (Toor 1992). Everything started to dramatically change. Prices were rapidly falling leaving

companies like IBM and Compaq, with their high prices, perilously exposed (Toor:1992:18).

Compaq's shareholders looked to Europe, to Eckhard Pfeiffer, Head of the European division that by now made up 53% of Compaq's total income, who became president and chief executive officer. This brought about a lot of structural changes and changed Compaq's corporate ethos. Their biggest problem was people's perception of Compaq's PCs as being over-priced. This perception was fuelled by the clone manufacturers like Dell, with their much lower prices. Compaq's new strategy has abandoned its policy of recommended dealer prices in favour of typical buying prices. It had to accept lower margins. Compaq had to reduce their prices without compromising their lead brand attributes: quality, reliability, compatibility. The message they sent out was not "This is a cheap product from Compaq" but rather "A Compaq product that costs less".

In 1994 the price war loomed as Compaq announced massive price cuts of up to 25% (McManus 1994). However, David Prais; European marketing manager of Gateway 2000, says that the term 'price war' is a misnomer, and that the manufacturers are just passing on savings that they have been receiving from suppliers over the previous six months. He says that all regularly changed their prices over that period in line with trade reductions (Business and Finance Computing 1994).

Another prominent strand in the new strategy is an emphasis on more "direct" dealings with the customer. Initially Compaq resisted the trend of providing service and support options. However, due to the pressure put on them by the highly competitive market, they have had to rectify the situation. (Francis:1993:48). Previously the customer only had direct dealings with the dealer, who was at the forefront.

To achieve this Compaq introduced helplines and put the phone number on all their commercials. Other services include on-site repair services delivered through at least eight different third-party providers. Compaq's support services are even available directly if needed. However, Tom Keating (1996) still acknowledges that they are

behind the rest of the field in this area and have to work hard to provide a higher quality service and support system.

Compaq is currently the number one PC supplier world-wide. The Compaq Ireland operation opened up in mid 1994, taking over distribution directly in this country. Compaq Ireland's general manager Tom Keating said:

"We opened our Irish office to allow all existing and potential customers to buy our products wherever they want. We are in Ireland to give Irish users and potential users the same service that we currently provide in the USA and the rest of Europe."

Compaq originally distributed through Cara Computers when they moved to Ireland, but in the first half of 1995 they expanded their sales network. Compaq now sells through eight other wholesalers and retailers (Canniffe 1995). Compaq has extended distribution channels to include the new breed of PC "superstores". Compaq even looked at the direct channel but decided against it. They expanded their distribution network in July 1996 by appointing Horizon as its new authorised distributor for Compaq products in Ireland. Tom Keating, general manager of Compaq, said that this aids Compaq move from being a PC company to being a computer company (Irish Computer July 1996).

1995 Figures:

Compaq held onto number one ranking in the PC markets (Irish Times 6/11/1995 and The Economist 1996). Sales increased by 40% to $3.5bn in the second quarter ending June 30th 1995. Net Income for the second quarter was $24.6m, up 17% on the same period in 1994. (Irish Independent 26/71995)

5.8.5 AST Research

AST Research was founded by 1980 by Safl Quereshey, Tom Yuen and Albert Wong, all immigrant engineer students. AST initially offered consultancy to manufacturers. Then they moved on to manufacturing add-on circuit boards for early PCs. After a

period making computer peripherals, it started making IBM compatible PCs. In 1986 the first AST Computer was produced, the Premium 256. (Irish Times 6/2/94)

In 1993 AST acquired Tandy's PC operations, including over 100 patents and access to 6500 retail outlets. Early in 1994 AST opened their factory in Limerick. It is the only factory AST has in Europe. (O'Marcaigh 1995)

Samsung Electric initially acquired a 41% shareholding in AST but increased this to 50% by July 1995. AST sought this investment when it was unable to keep up with the demand in the surging PC market. (Irish Independent 12/7/1995)

By consolidating manufacturing, distribution and repair in its Limerick facility, AST Ireland fulfils AST's commitment to customer responsiveness. The Limerick facility manufactures, services and distributes AST's full range of products. AST is ranked 287 on Fortune 500's list of America's industrial companies. (Sunday Times 21/5/1995)

As well as creating 700 new jobs here, AST has created a lot of indirect employment through agreements with its network of local suppliers.

Distribution: AST has a factory in Limerick, two in the US and three in Asia. AST computers are sold in over 100 countries by over 10,000 dealers and 43 local sales offices. The Limerick operation supplies Europe, Africa and the Middle East (O'Marcaigh 1995). In June 1996, AST extended its presence both in the corporate sector and the high street by signing an agreement with three major distributors: Horizon, Frontline and Sharptext. They believe that this will reinforce its position in retail outlets (Irish Computer July 1996).

Production: AST has developed a reputation for 'no-nonsense' quality engineering, often manufacturing 'own label' products which are sold under other brands. AST uses postponement techniques to build 'generic products' until a specific demand is identified, resulting in lower inventory costs and faster delivery. 98% of PCs produced

in Limerick are built to order and shipped to customers within four days throughout Europe (Sunday Times, 21/5/1995).

1995 Figures

The quarter ending 2nd July resulted in losses of £5 million (Sunday Times 11/6/1995). As of 31/10/95 AST chalked up their sixth loss making quarter. Samsung have extended AST a $100 million line of credit to help fund growth (Sunday Business Post 19/11/1995).

AST recorded a net loss of $128 million for the quarter ending 31st December 1995. However, International sales increased by 24% to $350 million and European sales increased by 32% (Casey 1996).

5.8.6 Mitsubishi Apricot

Mitsubishi Ireland started operations in the current president's living room in 1981. It, like all Mitsubishi subsidiaries, was very autonomous from the beginning, with no interference from its Japanese parent. From the start they had the Japanese philosophy of attention to quality and detail, which eventually set them apart from their numerous competitors. Fergus Madigan (1997) believes that their success has been largely due to their channel policy, which insists that Mitsubishi only select the best dealers in each field and form a strong relationship with them, where they become business partners. This coupled with their high range of quality products, backed with support has ensured their success.

The Mitsubishi group bought Apricot in 1990 which was already a successful brand. Mitsubishi only launched Apricot on the Irish market in 1995 and it is only in the early development stage. The Apricot range is a line of multimedia PCs. Apricot was aimed primarily at the consumer market, as Mitsubishi felt that there was a gap in the already highly competitive market. Most of the PC companies aimed there products at the business markets even though the PC was rapidly becoming a consumer item. They did this through an extensive marketing campaign aimed purely at consumers.

Their target population was middle to upper class consumers. The campaign that did not use technical jargon, but used highly visual and educational themes. This proved highly successful and has established Apricot as the number one PC for the home consumer over the last two years. The company does intend to eventual target the business market once established here (McDonald 1996). Madigan (1997) expects Apricot to fully enter the business market later this year. They intend targeting this segment through a very exclusive dealer network, carefully selected.

Hughes (1996) says that the multimedia PC is a natural progression for Mitsubishi as he believes that the T.V. and PC will soon be integrated as one, which is something that Mitsubishi are currently examining.

The future for Mitsubishi Apricot is entirely dependant upon the continuing success of their dealer network. In every town they have waited until they got the leader to take on their product. This is backed by their marketing support, which Madigan feels is vital for the success of their dealer network.

5.9 Conclusions

This chapter briefly outlines the Irish Computer as exists in the early to mid 1990's and how it has developed. However, the only constant that can be seen in this industry is change. The players in the market are constantly looking for new more innovative and competitive strategies to improve their own position in the market. Consequently, even while this has been written, changes will have taken place. The marketing channel in this industry has undergone dramatic changes in the last decade with the advent of new competition to the market and continues to evolve to adapt to the rapidly evolving market. Consequently, it is only possible to look at the future with respect to the next five years at the most, which makes future predictions very difficult.

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Chapter 6

Research Methodology

6.1 Introduction

Having completed an analysis of the literature and the industry relevant to the marketing channel and the PC industry, a number of areas were found to demand further attention (these being illustrated in the section dealing with research objectives). It is clear that this is a quite a new and under researched area qualifying it for further study, and so justifying this research. This section of the study examines the methodology and the primary research necessary to fulfil the stated objectives.

The research begins with exploratory in-depth semi-structured interviews with the primary distributors who agreed to take part in this study. For this a theme sheet was devised to cover the required areas. Subsequent to the analysis of these interviews two structured questionnaires were formulated for the two customer segments, namely the business consumers and the home consumers.

The penultimate stage in the research procedure was the development of the appropriate analysis techniques to analyse the data

6.2 Formulation of Research Objectives

Objective One
To determine current patterns in the marketing channel in the PC industry in Ireland and how they have evolved.
As there has been little or no research done in this area in the Irish market, it is very unclear how the channel has evolved and even to some extent how it stands at present.

This objective was addressed in three ways by, (a) in the literature review - particularly chapters 2 and 3, which was fairly limited, (b) in the exploratory interviews with primary distributors and, (c) in the home and business consumer surveys.

Objective Two

To determine changes that are taking place in the different customer markets and the implications they have for the marketing channel.

There is a lot of evidence from the literature that the market is changing with the individual segments blurring at the edges. However, opinion appears to be divided as to the extent of the changes and the implications they will have for the marketing channel.

This objective was also addressed as objective one above.

Objective Three

To determine how the business and home consumer segments compare and/or contrast.

Again there is disagreement in the industry as to how alike or unalike these segments are. This has obvious implications for the continued evolution of the marketing channel.

This objective was addressed by comparing the results of the two surveys.

Objective Four

To examine what, if any, differences exist between consumers utilising differing marketing channels.

For example, there is a certain amount of speculation in the literature that a consumer's level of confidence in their own knowledge of PCs will effect their choice of marketing channel especially in the home consumer market. Also, consumers experiencing varying levels of risk, will choose their channel accordingly.

This objective was addressed within the consumer surveys.

6.3 Research Design

6.3.1 Introduction

The first section of this study, i.e. chapter 1 to chapter 3 - the literature review, examines the secondary data available in this area. On examination of this literature it became clear that further research is necessary on the changing marketing channel and changing purchase behaviour with respect to personal computers.

6.3.2 Selecting a Paradigm for the Study

Research methods can be categorised into one of two paradigms; quantitative or qualitative. Traditionally a gulf is seen to exist between qualitative and quantitative research, with each belonging to distinctively different paradigms (Layder 1988) and although many researchers see themselves as belonging to one or other paradigm, others happily combine methods. Julia Brannen (1994) draws attention to ways in which the paradigms overlap and ways in which they differ. She has shown that there is considerable overlap in the processes of logical enquiry which underpin them. Where the approaches differ most is in their methods, their relation to theory and their treatment of data as knowledge. Many people now advocate the combination of both paradigms once researchers are aware of its many advantages and also their differing methodologies (Brannen 1994; Bryman 1994; Hammersley 1994).

Qualitative research techniques to assist in hypothesis generation are particularly appropriate in the early stages of a research program. It is also very useful in eliciting the language used by consumers to help in the design of the interviewing instrument (Bartos 1986). Bartos goes on to say that quantitative research is also necessary to arrive at any definite conclusions but that the polarisation of research techniques is counterproductive and quotes Beveridge in summing up why we need the entire arsenal of research techniques, qualitative as well as quantitative:

> *"In research, an attitude of mind is required for discovery which is different from that required for proof, for discovery and proof are distinct processes".*

Consequently, it was decided to use qualitative depth interviews for exploratory purposes, i.e. discovery, and quantitative research for the definitive study, i.e. proof. Figure 6.1 demonstrates the research plan

Figure 6.1 Research Map
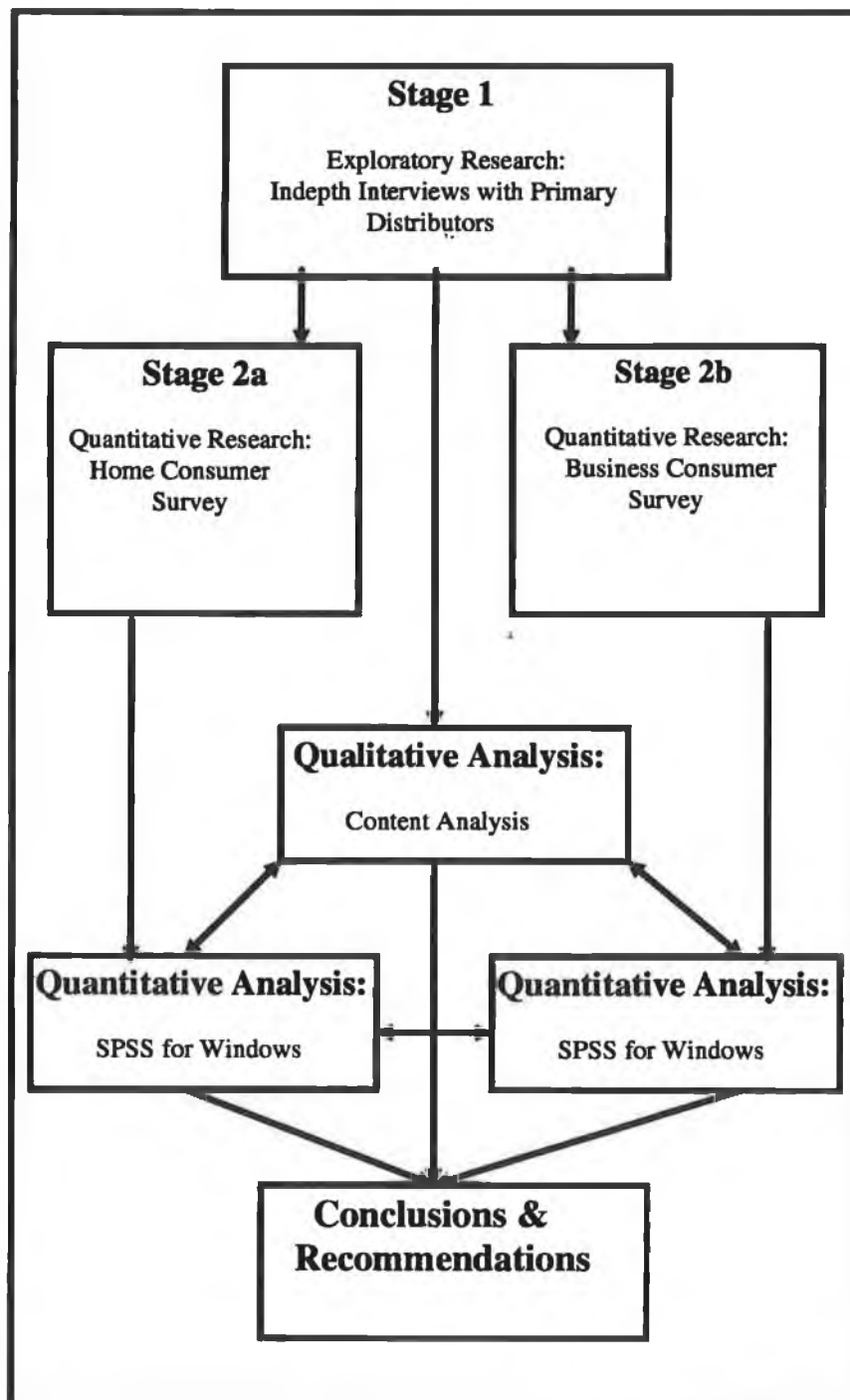
6.3.3 Exploratory Research

Following a critique of the literature it was found that a gap existed between the primary distributors' and the consumers' perspective of factors influencing the PC industry (e.g. Wadsworth 1995). Also, the literature available on the research topic was limited, i.e. little has been written on the channel in the PC industry and how/why it has changed. Therefore, prior to the quantitative section of the research, depth interviews were conducted with the primary distributors to ascertain their views on what influences the consumer when purchasing a personal computer and the reasons behind the changes in this industry. This could later be compared to the consumer research to ascertain if and/or where the gaps exist.

The rationale for using depth interviews here has been somewhat explained in section 6.3.2. In industrial markets where information is often being sought from experts and a formal questionnaire can be out of place, individual, intensive or depth interviews are frequently used. The interview may be non-directive or semi-structured. In the first case the interviewer leaves the respondent free to come up with an experience, attitude, need or idea that bears on the subject which, at the exploratory stage, is likely to be broadly defined. For a semi-structured interview, the interviewer is equipped with an agenda or check-list designed to ensure that specific aspects of interest are covered. (Crimp & Wright:1995:33)

Consequently, as certain areas needed to be covered in the interviews, semi structured interviews were deemed most appropriate.

6.3.3a Objectives of Semi-Structured Interviews

1. To determine current marketing channel patterns, and how and/or why they have evolved.
2. To determine the primary distributors' views on how and/or why the consumer markets are changing.

3. To determine the primary distributors' views on what the consumers' influences are and what they want from their supplier.

6.3.3b Implementation of the Semi-Structured Interviews

1. In January 1996 letters were sent out to the marketing managers of the six major primary distributors in Ireland explaining the nature of the research and requesting 30 minutes of their time to interview them.

2. Follow up calls were made one week later to try and arrange an interview at a convenient time. The following agreed to be interviewed: Dell, Compaq, IBM and Mitsubishi Apricot.

3. The interviews took place in February and March. The interviews took place in the respondents office or a meeting room. They were of 30-45 minutes duration. According to the literature (e.g. Tull & Hawkins 1990) individual depth interviews require this length of time. They were carried out with the aid of a theme sheet (See Appendix A) including all the pertinent issues as is the nature of a semi-structured interview (Crimp & Wright:1995:33). They were recorded using a dictaphone and later transcribed. The use of portable tape recorders to record depth interviews has attracted differing opinions. But as Sampson (1978) points out:

   " a friendly, relaxed approach and manner, and a clear guarantee of
   anonymity by the interviewer can very quickly allay any suspicion and
   anxiety about the tape recorder on the part of the respondent".

   None of the respondents objected to the use of the dictaphone.

4. These interviews were then transcribed and analysed (see Chapter 7).

The main problem with this method of data collection was the time it took to contact the relevant person in the organisation and arrange an interview time to suit them. It took almost three months to arrange and conduct the interviews.

6.3.4 Implementation of Main Research

The home consumer market is in the growth phase in Ireland at present, and is expected to account for up to 50% of the PC market in Ireland over the next few years,

as people become more knowledgeable and comfortable with PCs. Therefore, it was deemed necessary to carry out the research with both types of consumers, i.e. home and business consumers.

6.4 Sampling Procedure

6.4.1 The Home Consumer Sample

Ideally a census of the population should be used- i.e. the absolute population of home owners with personal computers. However, this was not a realistic option due to time and cost constraints. Therefore a sample thereof was used. The percentage of homes with personal computers at present is 18% (JNRR 1994/1995).

In theory, the census method should provide better results, but the possibility of non-response is thought to be greater and follow-up is thought to become more difficult (Tull & Hawkins 1990). This factor coupled with the financial, time and administration limitations of the researcher prompted the use of a sample of Irish home owners owning personal computers. The procedures used in sample selection are outlined below.

6.4.1A Definition of the Population

The relevant population is defined as homes of AB, C1 and C2 social class, living in the Greater Dublin Area, who own personal computers

Homes of the AB, C1 and C2 social classes were selected by the researcher because 18% of households possess personal computers, and of those 84% fall into the selected social classes and, only 9% of those who possess PCs are in the DE social class. To reach that 9% would prove too difficult, as too many households would have to be contacted to do so. Consequently, it is accepted that some bias may result.

The survey was to be conducted in the Greater Dublin Area, including both city and county. The sample is confined to Dublin due to the twin factors of time and cost constraints. This was felt to be reasonable as Dublin accounts for one third of Ireland's population, and is a substantial population to choose a sample from.

The researcher felt it important that those interviewed must already have had some influence regarding the purchase of a PC. Consequently, their purchase influences could be examined, and also the benefits and attributes they sought from their supplier could be determined. Then it would be possible to identify whether/how their needs differ from other customer segments, and if a gap exists between the primary distributors' view of the attributes and benefits sought by the buyer and those actually sought by the buyer. Also, it enables examination of how their purchasing behaviour has changed in the past or how it might change in the future, i.e. have they changed, will they change brands, or go different routes and if so, why. This is to discover what possible influences the consumer has had in the past or may have in the future on changing marketing channels in the PC industry.

Time is a key issue here. Ideally the study should be a monitoring process over a long period of time to properly identify how people's purchasing behaviour changes or evolves and to monitor how this effects the marketing channel. However, due to time constraints, this study will be a 'snapshot' of the changes taking place at a point in time, i.e. the time of the research.

6.4.1B The Sample Frame

No national database exists of homes owning PCs. This lack of suitable sampling frame poses very obvious and basic problems to the researcher. One of the researcher's more creative tasks in sampling is developing an appropriate sampling frame when the list of population elements is not readily available. A sample frame may contain ineligibles (Bagozzi, 1994), i.e. elements that are not members of the population. Thus for a study of households or individuals, a telephone directory will contain ineligible numbers as well as eligible numbers. It is generally easy to correct

this problem, i.e. omit the ineligibles. However, the telephone directory is also inaccurate in that it omits those without phones and those not listed. The selected sample is those in the AB, C1 and C2 social classes and 96% of ABs, 90% of C1s and 78% of C2s have telephones (JNRR 1994/95) so the telephone directory would be an appropriate sampling frame.

Thus the sample frame selected is the telephone directory in specific geographic areas within Dublin, where the social classes AB, C1 and C2 are most likely to be situated. The areas selected are from the breakdown of social classes in the Census of the Population 1991. This breaks down all the wards into the different social classes. From this the percentage of people in each social class category was calculated for all wards and District Electoral Divisions (D.E.D.s). The wards and D.E.D.s which were most representative of a social class category were selected (See Appendix B). This was done by selecting the highest 10% of percentages encountered.

For example, in Dublin-Belgard there are 49 D.E.D.s. The percentage of people in AB, C1 and C2 social classes were calculated for those 49 D.E.D.s. These 49 percentages were then ranked from the lowest to the highest. The highest 10% of percentages were then selected as the most representative of Dublin-Belgard for the different social class categories, in other words the top 5 D.E.D.s with the highest percent of people in the required social classifications were selected. The same procedure was carried out for the other districts, i.e. Dublin County Borough North (93 wards), Dublin County Borough South (69 wards), Dublin - Fingal (42 D.E.D.s) and Dun Laoghaire - Rathdown (69 D.E.D.s) each had nine, seven, four and seven wards or D.E.D.s selected respectively. These were then the areas telephoned by the researcher by selecting those with appropriate address in the telephone directory as given for each D.E.D. (See Appendix C).

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6.4.1C Sampling Method

The most statistically significant of all sampling methods is considered to be probability sampling (Tull & Hawkins 1990); however this type of sampling method cannot be used here because the sample frame is the telephone directory and not all home consumers with PCs may have a telephone or may be listed in the telephone directory, also the sample excludes those in the DE social classification, consequently all people with PCs do not have equal probability of being selected. Instead a quota sampling technique was chosen as the means of carrying out this research. In marketing research it is common to use quota samples, as a quota sample is as reliable as a probability sample in practice, when the following requirements are met (Crimp and Wright:1995:100/1):

♦ Up-to-date statistics relating to the structure of the population are used.

♦ The quota is set in such a way that important population characteristics are interrelated, such as age, social class.

♦ Classification questions are carefully designed so that, for example, the occupation of the head of household is clearly established.

♦ The interviewer's choice of location is restricted.

A quota sample is one selected purposively in such a way that the demographic characteristics of interest are represented in the sample in the same proportion as they are in the population (Tull & Hawkins 1990). It is judgmental sampling with the constraint that the sample include a minimum number from each specified subgroup in the population. Here the researcher takes explicit steps to obtain a sample that is similar to the population on some prespecified "control" characteristics (Kinnear & Taylor 1991).

The following "demographic characteristics of interest" were chosen in order to produce a sample representative of the target population. As previously stated the social classes employed are AB, C1 and C2 as they represent 84% of the target population. Due to time and cost constraints it was deemed too time consuming to

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reach those in the DE social classification, especially with the telephone directory as the sample frame.

TABLE 6.1 SOCIAL CLASS BREAKDOWN OF HOME CONSUMER SAMPLE

Social Class	% of Target Population
AB	33%
C1	37%
C2	30%

These percentages stem from the JNRR breakdown of homes with PCs by social class and as these are the classes selected by the researcher.

TABLE 6.2 AGE BREAKDOWN OF HOME CONSUMER SAMPLE

Age	% of Population
15-24	35%
25-34	14%
35-44	22%
45-54	21%
55+	8%

These percentages also stem from the JNRR breakdown of homes with PCs by age.

Table 6.3 demonstrates the breakdown of the sample using the quotas specified:

TABLE 6.3 SAMPLE BREAKDOWN OF THE HOME CONSUMERS RESEARCHED

Social Class / Age	AB	C1	C2	Total
15-24	12%	13%	10%	35%
25-34	5%	5%	4%	14%
35-44	7%	8%	7%	22%
45-54	7%	8%	6%	21%
55+	2%	3%	3%	8%
Total	33%	37%	30%	100%

What was important in selecting respondents was that they had some influence over the purchase of a PC for the household. For example, respondents in the 15-24 age category may not actually carry out the purchasing act, but they may have been

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instrumental or have had a lot of influence regarding the purchase of the PC for the household.

6.4.1D Selection of the Sample Size

As this was part of a dual survey under investigation,and taking the time and cost constraints into consideration, fieldwork for this survey was confined to 100 home consumers.

6.4.2 The Business Consumer Sample

As with the consumer sample, the initial consideration was whether to use a census of the population. i.e. the absolute population of companies in Ireland, or a sample thereof. The number of active trading companies in the Republic of Ireland is estimated at 16,285 (Dun & Bradstreet 1996 and Kompass 1995). A sample of Irish trading companies was chosen, details of which are outlined below.

6.4.2A Definition of the Population

The relevant population is defined as those responsible for the purchasing of PCs in companies, in all industries and company sizes, in the Greater Dublin Area.

The companies surveyed are active trading companies in the Republic of Ireland who possess PCs in the following industries: Manufacturing, Wholesale, Retail, Finance, Services, Construction and Transport/Communications, as it was considered important to interview companies in a range of industries to get an overall business consumer view. The identification of, and contact with the buyer responsible for PC purchasing is vital to the success of this part of the research. From this person, the roles of other people in the organisation with regard to PC purchasing can be determined, and also how their purchasing patterns have evolved.

The survey was carried out in the Greater Dublin area due the time and cost constraints associated with this research. Although this could be viewed as a limitation of the research to some extent, it is felt that it is reasonable to use a Dublin sample, because of the 16,285 active trading firms in Ireland 7,759 (about 48%) are based in Dublin.

The companies interviewed must possess PCs. The reasons for this are as follows: (a) to examine their past purchase behaviour with regard to PC purchase and how it has evolved, (b) to discover the important purchase influences and the benefits and attributes they seek from their supplier, and (c) consequently to contrast/compare this behaviour with the home consumer segment.

Time is very important here also. Ideally the study should be a monitoring process over a long period of time to properly identify how organisational purchasing behaviour changes or evolves and to monitor the effects this may have on the marketing channel. However, due to the time constraints that exist, this study will be a 'snapshot' of the changes taking place at a particular point in time, i.e. the time of the research.

6.4.2B Specify the Sampling Frame

The sample frame selected is the industry directory Kompass (1995) with some reference to Dun & Bradstreet (1996) where necessary. The companies are classified by industry types aiding the quota selection. There are some limitations associated with using an industry as a sampling frame, i.e. too many individual classifications for a survey of this size, this was overcome by omitting those industries which represent 1% or less of the target population. Also there is no guarantee that all companies will be listed, e.g. not all companies return Kompass' regular questionnaire and thus may be omitted. However, it is generally held that these directories contain a comprehensive listing of a range of industries by industry type and company size.

They also contain their addresses, although this had to be confirmed beforehand to ensure that the data was not out of date.

6.4.2C Selection of the Sampling Method

As previously stated the most statistically significant of all sampling methods is considered to be probability sampling (Tull & Hawkins 1990). However, this type of sampling method cannot be used here due to the fact that not all companies are represented in the sample frame.

> *"In order to draw a sample at random, a complete list, up-to-date and without repetition of items. None of the generally used non-domestic frames quite meet these requirements. They are useful sources of names for a quota sample but are inadequate for a probability sample"* (Crimp:1985:67)

Crimp goes on to list Kompass and Dunn and Bradstreet as examples. Instead a multi-stage sampling technique was chosen as the means of carrying out this research. This involved firstly selecting a number of companies systematically (i.e. every 10th). These sample companies were then examined to ensure they fit the quota controls, i.e. they were proportional of each industry type and they were proportional of company size. Then it was necessary to elicit from each of the suitable companies the name of the person responsible for purchasing PCs, the company's telephone number and fax number. This was mostly done with the aid of the most recently available Kompass Directory, except for the name of the purchasing person, which was discovered by telephoning the companies involved. The person in question was then sent a cover letter (see appendix D) and the questionnaire. A week later this was followed with a telephone call to that person as a reminder of the questionnaire.

6.4.2D Selection of the Sample Size

Because of the limits of the survey, the sample size was confined to 100 companies. This, again, was largely as a result of the time and cost limitations, as it was necessary to complete the survey between the months of April and June, 1996. The break down of the companies is by industry classification, i.e. manufacturing, retail etc., is based

on the Dun & Bradstreet 'Total Ireland Statistics' 1996 of all companies by sector and by number of employees.

The number of companies examined under each industrial classification was directly proportional to the percentage of firms in each sector. For example, 22% of firms in Ireland are involved in manufacturing, therefore these firms represented 22% of the sample, and so on. However, where the percentage of firms in a sector was too low, e.g. Public Administration accounts for .5% of firms in Ireland, the sector was excluded from the survey. Using such small numbers to represent an entire classification is an unavoidable limitation of the research which cannot be overcome without increasing the sample size greatly, and as stated previously with the time and cost constraints this was not possible. Table 6.4 illustrates the industry and sample breakdown.

TABLE 6.4 SAMPLE BREAKDOWN OF THE COMPANIES RESEARCHED

Industry Sector	% of firms (by sector)	Sample Breakdown
Agriculture	1	0
Mining	.5	0
Construction	8	8
Manufacturing	22	23
Transport/Comm.s	6	6
Wholesale	23	24
Retail	21	21
Finance	6	6
Services	12	12
Public Admin	.5	0
Total	100	100

6.5 Data collection method

Due to the nature of a semi structured questionnaire, i.e. some open-ended questions are involved, the ideal method of administration of the questionnaire is on a personal basis to ensure that the respondent understands the questions and answers them accordingly. However this was not possible for a number of reasons:

6.5.1 For the home consumer

1. The author did not have a database of names to work from.
2. Irish people are still very sceptical of people calling to their homes , fearing a pushy salesperson.
3. Limited fieldwork resources of personnel time and expenses.

6.5.2 For the business consumer

1. Here the sample population can be difficult to meet because of professional commitments.
2. Time constraints as for the home consumer figure here also.

Consequently the following were the data collection methods chosen:

- For the home consumer research the data collection method chosen was that of telephone interviews. This way the target population could be reached much faster. There have been several surveys carried out comparing telephone and personal interviews and it was found that the quality of data collected by telephone was in every way comparable with that obtained by personal interviews (Hyett & Morgan 1976, and Rogers 1976).

- For the business consumer research the data collection method chosen was mail questionnaires. Mail questionnaires are considered useful where the sample population is difficult to meet because of professional commitments (Chisnall:1992:121). From the pilot test this proved to be the case i.e. mail was the most popular method as it was not time consuming, it could be done when they had a spare moment. The dilemma then was whether to use a mail or facsimile collection method. However following a study by Alan Tse, Ruby Ching, Yong-Biao Ding, Ronald Fong, Eric Yeung and Alan Au (1994) whose results indicated that mail questionnaires attached with stamped, self-addressed envelopes, produced the highest response rate over fax and ordinary mail questionnaires. Whereas fax

generated the best speed. Faria & Dickinson's (1996) study suggests that the mail survey can be a very effective and timely means of gathering data from business-related populations and that an assurance of anonymity adds to the response rate in business surveys. Helgeson (1994) adds that the main facilitators of return are a comprehensive cover letter together with a stamped, addressed return envelope. Thus the postal questionnaire with stamped, self addressed envelopes with the option of returning the questionnaire by fax was the method deemed most suitable. Another consideration in facilitating return was that the more interested people are in the subject under survey, the better they will respond (Chisnall:1992:119). Also, higher interest mail survey respondents were less likely to omit responses to individual questions than those with little or no interest (Martin:1993:335). Consequently, each of the companies in the sample were telephoned to elicit the name of the person responsible for purchasing PCs in that company, then the questionnaire could be addressed directly to that person.

6.5.3 Steps in the data collection process

6.5.3(A) The home consumer survey

1. The data collection process began in April 1996 and was of one month duration.
2. People were telephoned according to the sample requirements and asked if they owned a personal computer.
3. If a positive response was elicited and they were willing the questionnaire was carried out.
4. This continued until the sample requirements were fulfilled.

On average it was found necessary to ring 5/6 numbers to reach a household with a home PC, this bears out previous research that states that 18% of households own PCs but not all of these were willing to help. It should also be noted that to fulfil the quota demands for 100 questionnaires, a further 50 questionnaires were carried out and these were found to be unusable because (a) they were surplus to the quota requirements, or (b) the respondent had no influence over the purchase of the PC. The questionnaire

lasted approximately 10 minutes in duration including introduction, varying with people's level of knowledge of the PCs and its purchase.

Problems with this method of data collection:

The main problem here was finding a willing respondent with a PC. Only 18% of the population have PCs, 84% of which are in the AB, C1, C2 social classes which were the targeted social classes (JNRR 1994/95), this meant only 1 in 6 would have a PC. Additional difficulties were encountered when eligible individuals were unwilling to respond. Hence, it required ten calls to find a suitable respondent, and 50 extra questionnaires to fill the quotas.

6.5.3(B) The business consumer survey

1. The data collection process began in June 1996. 250 companies were telephoned to elicit the name of the person in each company responsible for PC purchasing. Approximately 170 names were discovered.

2. 170 personalised letters (See Appendix D) enclosing a questionnaire with a stamped, self-addressed envelope and the option of returning by fax were then sent out.

3. By the end of July a response rate of 60% had been achieved and of these 90% were useable, i.e.85 useable questionnaires.

Problems with this method of data collection:

One problem associated with this method of data collection was the length of time taken in receiving a sufficient number of responses. Partnered with this was the fact that people had a choice when returning the questionnaire to include the identity of the respondent or not, as it is generally thought that reassured anonymity increases the response rate (Pressley & Dunn 1985) especially in the business community (Tyagi 1989). Although other studies have shown that reassured anonymity has no significant effect on response rate (e.g. Albaum 1987, Childers & Skinner 1985), However, it proved an important point in the pretest and therefore, it was thought to be beneficial to include it as an option. Consequently, many questionnaires returned had no identity

so it was not possible to follow up the questionnaire with a reminder phone call as the identity of those who returned questionnaires was, for the most part, unknown.

6.5.4 Research Instrument

A structured questionnaire proved to be the most effective way of scientifically comparing/contrasting the home and the business consumers. Consequently, the research tool decided on for the consumer research was a semi-structured questionnaire. Certain questions were left open to be coded later.

6.5.4(A) Rationale for the use of a semi-structured questionnaire

This research is mainly of a quantitative nature. As the home and the business consumer markets were to be compared/contrasted, a questionnaire structured similarly with like questions was the most appropriate. A structured questionnaire is one that 'the order in which questions are asked together with their wording are laid down'. The interviewer must not alter or explain questions. Most questions are closed and the possible answers to most questions are pre-coded (Crimp&Wright:1995:134). However, it was felt at times that a closed question would not be appropriate as the possible responses would have to be limited in number (Hester:1996:167). Therefore, a semi-structured questionnaire was chosen for both phases of the quantitative research. A semi-structured questionnaire usually constitutes a mixture of closed questions, quick response ranking or rating scales and open-ended questions (Crimp & Wright:1995:134). Therefore, questions concerning the influences of purchase behaviour need not be limited in possible responses, and these could be coded afterwards.

6.5.5 Questionnaire Design

"The survey questionnaire is the conduit through which information flows from the world of everyday behaviour and opinion into the world of research and analysis; it is our link to the phenomena we wish to study" (Czaja & Blair:1996:51).

"Designing a good survey instrument requires selecting the questions suited to fulfil the research objectives, testing them to ensure that they can be answered as expected, and phrasing them in a manner that maximises the ease with which respondents can reply" (Fowler:1993:94).

6.5.5(A) The Home Consumer Questionnaire

This questionnaire was carried out via the telephone so this in itself has implications for the questionnaire design (Czaja & Blair:1996:40/1) (See Appendix E):

- Questions must be short and fairly simple, and answer choices that are read to the respondent must be few, short and simple.
- Sentences should be limited to twenty words or less.
- Language must be kept simple and easily understandable.
- There should be no more than five short answer categories read per question.
- Telephone interviews are difficult to maintain beyond 10-15 minutes (Hester:1996:180) and so questionnaires must be quite short.

6.5.5(B) The Business Consumer Questionnaire

This was a mail survey which also has implications for questionnaire design as they, more than any type of questionnaire, must maximise "user friendliness". Areas that need to be considered are (Bourque & Fielder 1995) (See Appendix F):

- The way in which questions are actually written, i.e. they should be short and specific, abstract terms and jargon should be minimised, the questionnaire should progress from easy to more complex or sensitive questions, they should be asked in a logical order and demographic questions should be placed at the end.
- Construction of response categories, i.e. they should be exhaustive while not being too long, they must be mutually exclusive and the boundaries between them easily determined by respondents, they should allow the respondent multiple answers when relevant, and when appropriate, surveyors must provide for a residual "other" category.

- Minimum use of open-ended questions. They should only be used where the amount of writing demanded of the respondent is minimal and where it was not possible for the surveyor to generate a complete list of possible responses in advance.

- Instructions should be clear and sufficient. This is particularly important in mail questionnaires where there is no interviewer to aid the understanding of the respondent. Three types of instructions are necessary: general, transitional, and question answering.

- Every effort must be made to avoid projecting personal biases into the wording of questions and answer categories.

6.5.5(C) Measurement of Perceived Risk

Following a review of the literature, it was decided that risk may be an important factor to be considered with regard to PC purchase behaviour. Therefore, this section looks at how risk has been measured by others in the past, it also explains how it was measured for the purpose of this survey. Perceived risk has been measured in many ways. One of the earlier methods was proposed by Cunningham (1967). His measure of risk was a composite of two indirect questions, on the perceived certainty of an event occurring and the consequences if the event should happen. This has since been debated and developed by Barach(1969) who felt rating "importance" was more useful. The actual components to be used in this study are a combination of the two and was used by Bettman(1973), i.e. Uncertainty Dimension and Importance Dimension. Although this is not the most recent measure, it appears to be the most accepted. Cheron and Richie (1982) attempted to extend it to leisure activities via a nine point scale and a graphic positioning scale, but they did not distinguish between the certainty and consequences components which make up perceived risk.

The following perceived risk scale was arrived at by Bettman by combining both the uncertainty and importance measures and assigning weights to each point on the Likert scale. For the purpose of this study the two dimensions, certainty and importance, are combined multiplicatively.

Table 6.5 Perceived Risk Scale

Importance Scale Certainty Scale			Extremely Important				Unimportant
	Weight		.5	1	2.5	3	3.5
Uncertain		Likert Value	1	2	3	4	5
	.5	5	.25	.5	1.25	1.5	1.75
	1	4	.5	1	2.5	3	3.5
	2.5	3	1.25	2.5	6.25	7.5	8.75
Very	3	2	1.5	3	7.5	9	10.5
Certain	3.5	1	1.75	3.5	8.75	10.5	12.25

The Likert values are those used in the questionnaire. The questions measuring risk were on a scale of certainty and importance of 1 to 5, 1 being very certain and very important. These are then weighted. The weights are then combined multiplicatively. Thus, working on the assumption that, the higher the probability of a negative consequence, times the degree of importance of this consequence, the higher the perceived risk will be, the following classification was also developed:

Table 6.6 Perceived Risk Values

High Risk Values	Medium Risk Values	Low Risk Values
.25	1.75	7.5
.5	2.5	8.5
1	3	9
1.25	3.5	10.5
1.5	6.25	12.25

6.5.5(D) Question Content

The first question in the home consumer questionnaire is a screening question used to determine the respondents eligibility for the study (Czaja & Blair:1996:60). If the respondent did not possess a PC then the interview was terminated. Question two and three determine the purchaser and the influence other people may have had over the purchase. The opening section in the business consumer questionnaire is an introductory one determining the companies level of usage of PCs.

Objective One

To determine current patterns in the marketing channel in the PC industry in Ireland and how they have evolved.

Home Consumer Questionnaire (See Appendix E):

This objective is addressed in section 2 and 4 of the questionnaire which examines current and past behaviour of the respondent with regard to PC purchasing and if this behaviour has changed. Question 4 and 5 in section 2 deal with the respondents current behaviour, i.e. the channel they have purchased their most recent PC from and the PC brand. These are both closed questions with a list of possible answers with a residual "other" category provided. Section 4 deals with past purchasing behaviour and how it has changed. The questions are closed except for question 8B and 9B. These are used as it was found to be impossible to generate a complete list of possible responses in advance.

Business Consumer Questionnaire (See Appendix F):

This objective was addressed in section 2 and 3 of the questionnaire which examines current and past PC purchasing behaviour of the company. Section 2 deals with the PC brands currently possessed by the company and those no longer purchased. Questions 4, 5 and 6 are closed questions and when required, i.e. questions 4 and 6, "residual other" categories are included. Question 7 is an open question because it was found impossible to generate a comprehensive list of responses in advance, it is also a dependant question. Section 3 deals with the channel(s) currently and previously used by the companies and their reasons for changing. Again where possible the questions are closed except where the generation of comprehensive lists in advance were inappropriate.

Objective Two

To determine changes that are taking place in the different consumer markets and they implications they have for the marketing channel.

Home Consumer Questionnaire:

From the literature it was discovered that, in the past, home consumers generally lacked confidence and perceived a high level of risk when purchasing PCs. Section 5, which deals with the consumers level of expertise with PCs, and section 6, which deals with risk, address this issue to see if the consumer has become more confident. Also, in the past consumers tended to go to the high street retailers to ask for advice because of this lack of confidence, so when section 5 and 6 is cross-tabulated with question 5, i.e. their current supplier, one can discover whether changed levels of confidence and risk effect their channel choice. Question 14 looks at how difficult a purchase they see a PC as being compared with other similarly priced items that they might buy. Questions 15 to 17 measure the types and level of risk using a Likert scale combining both the uncertainty and importance measure and assigning weights to each point on the scale. Thus, working on the assumption that the higher the probability of a negative response multiplied by the degree of importance of this consequence, the higher the perceived risk will be. There are statements in each of the questions dealing with the different types of risk, for example the first statement in question 15 and 16 deals with financial risk, the second and third statements deal with functional risk, the fourth deals with physical risk.

Business Consumer Questionnaire:

Question 17 looks at the influence the different people in the company had over the purchase of a PC. In the past, PCs were a high involvement purchase with a lot of companies not having any "experts" at hand and so senior management had to look to outside experts for advice. The end users were seen in the industry to have had little or no input. As in the home consumer questionnaire risk was measured in questions 19 and 20 using certainty and importance Likert scales.

Objective Three

To determine how the business and home consumer segments compare and/or contrast.

Both questionnaires have similar questions. For example they both measure risk, the complexity of purchasing PCs, purchase influences, brands and channels currently and previously used. The responses to these can be compared to fulfil this objectives. Purchase influences are measured on five point scale of importance in question 6 in the home consumer questionnaire and questions 15 and 16 in the business consumer questionnaire.

Objective Four

To examine what, if any, differences exist between consumers utilising differing marketing channels.

To address this objective a lot of the questions in the questionnaire are useful and the responses are cross-tabulated with the question concerning the respondents current channel choice. For example the final section in both questionnaires deals with demographics. This could be cross-tabulated to see if consumers using different channels are demographically different. Also, purchase influences could be examined to see if they differ depending on the channel choice.

6.6 The Pretest

"The questionnaire pretest serves the same role in questionnaire design that test marketing serves in new product development" (Churchill:1991:396).

Pretesting (or pilot testing) is the stage in the development of a questionnaire that determines the potential effectiveness of the questionnaire (Reynolds, Diamantopoulos & Schlegelmilch:1994:171). It is used to refine the instrument and identify errors which may only be apparent to the population of concern (Diamantopoulos, Reynolds & Schlegelmilch:1993:295). In the literature a number of authors have commented on the usefulness of pretesting. Hague (1987:170) states that:

"Questionnaires may have to be designed with only a modicum of knowledge about the subject. In these circumstances mistakes are bound to occur unless the questionnaire is tested".

6.6.1 Key Issues in Conducting a Pretest

Discussions of pretesting usually address one or more of five areas; (a) pretest scope, (b) pretest method, (c) pretest interviewers, (d) pretest respondents and (e) pretest sample size.

6.6.1(A) Pretest scope

Pretesting a questionnaire can be split into two main areas, notably (a) pretesting individual questions and (b) checking the overall design. Pretesting a questionnaire should include more than just assessing individual questions. In particular, the logical sequence of the questionnaire should be examined. The overall layout of the questionnaire should also be pretested (Oppenheim 1966). Even though pretesting is described as the 'dry run' of a questionnaire (Hunt, Sparkman & Wilcox 1982), data analysis and its associated problems are often not covered. One benefit from analysing the pretest responses is that the researcher may be able to convert open-ended questions into categorised questions, thus reducing administration and analysis time in the final instrument.

6.6.1(B) Pretest method

This involves two interrelated issues, the first concerning the medium which is used to administer the questionnaire, and the second the procedure of implementing the pretest. With regard to the former, some authors recommend that pretesting is always done by means of personal interview (e.g. Peterson 1988), while others argue that the

medium of the final study should be used for the pretest (e.g. Hague 1987, Tull & Hawkins 1990). With the consumer survey the medium used was that used in the final study, i.e. telephone interviewing. But with the business consumer survey, the medium used in the final survey was postal. This would take too long for a pretest. The next choice was personal interview, but with the business community this proved unsuitable as they were unwilling to give up their time. They were however willing to conduct via the telephone or the fax machine, hence these were the media used depending on the business concerned.

With regard to implementation procedures used to determine the respondents' reactions to the questionnaire, this can be either through protocols (having the respondent think out loud as he/she answers each question) or debriefing (discussing the questionnaire when it has been completed). The protocol approach provides a greater volume of information (Royston 1989). Hence the protocol procedure was used in the pilot test.

6.6.1(C) Pretest Interviewers

Pretesting is not solely concerned with the respondents' reaction to a questionnaire, it is also instrumental in determining potential problems encountered by the interviewers (Sykes & Morton-Williams 1987). Some of the literature recommends that only experienced interviewers be used to administer a pretest (e.g. Kinnear & Taylor 1991, Boyd, Westfall & Stasch 1989). Others (e.g. Hunt, Sparkman & Wilcox 1982) state that a range of interviewer experience is required. Finally, Tull & Hawkins (1990) suggest that the project director should be directly involved with the interviewing at the pretest stage, as this would ensure a greater understanding of the problems associated with the questionnaire, and the problems of administrating it. Hence, the author personally conducted the pilot tests.

6.6.1(D) Pretest Sample

All the literature states that the pretest sample should be as similar as possible to the final group. Weiers (1988:285) recommends that any pretest should use a subsample

of the population in question. This is agreed upon throughout the literature (e.g. Kinnear & Taylor 1991, Green, Tull & Albaum 1988). However, some authors add that extreme views should be included in the sample (Galtung 1967, Hunt, Sparkman & Wilcox 1982). However Green, Tull & Albaum (1988:185) state more succinctly that the pretest subjects should 'mirror the composition of the main survey'. Thus the sampling method was a quota sample using quota controls as described in the main survey.

6.6.1(E) Pretest Sample Size

When the pretest sample size is discussed in the literature it is generally small depending on the author(s) or the complexity of the questionnaire. Aaker, Kumar & Day (1995:308) propose that only small samples are necessary provided the questionnaire is relatively easy to understand. Green et al (1988:185) state that the sample should remain small but should cover all subgroups of the target population. The arbitrary size of a pilot survey is often taken at about 10% of the main survey (Chisnall:1992:116). Consequently, the pretest sample size was taken to be 10% of the main survey (i.e. 10).

6.6.2 Pretest Results - Implications for the Main Study

The Home Consumer Questionnaire

Categories and wording were made clearer, for example, instead of having categories husband, wife, children, friends, company and other, these were changed to parent, spouse/partner, offspring, sibling, friends, company, respondent and other. Question 5 was divided into two clearer segments, the first clarifying the channel type, so later in the analysis there would be two distinct categories direct vs indirect as opposed to an undistinguished list. In questions 15-17 clearer instructions were given regarding the scales and the supplied spaces were numbered accordingly.

Based on the results of the pretest, categories for some of the open ended questions could be determined for the main survey except where the responses were too numerous, for example, when asking questions "Why?", there was little overlap in the answers and consequently these were left open in order to get a comprehensive answer and not limit the respondent to the categories provided.

The questionnaire was divided into 7 sections to aid clarity and distinguish between, for example, past, present and future purchase behaviour.

The Business Consumer Questionnaire

This was pretested by telephone and fax. The main survey was to be carried out by mail. This proved from the pretest to be the best choice. The questionnaire took 10-15 minutes to carry out via the telephone and the business people did not want to spend that length of time on the telephone. The questionnaires that were sent and returned by fax, on request of the respondent, were not of very good quality by the time they were returned and some were difficult to read. Consequently, it was decided not to use this medium for the main survey.

In questions 19 & 20 clearer instructions were given regarding the scales and the supplied spaces were numbered accordingly. Also, the key words regarding the responses (i.e. certain in Q.19 & important in Q.20) were underlined. This aided clarity and distinguished between the two questions.

As with the consumer survey the results of the pretest determined categories for some of the open ended questions for the main survey, except where the responses were too numerous, for example when asking questions "Why?", there was little duplication in the responses and the responses were numerous, consequently, these were left open in order to get a comprehensive answer and not limit the respondent to the categories provided.

Question 11 was broken down from double barrelled questions to individual questions and also expanded to include the question:

"If more than one supplier, how many?" and "Why do you use more than one supplier". In the pretest questionnaire this was a separate question and was included earlier in the questionnaire. But following the pretest it became obvious that it was more logical and made more sense to the flow of the questionnaire to include it as part of question 11.

6.7 Analysis

6.7.1 Introduction

The analysis of the research requires the analysis of qualitative and quantitative data. For the exploratory semi-structured interviews qualitative analysis is required. The main survey requires the more generally accepted quantitative analysis. It is more accepted because it can be analysed statistically and hence is more scientific and objective.

6.7.2 Qualitative Analysis

Critics of qualitative research have suggested that some of the findings based on qualitative research are too greatly influenced by the individual analyst's training and background (Chisnall 1992). However, according to Wells (1991) qualitative research need not produce results which are representative or replicable because it is suggested that you simply cannot re-create exactly the research situation again, too much is changing within and outside the research.

The qualitative analysis process was described as "two interlocking, interacting processes: data handling and 'thinking' (or interpreting)" (Robson & Hedges:1994:30).

- *Data handling* covers the processing, organising, structure of the evidence collected in order to make sense of it, and draw inferences and conclusions from it.
- *Thinking* is the important mental process whereby the researchers draw conclusions from all they have experienced from the moment they were briefed on the project.

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This interpretative process is what makes qualitative research such a useful tool for exploring markets, understanding consumers, solving problems and so on.

On completion of each interview it was necessary to transcribe the taped interview. This is seen as a necessity as Robson & Hedges (1993) write of the requirement of recording all interviews and listening and/or reading transcripts of the interview as memory alone is insufficient. These transcripts are then analysed by content analysis whereby the important issues of the text are analysed and condensed.

6.7.3 Content Analysis

Content analysis is defined by Berelson (1971) as a research technique for the objective, systematic and quantitative description of the manifest content of communication. It is also strongly recommended by Chisnall (1992). Content analysis has long been used as a method of dealing quantitatively with qualitative data. The issue is one of counting the frequency and sequencing of particular words, phrases or concepts (Miles & Huberman:1994:49n)

6.7.4 Analysis of Main Survey

The main survey consisted of two semi structured questionnaires. Most questions were structured with some left open but were coded once the data was collected. Because of the sample size certain five point scales were recoded into three point scales after the initial analysis if cell sizes were too small to be significant. The coding allowed the data to be analysed by computer. For this purpose a number of mathematical and statistical packages are readily available. Each question was coded numerically, for example:

<div align="center">

1 - "Yes"   2 - "No"

</div>

This is a necessary condition of most computer packages, however it also aids the simplification of the data input process greatly.

The statistical package chosen for the analysis of the data was SPSS for Windows as certain areas of statistical analysis were necessary for the achievement of the research objectives, namely frequency distributions, mean scores, and cross-tabulation.

6.8 Summary

This chapter outlines the research procedure utilised to best fulfil the objectives of this study. Specifically, there were three stages to this research. The first being the exploratory stage, for which semi-structured interviews with the primary distributors were employed. The second and third stages involved a semi-structured survey instrument, administered by mail with a business consumer quota sample and by telephone with a home consumer quota sample. The quotas used were industry type and size in the business survey, and age and social class in the home consumer survey. A pretest was carried out to examine the questionnaires' effectiveness and to ensure ease of administration. The results of which led to some modification of the final questionnaires.

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Chapter 7

Research Findings & Conclusions

7.1 Introduction

This chapter deals with the analysis and findings of the study. It begins with an analysis of the exploratory qualitative research, i.e. content analysis, then it presents the findings of the content analysis. This then leads to the analysis of the main part of the study, i.e. the home consumer and business surveys, and presents the findings therein. The findings are presented under the research objective that they are fulfilling.

7.2 Main Findings From Content Analysis

This section deals with the main findings of the exploratory research. The purpose of this was to fill in gaps in the literature, to give the primary distributors' perspective on the industry and its market and to provide a basis for the questionnaires for the main survey.

Quantification was not entirely necessary as only four interviews took place at this stage, however the important issues that recurred in each of the interviews will now be discussed.

The major changes that have occurred in the PC market are as follows:

◊ Consumers are becoming very comfortable with the use of PCs - the fear of new technology and the fear of lack of understanding is gone,

◊ Consumer orientation is the way forward - all are improving their service and support systems to respond to consumer demands and as a basis of gaining competitive advantage,

◊ The commoditisation of the PC - this has meant that suppliers have had to look elsewhere for a basis of competition,

◊ The PLC has shortened - innovation has become the key to success, but, in addition innovation has to be fast and constant,

◊ Branding is becoming an important competitive basis,

◊ The home consumer market is rapidly increasing in size and importance,

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◊ The consumers are the driving force behind changes within the market and the channel. The primary distributors are responding to their customers needs. The consumers are becoming more knowledgeable with regard to computers. Consequently, they know what they want and are using the competitive climate to their advantage to get as much value for money as possible.

◊ Even the nature of the direct channel is being changed to suit the different consumer segments. For example, with SMEs and the home market the traditional direct approach is used, but with the corporates and public sector the channel now takes the form of a direct relationship with regular meetings and briefings (Condon 1996).

◊ Consequently, manufacturers are finding that close contact with their channel and their consumers is extremely important as terms and conditions are being tailored to fit consumer needs. This is of the utmost importance for the manufacturer that uses business partners. With the advent of the direct selling manufacturer, who gets direct feedback from their customers and consequently provides add-on services and/or products to suit each individual customer, the indirect selling manufacturer has come under pressure to become closer to their business partners and hence their customers in order to be able to provide the same level of service. Also, manufacturers will work closely with their business partners to provide solutions for their consumers regardless of the brand possessed by the consumer. Some are providing after sales support and services directly to the consumer with most having toll free help lines and those that do not supply their services directly now do so by working closely with their business partners to supply their customers with what they want.

◊ From the above it can be seen that consumer orientation is the way forward. Tom Keating of Compaq states:

> *"Customer satisfaction is important especially with the advent of more*
> *and more of our product being sold to individuals where word of*
> *mouth is important because a lot of customers are actually happy*
> *when the machine breaks down if they get good after sales service".*

◊ Competition from all sides is being based upon value adding services and support systems, particularly now that most people consider PCs a commodity, especially in

the business world where the use and number of PCs is increasing. As Mary Gleeson of IBM said:

"The corporate consumer when they are buying are buying more than just a PC. They'll be looking for add-on service."

◊ The rapid shortening of the PLC in recent years is expected to slow down and stabilise. Consequently, to remain competitive manufacturers must constantly come up with new products and services at least as quickly as their competitors. In the past this caused major problems, but now manufacturers have had to come to terms with it as everyone is 'in the same boat' and products are generally refreshed at least yearly if not every six months. In the home market, however, it has tended to be more tricky recently with the multi media increasing in popularity. The area of value adding services, introduced by Dell, is an area where the direct sellers have a good advantage, with the others, most notably Compaq, still trying to catch up.

◊ In regard to segmentation, they all agreed on the rising importance of the home consumer market, which they expect to reach 50% of the total market in the next couple of years. As this market becomes more knowledgeable and consumers become more aware of their own particular needs, the requirements of the segments are blurring at the edges. (This was also noted in chapter 5.) The requirement in all of the segments is a good reliable box at a reasonable price. It's the add-on requirements that differ (Gleeson 1996). The segments at present are the Public sector, Corporates, SMEs and the home/individual consumer. But there is a "grey area", in other words, the majority can be segmented, but there are consumers that should not be "slotted into a box". For instance if you say to a consumer "you've got to buy from this supplier because you are a small business", this consumer will do one of two things; he'll buy somebody else's product or he'll deliberately buy it over here" (Keating, 1996).

◊ There is a general consensus that branding will be of the utmost importance in the near future. This has been happening in the car industry and other established industries for many years, with so many players in the market and barriers to entry being quite low the manufacturers, especially the big players, will be competing a lot

on their brand name particularly as the actual machines become more and more commoditised. Mitsubishi, for example, are hoping to capitalise on their big brand name, especially in the home consumer market, where their other electronic goods are well established. IBM's advertising campaigns are based on their brand world-wide.

◊ There is some disagreement as to the future of the market. Some believe that the market will consolidate and focus on the top five, as innovativeness will dictate who is successful in this market and the top five are the ones with the finance to research new products, with perhaps niche players. Some believe that with new entrants each year (e.g. Packard-Bell was big in 1994, the Apricot box was new in 1995) it is very difficult to predict this.

◊ Subsequent to the industry review and the interviews it has become apparent that it is easy for a manufacturer who has initially used the direct channel to break into the indirect channel and employ business partners/dealers. However, for a company who initially employed the indirect channel, it is very difficult to break into the direct channel, as they're putting themselves in direct competition with their dealers, with whom they have built up a relationship over a number of years. For example, Dell are now utilising a number of Value Added Resellers (VARs), but companies like IBM, Digital and ICL tried the direct channel after the entry of the direct selling manufacturers. It was unsuccessful, their dealers were very dissatisfied and they had to retreat. In essence, it is extremely difficult for established companies to change their channel without disrupting their current arrangements and although the benefit of changes are seen, they are unwilling to take the risks also involved.

◊ The literature suggested that there exists a gap between what influences a consumer when purchasing PCs and what the suppliers believe these influences to be. So each were asked what they believe influences consumers when purchasing PCs. The results were as follows:
  • Price was deemed to be the most important, followed by quality and after sales services, with smaller consumers requiring most attention.

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- With regard to the home consumer, the SMEs price was seen to be the most important followed by after sales service and, with the home consumers particularly, multi-media is becoming important.
- In the other business markets product at the right price and reliability were factors agreed upon, other factors were mentioned individually but not by all, such as product on time and company purchasing strategy.

7.3 Main Findings of This Study

7.3.1 Introduction

This section sets out to deliver the main findings of the research. The responses are quantified, but it should be noted when using percentages, that both sample sizes are relatively small, i.e. 100 home consumers and 85 business consumers. The findings are identified and laid out according to research objectives and also divided into the two consumer surveys.

7.3.2 Objective One

To determine current patterns in the marketing channel in the PC industry in Ireland and how it has evolved

Section A: Home Consumer Survey

To determine this from the main home consumer survey past, present and future purchasing behaviour was examined regarding their choice of brand and channel and how it has changed .

TABLE 7.1 CURRENT CHANNEL CHOICE OF HOME CONSUMERS: DIRECT VS INDIRECT

Channel Supplied Through	
Indirectly Through Dealer	70%
Direct from Manufacturer	30%
Total	100%
Sample Size	100

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Table 7.1 shows the current distribution of channel choice among the sample. This can be further broken down into the following:

TABLE 7.2 CURRENT CHANNELS CHOSEN BY HOME CONSUMERS

Channel Supplied Through	%
Direct from Manufacturer	30
Specialist Computer Shop	30
Through Work Supplier	19
Second Hand	9
Non-Specialist Retail Outlet	8
Computer Agent	2
From a Magazine	1
At an Auction	1
Total	100
Sample	*100*

Figure 7.1 Breakdown of Current Channels Utilised by Home Consumers
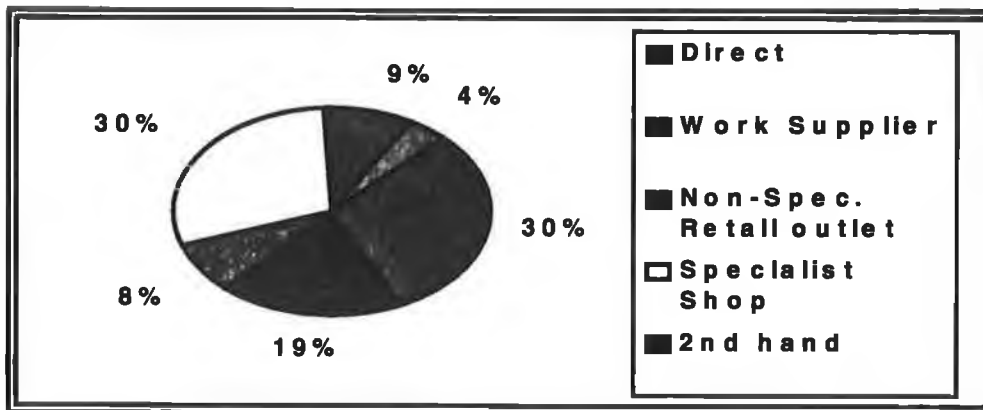
The most popular channels used are the direct route and the specialist computer outlet. Another popular outlet is where consumers buy through the supplier used by their place of work.

For 73% of the sample their current PC is the first PC they have purchased. Of the 27% who have purchased more than once 91% have bought a different brand than before and 76% have changed suppliers.

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TABLE 7.3 CHANNEL SWITCHING BY HOME CONSUMER

Supplier/Channel type	Switched From	Switched to
Manufacturer	24%	40%
Work Supplier	18%	24%
Non-Specialist Retail Outlet	29%	----
Specialist Computer Shop	18%	24%
2nd Hand	11%	12%
Total	**100%**	**100%**
Sample	*21*	*21*

From table 7.3 it can be seen that there has been a swing towards the direct channel of those people who have experience of PCs, i.e. they have purchased before. There is also a noticeable swing away from the high street non-specialist outlet such as Harry Moore, Power City etc. Also, quite a few people are going to the supplier that supplies their workplace. This obviously is seen as a safe option as they have experience of the PCs used in work. To examine this in greater detail one must look at the specific channel they switched from and to.

TABLE 7.4 HOME CONSUMERS CHANNEL SWITCHING

Current / Previous	Manufacturer	Work Supplier	Specialist Computer Shop	Second Hand	Total
Manufacturer	6%	6%	12%		24%
Work Supplier			12%	6%	18%
Retail Outlet	23%			6%	29%
Specialist Computer Shop	6%	12%			18%
Home built	5%				5%
Second Hand		6%			6%
Total	**40%**	**24%**	**24%**	**12%**	**100%**
Sample					*21*

Table 7.4 demonstrates some trends worth examining. Of those that have switched to the direct channel more than half have switched from a non-specialist retail outlet. It must also be noted that all have switched from the non-specialist retail channel, but none have switched to this channel. It could be concluded that those with any previous experience of PC purchasing tend to opt for a more computer specialist supplier. Of those that switched from the manufacturer as a supplier, half have opted for the

computer specialist shop. The specialist shop and work suppliers are equally switched from (18%) and to (24%).

TABLE 7.5 HOME CONSUMERS' REASONS FOR CHANGING SUPPLIER

Reasons for Changing Channel/Supplier	%
Changed Brand	30
Convenience	24
Value for Money/Price	24
Better Offer Received	12
Bad Service & Support	12
Newer Model	6
Different purchaser	6
Quality	6
Sample	*21*

The above table (7.5) lists the reasons people cited for changing their supplier when purchasing a new PC. The brand came out as the main reason for switching. People wanted what they perceived as a better brand. Price and convenience were also reasons stated for changing. People wanted a more convenient way of getting their PC. Some people got a better all round offer elsewhere which induced them to change and some switched because they were unhappy with the service they were receiving from their supplier at the time. As the brand has appeared as an important channel changing reason, brand selection will now be examined in greater detail.

TABLE 7.6 PC BRANDS MOST RECENTLY PURCHASED BY HOME CONSUMERS

PC Brand	%
IBM	21
Gateway 2000	21
Apple Mac	9
Intel-Pentium	7
Amiga	6
Hewlett-Packard	5
Dell	5
Siemens-Nixdorf	4
Compaq	3
Olivetti	2
Wang	2
Commodore	2
AST	2
NEC	2
Mitac	2
Generic brand	2
Amstrad	1
Hyundai	1
Home built	1
Atari	1
Elonex	1
Total	100
Sample	*100*

As can be seen the most popular brands purchased are IBM and Gateway 2000.

As stated earlier, for 73% of the sample their current PC is their first PC. Of the remaining 27%, 91% have changed brands. However, although Gateway 2000 is the most popular brand, of those who switched brands, 20% had previously a Gateway PC (See Table 7.7). On the other hand, of those who switched, 20% switched to the Gateway machine.

This can be more fully examined by looking at which brands the consumers specifically switched to and from. This has some implications for their channel choice also.

TABLE 7.7 BRAND SWITCHED FROM AND TO BY HOME CONSUMER

Brand	Switched From	Switched to
Compaq	---	5%
Dell	5%	5%
Hewlett-Packard	9%	10%
NEC	9%	5%
IBM	9%	15%
Gateway	20%	20%
Siemens-Nixdorf	9%	---
Atari	4%	---
Intel Pentium	---	5%
Wang	---	4%
Mitac	---	9%
Home built	5%	---
Apple Mac	---	13%
AST	5%	5%
Amiga	5%	5%
Commodore	15%	---
Digital	5%	---
Total	100%	100%
Sample	*25*	*25*

For the most part this brand switching also involved channel switching. Those who switched from Gateway mainly changed to a brand that had to be purchased through a non-direct channel (75%), and those who switched to Gateway (a direct channel) had previously purchased through a predominantly indirect channel (75%). Other brands that were popular to change to were IBM and Apple. Another brand that was switched from was Commodore 64 (15%) - an out of date PC. (See Table 7.7)

TABLE 7.8 BRANDS SWITCHED FROM AND TO BY HOME CONSUMERS

Previous \ Current	Compaq	Dell	Hewlett-Packard	NEC	IBM	Gateway 2000	Intel	Wang	Mitac	Apple-Mac	AST	Amiga	Total
Dell						5%							5%
Hewlett-Packard									9%				9%
NEC						5%				4%			9%
IBM			5%							4%			9%
Gateway 2000		5%			10%					5%			20%
Siemens-Nixdorf			5%					4%					9%
Atari												4%	4%
Home Built						5%							5%
Digital	5%												5%
Commodore				5%		5%					5%		15%
AST					5%								5%
Amiga							5%						5%
Total	5%	5%	10%	5%	15%	20%	5%	4%	9%	13%	5%	4%	100%

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TABLE 7.9 HOME CONSUMERS' REASONS FOR BRAND SWITCHING

Reasons for Switching Brands	%
To Update PC	24
More Powerful PC	5
To Upgrade PC	14
Better Deal With Another Brand	24
Previous Brand is Obsolete	9
Wanted to Buy a Better Brand	14
Didn't want to Deal With that Company Again	10
Total	100%
Sample	25

From the above table it is obvious that the main reasons given by home consumers for switching brands were to update their PC and they received a better deal with another brand. However people also felt that to upgrade their PC they would have to change brands and also they wanted to switch to what they perceived as a better brand. In other words the reasons for switching brands were that they perceived other brands to be of a higher quality, i.e. more up dated, upgraded, better value etc.

Finally, with regard to future purchase behaviour 80% of the population agreed that their information needs would increase in the future, that they would research the best PC for them before purchasing. Related to this is the fact that 74% wanted to upgrade their PC and consequently probably felt that they would need to look into it carefully before making the purchase. Whether or not they would change their suppliers tended to depend on the brand they decided to purchase. 41% felt that they would change their brand in the future (See Table 7.10) and 45% said that they would buy a more expensive PC. The main reason given was to have more features (50%).

TABLE 7.10 WHY HOME CONSUMERS WISH TO CHANGE THEIR CURRENT BRAND

Reasons for Future Brand Switching	%
More Features	26
To Update PC	24
More Popular brand	20
Not Brand Loyal	4
Depends What's on Offer	18
Unhappy With Current Brand	8
Total	100
Sample	*41*

From the above table it is clear that a lot of people feel that to up date or upgrade their PC with more features they will have to change their current brand. 20% would opt for a more popular brand in the future, 18% state that they would shop around for the best deal available at the time of purchase.

Finally, when the current channel is cross tabulated with current PC brand, a Chi-Square significance level of .0002 is achieved which is very much under the desired level of .05. This means that there is a very strong relationship between the brand and the channel chosen. Again it should be noted that significance testing implies a random sample, but it is an indicator worth noting.

Section B: Business Consumer Survey

As with the home consumer survey, past and present purchase behaviour was examined with regard to the channel and brand chosen. Firstly, the channel will be examined. In examining this it was realised that business consumers may have more than one supplier and indeed brand. So the first issue to determine was if the respondent had more than one supplier. Forty seven percent of the population had more than one supplier. The main reasons being: Companies are using the competitive market to their advantage and shopping around for the best deal to suit them, and certain suppliers provide special services required by the consumers.

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Channel Supplied Through	%
Direct from Manufacturer	42
Indirectly Through Dealer	76
Sample	*85*

As can be seen from the above table 18% of the population currently employ both channel types. This can be further examined as follows:

TABLE 7.12 CURRENT CHANNELS CHOSEN BY BUSINESS CONSUMERS

Channel Supplied Through	%
Direct from Manufacturer	42
Specialist Computer Shop	11
Computer Specialist Agent	58
Computer Warehouse	11
Sample	*85*

Figure 7.2 Current Channels utilised by Business Consumers
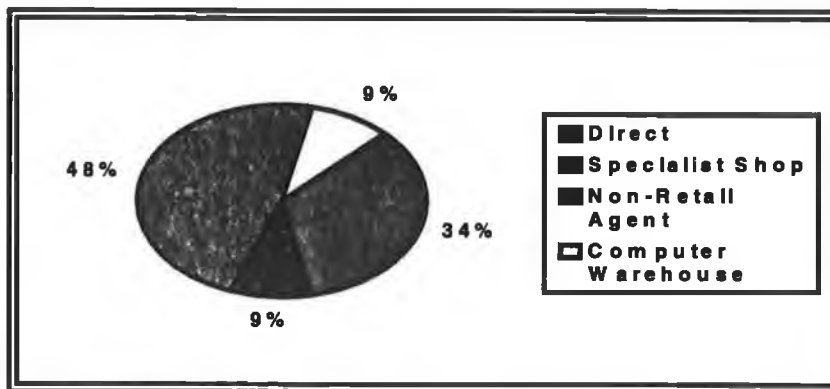
The most popular channels employed are the direct route from the manufacturer and the specialist computer agent. The computer agents are business specific suppliers and the manufacturers are becoming very popular also. The retail outlets would appear not to be popular for buying PCs for business purposes. The reasons given for the current choice of channel were numerous and are as follows:

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TABLE 7.13 CHANNEL CHOICE REASONS BY CHANNEL TYPE OF BUSINESS CONSUMERS

Channel Type / Channel Choice Reasons	Direct	Indirect
Price	74%	38%
Prompt Delivery	29%	14%
Meet Specific Co. Needs	26%	23%
Service & Support	63%	61%
Specialised Need	9%	11%
Reliability	6%	14%
Built up Relationship	---	11%
Find Dealers Helpful	---	9%
Efficiency	17%	6%
Cheaper to Cut Out Dealers	17%	---
Convenience	3%	11%
Sample	36	65

Of the consumers that have chosen a direct path, the main reasons given were firstly price, next service and support and finally prompt delivery. Of the consumers that have opted for the indirect route, key reasons given were price and service and support. It is interesting to note that price is significant for both routes although a higher percent of those utilising the direct route stated price as an important channel choice reason. Other figures that yielded a significant response were, cheaper to cut out dealers for those using the direct route and efficiency for those utilising the indirect route, although, the percent of consumers giving these reasons were quite small.

Where consumers had more than one supplier, they were asked what their most recent and principal supplier was and why, the responses were as follows:

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TABLE 7.14 RECENT & PRINCIPAL SUPPLIERS USED BY THOSE WITH MORE THAN ONE SUPPLIER

Supplier Type	Recent Supplier	Principal Supplier
Manufacturer	36%	24%
Specialist Computer Shop	6%	10%
Computer Specialist Agent	47%	32%
Computer Warehouse	11%	5%
None	---	29%
Total	100%	100%
Sample	*85*	*85*

Again the important channels are that of the manufacturer and the agent. Also quite a high percent have no principal supplier which would imply quite a lot of channel switching when the need arises. These consumers just shop around for the best deal at the time. The main reasons for the most recent supplier were: best price at the time, particular service required, and all round excellence. The reasons for the principal supplier were as follows:

TABLE 7.15 REASONS FOR SELECTION OF PRINCIPAL SUPPLIER BY CHANNEL TYPE

Channel Type / Reasons	Manufacturer	Specialist Computer Shop	Specialist Computer Agent	Computer Warehouse
Reliability	22%	25%	50%	100%
Service	67%	100%	75%	50%
Efficiency	11%	25%	33%	50%
Price	78%	50%	33%	---
Delivery	33%	75%	17%	50%
Standardisation	22%	---	17%	---
Relationship	---	25%	25%	50%
Quality	22%	25%	33%	---
Sample	*20*	*9*	*27*	*4*

Before examining Table 7.15 it must be noted that a very small percent utilise the specialist computer retail outlets as a principal supplier (see table 7.14), so reasons for selection are really only important for the other two channels. Service and support appear to be an important reason for both when choosing a principal supplier, presumably service is a long term factor and a principal supplier is the one to provide this. The main reason for those

choosing the manufacturer as a principal supplier again is price. This would appear to be the overriding factor when choosing this route. Reliability, on the other hand is stated by more of those choosing the computer specialist non-retail agent with a relationship building up over time. A relationship with the supplier is not mentioned by any consumers using the direct route.

The next area to examine is channel switching. Twenty eight percent of the population have changed suppliers in the past as follows:

TABLE 7.16 CHANNEL SWITCHING BY BUSINESS CONSUMERS

Supplier/Channel type	Switched From	Switched to
Manufacturer	26%	30%
Specialist Computer Shop	4%	13%
Specialised Computer Agent	61%	57%
Computer Warehouse	9%	----
Sample	*24*	*24*

From table 7.16 it can be seen that there is a swing away from the retail outlet, no-one has recently purchased from the high street shop and some have switched even from specialised retail outlets, in particular the computer warehouse. To examine this in greater detail one must look at the specific channel they switched from and to.

TABLE 7.17 SWITCHING FROM ONE CHANNEL TO ANOTHER

Current / Previous	Manufacturer	Specialist Computer Shop	Computer Specialist Agent	Total
Manufacturer	4%	9%	13%	26%
Specialist Computer Shop	---	4%	---	4%
Computer Specialist Agent	26%	---	35%	61%
Computer Warehouse	---	---	9%	9%
Total	30%	13%	57%	100%
Sample				*24*

The biggest swing is from the computer specialist agent to the manufacturer and to a different agent, which is a supplier but not channel change. Currently, the channels switched to are mainly the manufacturer and the non-retail specialist agent. The retail

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outlet as a supply source for PCs appears to be coming redundant. The main reasons given for switching channels are outlined in table 7.18.

TABLE 7.18 BUSINESS CONSUMERS' REASONS FOR CHANNEL AND SUPPLIER CHANGING

Reasons for Changing Channel/Supplier	%
Reliability of after sales support and service	52
Pricing	22
Wanted a better quality machine - upgradability	17
Wanted better value for money	17
Supplier lacked expertise	9
Supplier changed emphasis of business	9
Increased confidence - to cut out middleman	4
Changed brand	4
Sample	*24*

As can be seen from table 7.18 after sales service is by far the main switching reason for the business consumer. Consumers were unhappy with the reliability of their suppliers in providing after sales support and service, from delivery to maintenance. After that price, quality and value for money were the reasons stated most frequently. Unlike the home consumer survey the brand was not an important reason to change suppliers. Therefore, the brand selection will not be examined in such detail as the home consumer survey.

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TABLE 7.19 CURRENT BRANDS POSSESSED BY BUSINESS CONSUMERS

Brand	%
Dell	42
IBM	40
Compaq	27
Gateway 2000	25
AST	11
Clone	11
Hewlett-Packard	7
Siemens Nixdorf	6
Ultra	6
Apple Mac	5
Digital	5
Olivetti	5
ICL	4
Epson	4
Wang	2
Philips	2
Apricot	1
NEC	1
Sample	*85*

As expected the big names of PCs manufactured in Ireland have the highest percentage of PCs purchased. The direct sell brands, i.e. Dell and Gateway, seem to be particularly popular among the business community. Compaq and IBM are the most popular of the PCs sold indirectly. Thirty five percent of the population have ceased buying certain brands.

TABLE 7.20 BRANDS NO LONGER PURCHASED BY BUSINESS CONSUMERS

Brand	%
IBM	45
Compaq	28
Non-brand	17
Dell	10
Hewlett Packard	10
Epson	10
Gateway 2000	7
Wang	7
Amstrad	7
AST	3
Siemens Nixdorf	3
NEC	3
Sample	*30*

What is surprising about table 7.20 is that the brands consumers have ceased purchasing are big brand names, i.e. Compaq and IBM. The main reasons given for no longer purchasing these brands are price (69%) and value for money (35%). The other main reasons for ceasing to purchase a brand were quality (28%), upgradability (24%) and service (17%). Buying a better brand was not mentioned as a reason. So it is clear that branding is not an issue in the business consumer market.

7.3.3 Conclusions From Objective 1

Section A: Home Consumer Survey

- The ratio of consumers using the indirect versus the direct channel was 70:30 or 2.3:1. Of these consumers 73% were first time PC purchasers. Subsequently, of the 27% that were not first time purchasers 21% changed their brand and 17% changed their supplier.

- Of those who are not first time purchasers, 40% have changed to the indirect channel. Also, there has been a swing away from purchasing in a non-specialist high street retail outlet. All those who originally purchased their PCs from this channel have opted to switch elsewhere. No-one has switched to this channel.

- When switching channels the main reason cited by home consumers was that of opting for what they perceive as a better brand. The next most important reasons given for switching channels were price and convenience. This accounts for the switch to the direct channel as it is cheaper, no added costs of a dealer and more convenient as they can order what they want over the phone and there is a help line if they experienced any problems. However, quite a number of people switched from the direct channel (20%), all of which switched from Gateway 2000, only 5% switched from Dell and that 5% switched to Gateway. The main reasons given were they were unhappy with the service rendered by the company.

- Brand switching appears to have greatly effected channel switching. For example, those who switched to direct selling brand, mainly switched from an indirect selling brand, and vice versa. Also, 21% out of 23% changed their brand and 17% changed suppliers, which means that most of the consumers that changed their brands changed their suppliers. The main reasons given for changing brands were to update, to upgrade, better brand and got

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a better deal with a better brand. The main reason given for switching suppliers was to get a better brand also.

- Finally, with regard to future purchase behaviour, 80% felt that their information needs would increase, 74% would up-grade their PC and 45% would buy a more expensive PC for reasons of upgrading, updating and buying a better brand. Channel choice in the future was unclear and it was thought that it would probably depend on the brand sought.

Section B: Business Consumer Survey

- The ratio of business consumers using the indirect Vs the direct channel is 76:42 or 1.8:1, which is somewhat lower than the home consumer ratio of 2.3:1. Of these consumers 47% utilise more than one supplier. Eighteen percent use both direct and indirect channels.

- Of those using the direct channel 76% utilise the computer specialist, non-retail agent. This shows a swing away from retail for the business channels of supply. The retail channels appear to becoming redundant for this market.

- The main criteria for channel selection are: for the direct consumer price is extremely important, followed by service and prompt delivery, and for the indirect consumer service followed by price.

- Where the consumer utilised more than one supplier, their principal supplier was examined. 24% use the direct route, 33% use the agent and 29% have no principal supplier. This is an area worth examining. One third of those with more than one supplier have no main supplier, and consequently switch between channels depending on what's on offer at the time. The main reasons for the choice of the principal supplier was service by all. Price was high for those utilising the direct route, and reliability and a relationship with the supplier was important for those selecting the indirect route. It is also interesting to note that a relationship with the supplier was not mentioned by anyone using the direct route, even though the manufacturers selling direct believe they are using a form of relationship marketing. Here price was the overriding factor.

- When switching channels the main switch was from the agent to the manufacturer or to another agent. The warehouse was switched from but not to and those that switched from the warehouse switched to the agent. The main reasons given for

switching channel were as follows in order of importance: After sales service and support, price, value for money and quality/upgradability. Price and value for money were the main reasons for switching from the indirect to the direct.

- Lastly, unlike the home consumers, the business consumers do not believe the brand to be important. This is reinforced by the percentage of consumers who have switched from two of the biggest brand names, i.e. Compaq and IBM. The main reasons cited were price and value for money.

7.3.4 Objective 2

To determine changes that are taking place in the different consumer markets and the implications they have for the marketing channel.

Section A: Home Consumer Survey

To determine this, consumers level of expertise and confidence in their own ability in purchasing PCs were examined. The level and type of risk they perceived in making this purchase was examined. Then their level of confidence and risk were cross-tabulated with their current supplier to examine if these factors have any influence over channel choice.

TABLE 7.21 HOME CONSUMERS' LEVEL OF UNDERSTANDING OF PCs

Respondents' Understanding of PCs	Value	%
Understand the technical and practical side of using PCs	1	18
Find PCs easy to use, but don't understand the technicalities	2	48
Can use PCs by following instructions carefully	3	22
Can use PCs if shown how to use them	4	11
Have problems using PCs & need a lot of support.	5	1
Mean	**2.3**	---
Total	---	100%
Sample		*100*

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From table 7.21 it is obvious that consumers have little or no problem in using PCs and at the very least, once shown how to use them have no problems using them. Compare this to a decade ago where people were very wary of technology and needed a lot of support to use them. Now people are much more familiar with using PCs. Most use them in school, college and work. In saying this, however, it should be noted that this is in reference only to the social classes involved in the survey, i.e. AB, C1 and C2.

TABLE 7.22 LEVEL OF COMFORT AND CONFIDENCE WITH PCs

	Mean	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree	Total
Value Level of Comfort & Confidence		1	2	3	4	5	
More comfortable using PCs than before	1.8	28%	67%	4%		1%	100%
More confidence in own knowledge of PCs than before	2.5	14%	45%	21%	18%	2%	100%
Need a lot of advice from the supplier when purchasing PCs	2.8	9%	39%	27%	18%	7%	100%
Sample							100

Again this shows that people are becoming a lot more comfortable using PCs than they were, 95% agreed that this was the case. People also have a lot more confidence in their own knowledge of PCs than they had previously (59%). This is backed up by the fact that less than half of the population felt that they needed advice from their supplier when purchasing a PC.

TABLE 7.23 COMPLEXITY OF PURCHASING A PC - HOME CONSUMERS

Complexity of PC Purchasing	Value	%
Above average complexity	1	79
Average complexity	2	20
Below average complexity	3	1
Mean	1.2	100%
Sample		100

It should be noted, however, that although people are increasing in comfort and confidence they still consider the PC to be a much more complex purchase relative to other items they may buy of a similar nature or price range.

TABLE 7.24 LEVEL AND TYPE OF RISK PERCEIVED BY HOME CONSUMERS

Risk Type / Level of Risk	Value	Financial Risk	Performance Risk	Physical Risk
High Risk	1	35%	40%	38%
Medium Risk	2	59%	56%	58%
Low Risk	3	6%	4%	4%
Total		100%	100%	100%
Mean Score		1.710	1.587	1.660
Sample		*100*		

From the above table it can be seen that although people are feeling more comfortable and confident there is still quite a high level of all types of risk being perceived, with slightly more emphasis on the functional aspect of the PC. Also, from table 7.21 it can be seen that although people have no problems using PCs very few have technical knowledge of PCs. If then these questions are cross tabulated with the levels of performance the following table results:

TABLE 7.25 PERFORMANCE RISK ACCORDING TO THE HOME CONSUMERS' LEVEL OF UNDERSTANDING OF PCS.

Level of Understanding / Level of Risk	Technical & Practical Know.	Easy to Use	Follow Instructions	Shown How to Use	Problems Using PCs
High Risk	17%	39%	55%	41%	---
Medium Risk	80%	55%	45%	59%	100%
Low Risk	3%	6%	---	---	---
Total	100%	100%	100%	100%	100%
Sample	*18*	*48*	*22*	*11*	*1*

There would appear to be a relationship between performance risk and the home consumers' level of understanding of PCs. It is clear that many of those who understand the technical side of PCs perceive a lower level of functional risk than others. Only 17% of those with technical knowledge perceive a high level of risk where as 39%-55% of those with no technical knowledge perceive a high level of

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functional risk. This shows that as people become more knowledgeable their level of functional risk will decrease.

It is also interesting to look at levels of risk relative to whether it is a first PC or not.

TABLE 7.26 LEVEL AND TYPE OF RISK RELATIVE NUMBER OF PCs PURCHASED

Risk : Type	Functional Risk		Financial Risk	
Level	1st PC	2nd PC+	1st PC	2nd PC+
High	47%	19%	41%	19%
Medium	51%	67%	54%	70%
Low	2%	14%	5%	11%
Total	100%	100%	100%	100%
Sample	73	27	73	27

This table shows that if it is a first PC then the level of risk perceived is higher, but those who have purchased more than once the level is lower. Consequently, it could be concluded that in the future as people begin to replace their machines with newer models the levels of risk will decrease.

Finally, the last area to examine is whether or not these changes in the PC market have implications for the PC channel. The channel was cross-tabulated with confidence and comfort levels, and with the levels and types of risk.

TABLE 7.27 RESPONDENTS LEVEL OF UNDERSTANDING OF PC BY CHANNEL TYPE

Channel Type / Respondents' Understanding of PCs	Direct	Indirect
Understand the technical and practical side of using PCs	30%	11%
Find PCs easy to use, but don't understand the technicalities	47%	49%
Can use PCs by following instructions carefully	17%	26%
Can use PCs if shown how to use them	6%	13%
Have problems using PCs & need a lot of support.		1%
Total	100%	100%
Sample	30	70

From table 7.27 it should be noted that those using the direct channel have a slightly higher level of knowledge of PCs compared to those using the indirect channel. For example, 30% of those using the direct channel understand the technical as well as the practical side of using PCs compared to 11% of those using the indirect channel.

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TABLE 7.28 LEVEL OF INCREASED COMFORT WITH PCS BY CHANNEL TYPE

Channel Type	Direct	Indirect		
Level of Agreement		Work Supplier	Non-Specialist Retail Outlet	Specialist Computer Outlet
Strongly Agree	23%	16%	25%	34%
Agree	77%	84%	75%	59%
Neither	___	___	___	7%
Total	100%	100%	100%	100%
Sample	30	20	8	30

It is clear that there has been a general increase in comfort of people using all channels than there was previously. This is backing up the literature that people are losing the fear factor when using PCs and becoming more comfortable with technology.

TABLE 7.29 CONFIDENCE IN OWN KNOWLEDGE OF PCS BY CHANNEL TYPE

Channel Type	Direct	Indirect		
Level of Agreement		Work Supplier	Non-Specialist Retail Outlet	Specialist Computer Outlet
Strongly Agree	23%	___	___	14%
Agree	40%	47%	63%	38%
Neither	27%	26%	25%	21%
Disagree	10%	21%	12%	24%
Strongly Disagree	___	6%	___	3%
Total	100%	100%	100%	100%
Sample	30	20	8	30

Those utilising the direct channel appear to be more confident in their own knowledge of PCs when purchasing than those using the indirect channel. Of those using indirect route, consumers using the specialist computer channel appear to be the most confident.

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TABLE 7.30 ADVICE NEEDED FROM SUPPLIER BY CHANNEL TYPE

Channel Type Level of Agreement	Direct	Indirect		
		Work Supplier	Non-Specialist Retail Outlet	Specialist Computer Outlet
Strongly Agree	10%	5%	25%	7%
Agree	43%	42%	50%	34%
Neither	17%	42%	___	38%
Disagree	23%	11%	___	14%
Strongly Disagree	7%	___	25%	7%
Total	100%	100%	100%	100%
Sample	30	20	8	30

This table shows a relationship between the level of advice sought by consumers from their suppliers and the channel chosen. The largest percent of utilising the non-specialist retail channel require more advice from their suppliers. The highest percentage of those not requiring advice from their suppliers are utilising the direct channel.

TABLE 7.31 RISK TYPE & LEVEL PERCEIVED BY HOME CONSUMERS BY CHANNEL TYPE

Risk Type	Financial Risk		Performance Risk		Physical Risk	
Channel Type Level of Risk	Direct	Indirect	Direct	Indirect	Direct	Indirect
High	33%	36%	40%	40%	27%	43%
Medium	63%	57%	57%	56%	70%	52%
Low	4%	7%	3%	4%	3%	5%
Total	100%	100%	100%	100%	100%	100%
Sample	30	70	30	70	30	70

The only risk type that varied in levels between the channel types was that of Physical risk. This was based on the company's service after the sale and how important this was to the consumer. From this it can be seen that a lower level of this risk is perceived by those using the direct channel and those that perceive a high level of risk tend to choose the indirect channel.

As was stated earlier the PC brand determines the channel choice as often as vice versa. Consequently, when the brand was cross-tabulated with the risk types, there

proved to be a relationship between performance risk and the PC brand, and physical risk and the PC brand. However, again this statistical significance is only indicicative.

Section B: Business Consumer Survey

There is evidence from the exploratory industry interviews that in the past there were no "experts" on hand so senior management had to source outside experts for advice as to what would suit their needs. The end users had no input and spent their time learning how to use them. Now companies have computer departments or else they source outside without fear. So in order to determine how the market has changed with respect to PC influencers and understanding of PCs each company was asked if they have a computer department, who influences the purchase of PCs in the company and, as with the home consumer survey, perceived risk was measured. 48% of companies have a computer department. Of these 78% have 1-5 people in this department.

TABLE 7.32 COMPANY EMPLOYEE NO.S BY COMPUTER DEPARTMENT EMPLOYEE NO.S

Employee no.s: Company Computer Department	1-10	11-20	21-50	51-100	101-200	201+
1-5	---	40%	17%	39%	69%	47%
6-10	---	---	---	---	---	29%
11-15	---	---	---	6%	---	6%
15+	---	---	---	---	---	12%
Total	---	40%	17%	45%	69%	94%
Sample	*7*	*6*	*24*	*18*	*13*	*17*

In general, the larger the company the more likely they are to have a computer department, and the larger that computer department is likely to be. Following this, the people/departments who may or may not influence the purchase decision were determined.

TABLE 7.33 INFLUENCERS OF THE PC PURCHASE DECISION & THEIR LEVEL OF INFLUENCE

Influencers / Level of Influence	Users	Purchasing Dept.	Computer Dept.	Senior Mgmt
Total	4%	4%	30%	25%
A lot	23%	19%	47%	33%
Some	48%	18%	6%	27%
A little	11%	13%	----	12%
None	14%	46%	17%	3%
Total	100%	100%	100%	100%
Sample	85	85	85	85

As can be seen from table 7.33 the people with the most influence are those in the computer department, where there is one, and senior management. This might be expected. However, the PC users have more influence than previously expected by industry sources. Only 14% of users have no influence. The actual purchasing department are the people with the least influence. Presumably, they don't have the technical knowledge necessary.

Next the complexity of purchasing a PC compared to other purchases of plant and equipment was examined. The following table results:

TABLE 7.34 COMPLEXITY OF PC PURCHASE FOR BUSINESS CONSUMERS

Complexity of PC Purchasing	Value	%
Above Average	1	15
Average	2	68
Below Average	3	17
Mean	2.048	100%
Sample		85

The PC appears to be viewed as a purchase of average complexity, heading for below average complexity as is demonstrated from the mean response. The PC is viewed by its business market as an average purchase, so the next step is to determine if perceived risk is still an important factor, and if so the level and type.

TABLE 7.35 LEVEL AND TYPE OF PERCEIVED RISK

Risk Type / Level of Risk	Value	Financial Risk	Performance Risk	Physical Risk
High Risk	1	18%	47%	20%
Medium Risk	2	80%	51%	80%
Low Risk	3	2%	2%	---
Total		100%	100%	100%
Mean Score		**1.845**	**1.56**	**1.798**
Sample			85	

The lowest level of risk for business consumers is financial risk with a mean score of 1.845. The highest level of perceived risk is performance risk, with a mean score of 1.56. 47% of consumers perceived a high level of performance risk. It was considered useful to look at whether or not the company has a computer department and complexity of purchase, by the levels of risk to see if this has any bearing on the type and levels of risk perceived.

TABLE 7.36 RISK TYPE BY WHETHER THE COMPANY HAS A COMPUTER DEPARTMENT

Computer dept. / Level & Type of Risk		Yes	No
Financial Risk:	High	20%	15%
	Medium	78%	82%
	Low	2%	3%
Total		100%	100%
Performance Risk:	High	17%	23%
	Medium	83%	77%
Total		100%	100%
Physical Risk:	High	42%	50%
	Medium	55%	48%
	Low	3%	2%
Total		100%	100%
Sample		*41*	*44*

It can be seen here that the percentage of high risk perceived for performance and physical risk is lower among those companies with a computer department, and consequently in-house technical expertise, which was something that didn't exist in the past. Although, these companies perceive a higher degree of financial risk. This could be accounted for by the fact that companies with computer departments appear to have more PCs.

TABLE 7.37 COMPUTER DEPARTMENT BY NUMBER OF PCS IN COMPANY

Computer Dept. No. of PCs	Yes	No
1-5	7%	28%
6-10	8%	29%
11-20	10%	20%
21-50	32%	17%
51+	43%	6%
Total	100%	100%
Sample	41	44

It is from table 7.37 that the more PCs a company has, the more likely they are to have a computer department. It is clear that there is a definite trend here. Also, from table 7.32 it can be seen that larger companies have more PCs. Consequently, it can be deduced that larger companies are more likely to have an in-house computer department. However, it must be noted that although the market has changed with regard to knowledge and expertise, perceived risk is still an important factor to be considered, especially with small companies.

TABLE 7.38 PERCEIVED RISK BY COMPANY SIZE

Computer dept. Level & Type of Risk	1-10	11-20	21-50	51-100	101-200	201+
Financial Risk: High	40%	---	21%	27%	---	24%
Medium	60%	100%	75%	73%	92%	76%
Low	---	---	4%	---	8%	---
Total	100%	100%	100%	100%	100%	100%
Performance Risk: High	40%	---	25%	27%	15%	18%
Medium	60%	100%	75%	73%	85%	82%
Total	100%	100%	100%	100%	100%	100%
Physical Risk: High	60%	80%	50%	28%	62%	35%
Medium	20%	20%	50%	72%	38%	59%
Low	20%	---	---	---	---	6%
Total	100%	100%	100%	100%	100%	100%
Sample	7	6	24	18	13	17

The very small companies, i.e. under ten employees, perceive a high level of performance and financial risk, these are the areas critical to them in the immediate future. For example, it may be difficult for a small company to afford PCs, and

therefore it would cause financial difficulties if they didn't work, or did not suit the company. Physical risk is of a more long term nature. It deals with how the use of PCs will effect the good of company in the future, this is very high for small companies also. In general, larger companies perceive a lesser degree of risk, except for physical risk where there does not appear to be any significant trend. This can also be backed up by the fact that larger companies see the purchase of PCs as a less complex purchase than smaller companies (see Table 7.39) and consequently perceive lower levels of risk with the purchase.

TABLE 7.39 PURCHASE COMPLEXITY BY COMPANY SIZE

Size / Complexity	Small (1-20 employees)	Medium (21-100 employees)	Large (101+ employees)
Above Average	40%	11%	10%
Average	60%	66%	68%
Below Average	---	23%	22%
Total	100%	100%	100%
Sample	*13*	*42*	*30*

Finally, the last area to examine under this section is whether or not these changes in the business consumer market have any implications for the marketing channel.

The companies with computer departments have the technical knowledge necessary to reduce the need for attention from their supplier and as such have lower levels of performance and physical risk. However, they do have higher levels of financial risk (See table 7.36) and as such are more likely to opt for the direct channel.

TABLE 7.40 DOES THE COMPANY HAVE A COMPUTER DEPT. BY CHANNEL TYPE

Channel Type / Computer Dept.	Direct	Indirect
Have Computer Dept	55%	48%
No Computer Dept.	45%	52%
Total	100%	100%
Sample	*36*	*65*

Of those who have opted for the direct channel 55% have a computer department. There is little or no difference between those companies with or without computer departments, who have selected the indirect channel. However, of those indirect customers who have a computer department 86% have opted for the agent, which appears to be the next most direct step along the line from the manufacturer.

TABLE 7.41 PURCHASE COMPLEXITY BY CHANNEL TYPE SELECTED BY BUSINESS CONSUMERS

Channel Type / Complexity	Direct	Indirect
Above Average	8%	17%
Average	66%	67%
Below Average	26%	16%
Total	100%	100%
Sample	*36*	*65*

Purchase complexity appears to effect the channel selection. As consumers begin to find purchasing a PC a less complex process they appear to be switching to the direct channel. Only 8% of people who have selected the direct route consider it an above average purchase, whereas, 17% of those who have selected the indirect route consider it an above average purchase. Also, 26% of the direct consumers consider it a below average purchase, whereas only 16% of indirect consumers feel the same.

TABLE 7.42 RISK TYPE & LEVEL PERCEIVED BY BUSINESS CONSUMERS BY CHANNEL TYPE

Risk Type	Financial Risk		Performance Risk		Physical Risk	
Channel Type / Level of Risk	Direct	Indirect	Direct	Indirect	Direct	Indirect
High	23%	17%	14%	20%	40%	48%
Medium	74%	81%	86%	80%	57%	48%
Low	3%	2%	---	---	3%	4%
Total	100%	100%	100%	100%	100%	100%
Sample	*36*	*65*	*36*	*65*	*36*	*65*

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As can be seen, those with a higher degree of perceived financial risk are utilising the direct market where products are lower in price. Those that perceive a higher degree of performance and physical risk are currently utilising the indirect channel, presumably because there is a more tangible relationship here, where the consumer can go if there is a problem after purchase. This is backed up by table 7.15 where the indirect route was chosen as principal channel for reasons of after sales service and support, and reliability and the direct route was chosen for reasons of price.

7.3.5 Conclusions from Objective 2

Section A: Home Consumers

- 99% of respondents can use PCs quite easily, some by following instructions or by being shown how.

- There has been a general increase in comfort levels with people using PCs. This extends across all channel types and does not appear to influence channel choice. 95% of respondents agreed that they are more comfortable using PCs than they were previously.

- 59% have a lot more confidence in their own knowledge of PCs when purchasing PCs. This appears to have implications for the channel choice. A large percent of those who are confident in their own knowledge have chosen the direct channel, especially those with technical as well as practical experience.

- There appears to be a relationship between the level of advice sought from the supplier and the channel choice. A high percent of those requiring a good deal of advice from their supplier are using the non-specialist retail channel. Also the highest percentage of those not requiring a lot of advice from their supplier are using the direct channel.

- Performance and financial risk do not appear to vary between the channel choices. However there is a variation in physical risk levels and channel choice. Those perceiving a high level of physical risk have opted for the indirect channel.

- As the PC brand has implications for the channel choice it was deemed useful to discover if there was any relationship between the PC brand and perceived risk.

There exists a relationship between performance risk and PC brand, and physical risk and PC brand.

Section B: Business Consumers

- Companies now have their own in-house experts, with 48% of companies having their own computer department. This in general depends on the company size, i.e. the larger the company, the more likely it is to have a computer department, and the larger the computer department is likely to be. These in-house experts tend to aid the company in remaining independent of their suppliers, requiring less aid from them.

- The number and type of people in the company who have some influence over the purchase decision has increased. In the past experts were outsourced and senior management, who had control over the budget made the decision. Presently everyone is involved in the decision making process, right down to the end users. Only 14% of end users have no influence over the purchase decision.

- Because of the technical nature of PCs, they were considered in the industry to be a high involvement, complex purchase. Currently, it is viewed as a purchase of average complexity, with 17% considering it a purchase of less than average complexity. This appears to depend on company size. The smaller companies consider it an above average to average complexity purchase, and the bigger companies tend to consider it an average to below average complexity purchase.

- Perceived risk is still an important factor to be considered, particularly performance risk. However, the level of performance risk is slightly lower among those with in-house experts, i.e. a computer department. Smaller companies tend to perceive higher levels of risk, especially performance and financial risk. Performance risk can be related to their lack of in-house expertise and financial risk can be related to their size and limited budget, where computers are a large expenditure.

- The above have implications for the channel choice. For example, companies who perceive a high level of financial risk tend to opt for the direct channel, where prices and costs are lower. These companies also perceive lower levels of performance and physical risk and do not need the same amount of attention as those using the indirect channel. These companies also mainly have a computer

department which would lower these risk levels. Whereas companies perceiving higher levels of performance and physical risk tend to want reliability and a relationship with their suppliers and consequently more opt for the indirect channel.

7.3.6 Objective 3

To determine how the business and home consumer segments compare and/or contrast.

This section involves comparing the results of the two surveys in order to examine the similarities and contrasts of the two. The first area examined was channel choice.

TABLE 7.43 CHANNEL CHOICE OF BOTH CONSUMER MARKETS

Consumer Market / Channel Type	Home Consumers	Business Consumers
Direct From Manufacturer	30%	42%
Indirectly Through Dealer	70%	76%
Sample	⁴100	85

The ratio of indirect to direct is 2.3:1 in the home consumer market and 1.8:1 in the business consumer market. When the indirect channel was broken down there was more obvious differences in the indirect channel chosen. There were significantly more channel types utilised in the home consumer market than in the business consumer market.

TABLE 7.44 INDIRECT CHANNEL SELECTED BY HOME AND BUSINESS CONSUMER SEGMENTS

Consumer Market / Indirect Channel Type	Home Consumers	Business Consumers
Computer Specialist Shop	43	14
Computer Specialist Non Retail Agent	3	76
Computer Warehouse	---	14
Non-Specialist Retail Outlet	12	---
Through Work Supplier	27	---
From a Magazine	1	---
At an Auction	1	---
Second Hand	13	---
Sample	100	85

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Business consumers using the indirect channel, mainly use a non-retail computer agent. There is quite a variety of indirect channels used by the home consumer. The main ones being a computer specialist shop and work supplier.

One of the main differences between the two consumer groups is that the home consumer market is only beginning to take off here in Ireland. Consequently, 73% of home consumers currently have bought their first PC and only 20% have changed suppliers in the past. Whereas the business community have been using them for quite sometime, in recent years they have become a standard item in the office. Almost half of the companies surveyed use more than one supplier. Therefore, this must be noted when examine the switching behaviour of both consumer markets.

TABLE 7.45 CHANNEL SWITCHING BY HOME AND BUSINESS CONSUMERS

	Switched From		Switched To	
Channel Type	**Home Consumers**	**Business Consumers**	**Home Consumers**	**Business Consumers**
Manufacturer	24%	26%	40%	30%
Specialist Computer Shop	18%	4%	24%	13%
Non-Retail Computer Agent	---	61%	---	57%
Computer Warehouse	---	9%	---	---
Non-Specialist Retail Outlet	29%	---	---	---
Work Supplier	18%	---	24%	---
Second Hand	11%	---	12%	---
Total	100%	100%	100%	100%
Sample	*21*	*24*	*21*	*24*

The retail outlets are becoming less popular among both consumer groups. The only retail outlet switched to is the computer specialist shop and this is mainly among the home consumer group. 87% of business consumers are utilising a non retail channel. The home consumers are utilising channels that are not really open to the business consumers, such as going through the supplier used in their workplace, buying second hand. The main similarity is the direct channel, although more have switched to this channel in the home consumer market. Also, the swing away from retail outlets is quite notable in both consumer groups.

There is little similarity in the reasons given by both consumer groups for changing suppliers (See tables 7.5 and 7.18). This is where the main difference arises between the two consumer groups. It is here where branding as an important factor is first realised. The main reason given by home consumers for changing suppliers was in order to change their brand. This did not figure as a reason for business consumers. Business consumers felt that after sales service and support was the most important. Price and value for money was the only reason significantly mentioned by both sets.

Branding appears to be of the utmost importance in the home consumer market at present. It has had major implications for the channel choice and will have in the future. It was the main reason for changing in the past and appears to be the main reason for changing in the future. In the past brand switching has often meant channel switching. Those who have changed to a direct selling brand have mainly switched from an indirect selling brand and vice versa (See table 7.8). The main reasons given for switching brands were to get a better deal with another brand or to buy, what they perceived as a better brand (See table 7.9). Future purchase behaviour also involves branding. 41% stated that they would change their brand in the future, and when asked if they would change their channel/supplier in the future most said it would depend on the brand they were going to buy. It is clear therefore, that the brand and the channel in the home consumer market are dependent on each other and, when examining one it is important to also examine the other to get the full picture. This somewhat backs up the exploratory research, which states that branding will be very important in the future. However, although this has proven to be true in the home consumer market, it does not appear to be true in the business consumer market.

Branding, in the business consumer survey, did not arise as (a) a channel choice reason, (b) a reason for choosing the principal supplier, or (c) a reason for changing channel/supplier. On a scale of importance, the brand as a factor influencing the purchase of a PC received the lowest score. Also, of the brands that certain companies have ceased purchasing, the bigger brand names attained the highest percentage, i.e. IBM and Compaq, the main reasons being price and value for money.

The main factor of importance among the business community was after sales service and support. 62% of consumers agreed on this. On a scale of importance (1-5, 1 being very important, 5 being very unimportant) it received the highest mean score of 1.4 in influencing their choice of PC supplier. It was the main reason given for selection of principal supplier also. This backs up the industry review and the exploratory research, which stated that, in the business markets, after sales service and support would be the main area in the future as a basis of competition. As the PC becomes commoditised people will look to the services provided by the supplier as a basis for selection.

An area that is important in both markets is price and value for money. It's listed as a reason for switching suppliers by both consumer groups (24% of home consumers and 39% of business consumers - see tables 7.5 and 7.18). It appears to be slightly more important to the business consumer, who would perhaps be purchasing more than one machine. It is an important channel selection reason for both consumer groups. This backs up the exploratory research which states the importance of price and value for money. So although it is not the most important factor, it is still a consideration. However, the intense competition in the market at the moment and prices constantly dropping, mean that it is only an issue in so far as consumers can choose the suppliers with the price to suit their requirements. Related to this is the fact that the level of financial risk perceived is lower than the other risk types.

An area that differs significantly between the two consumer groups is purchase complexity.

TABLE 7.46 COMPLEXITY OF PC PURCHASE FOR HOME AND BUSINESS CONSUMERS

Purchase Complexity	Value	Home Consumers	Business Consumers
Above Average	1	79%	15%
Average	2	20%	68%
Below Average	3	1%	17%
Total		100%	100%
Mean Score		**1.2**	**2.048**
Sample		*100*	*85*

It is clear from table 7.46 and figure 7.3 that home consumers still see PC purchasing as above average complexity, with a mean score of 1.2. Whereas, the business consumers views it as an average to below average complex purchase, with a mean score of 2.048

Figure 7.3 Purchase Complexity as Viewed by Home & Business Consumers
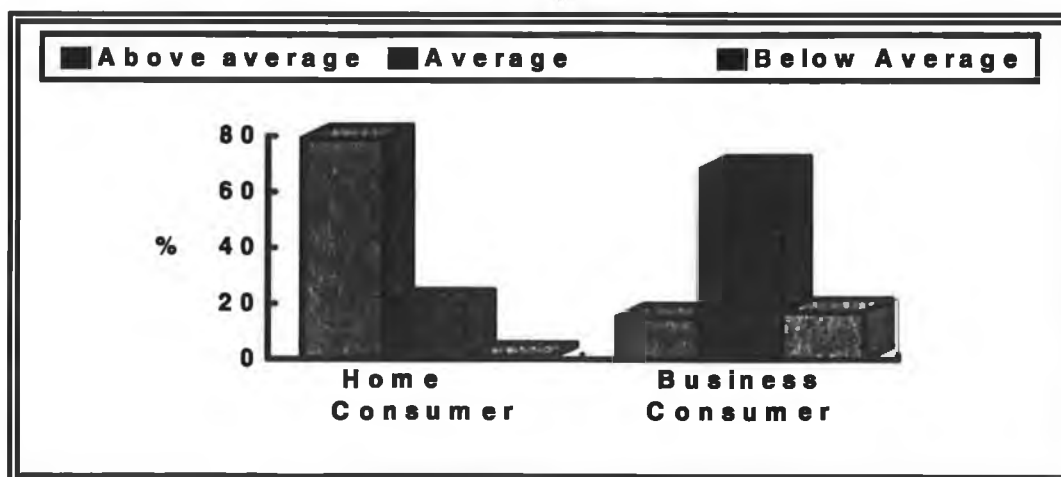
Another area to examine is that of perceived risk. Do the business and home consumers perceive different levels and types of risk?

TABLE 7.47 LEVEL AND TYPE OF RISK PERCEIVED BY BUSINESS AND HOME CONSUMERS

Type Level	Value	Financial Risk		Performance Risk		Physical Risk	
		Home Consumers	Business Consumers	Home Consumers	Business Consumers	Home Consumers	Business Consumers
High	1	35%	18%	40%	47%	38%	20%
Medium	2	59%	80%	56%	51%	58%	80%
Low	3	6%	2%	4%	2%	4%	---
Total		100%	100%	100%	100%	100%	100%
Sample		*100*	*85*	*100*	*85*	*100*	*85*
Mean		1.710	1.845	1.587	1.56	1.660	1.798

Figure 7.4 Level & Type of Risk Perceived By Home and Business Consumers
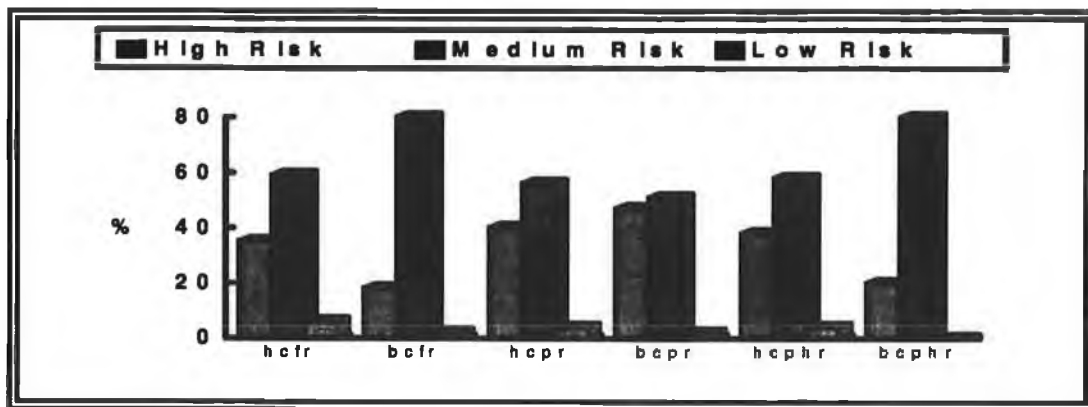
hc=Home consumer; bc=Business consumer; fr=Financial risk; pr=Performance risk; phr=Physical risk

Table 7.47 shows that home consumers generally perceive higher levels of risk except for performance risk. This is very recognisable from figure 7.4 especially with regard to high levels of financial and physical risk. There is not a noticeable difference in performance risk perceived by both groups. Home consumers perceive a much higher level of financial risk. This is not very surprising as they also see it as a more complex purchase. The purchase activity seems to be more difficult than the aftermath. Whereas the area of concern for the business consumers appears to be after the purchase as opposed to the purchase activity itself, i.e. they see it as a purchase of average complexity, the highest level of risk is performance risk followed by physical risk.

7.3.7 Conclusions from Objective 3

- The business consumer has been quicker in adopting the direct route. However, the home market is not as far along the PLC currently, so this may change.

- The indirect channel differs between the two consumer groups. The most popular channel for the business consumer is the non retail computer agent, this accounts for 76% of indirect channels chosen. The most popular indirect routes for the home consumer are the specialist computer shop and buying through work. Of the business consumers that have changed channels almost all have switched from the retail outlet, the most popular channels being the manufacturer and the non retail computer agent. Of the home consumers that have switched there has been a swing away from the non-specialist retail outlet, the most popular channels being the manufacturer, the specialist shop and the work supplier.

- The most noticeable area where the two markets differ is that of factors influencing the purchase decision. The brand is the most important criteria for home consumers with regard to their channel choice and channel switching reasons, in the past and in the future. For the majority of the business consumers, after sales service and support is the most important issue with regard to channel choice and switching reasons. However, there is agreement on the pricing issue. Consumers want value for money and with the current competitive environment they can choose the supplier that fulfils their requirements. Consequently, financial risk is not perceived as highly as performance and physical risk.

- However, home consumers still perceive a high level of all types of risk compared to the business consumer. Performance risk is the highest level of risk perceived by the business consumer to date.

- The last area where the two groups differ is in the area of purchase complexity. The home consumers view the purchase of a PC as a much more complex activity than the business consumer. The mean score of purchase complexity achieved was 1.2 for home consumers and 2.048 for business consumers (1 being above average complexity and 3 being below average complexity)

7.3.8 Objective 4

To determine what, if any, differences exist between consumers utilising differing marketing channels.

Section A: Home Consumers

Firstly, of those who purchased a PC for the first time, 29% purchased directly and 71% purchased indirectly. Of those who purchased not for the first time, 39% purchased directly and 61% purchased indirectly. The task, therefore, is to determine if any differences exist between these consumers utilising different channels. Therefore, respondents were asked what factors were important in influencing them when purchasing a PC.

TABLE 7.48 FACTORS INFLUENCING PC PURCHASE BY CHANNEL TYPE CHOSEN

Influencing Factor	After Sales Service		Ease of Use		Supplier's Reputation	
Channel Type / Level of Importance	Direct	Indirect	Direct	Indirect	Direct	Indirect
Very Important	37%	26%	27%	44%	17%	8%
Important	53%	49%	63%	51%	50%	35%
Not Important	10%	25%	10%	5%	33%	57%
Total	100%	100%	100%	100%	100%	100%
Sample	30	70	30	70	30	70

Influencing Factor	Price		Friend's Advice		Brand	
Channel Type / Level of Importance	Direct	Indirect	Direct	Indirect	Direct	Indirect
Important	60%	71%	37%	32%	67%	45%
Not Important	40%	29%	63%	68%	33%	55%
Total	100%	100%	100%	100%	100%	100%
Sample	30	70	30	70	30	70

Influencing Factor	Past Experience		Work/College	
Channel Type / Level of Importance	Direct	Indirect	Direct	Indirect
Important	60%	36%	45%	41%
Not Important	40%	64%	55%	59%
Total	100%	100%	100%	100%
Sample	30	70	30	70

From examining the factors influencing purchase behaviour with regard to the channel type selected it is clear that there are differences in what is considered important between customers utilising different channels. Those going through the direct route believe after sales service to be important when deciding where to buy their PC, also brand name was very important (the two brands being Dell and Gateway, both well known). Yet again the brand was discovered to be particularly significant in selecting the route, reinforcing what was discovered under objective 1, i.e. the brand and the channel are interdependent, either may determine the other. Previous experience was considered another important influencing factor by the home consumer utilising the direct channel, this also appears to be particularly significant in differentiating between the direct and the indirect home consumer.

In contrast the factors considered more important by the indirect consumer were ease of use, also price was considered important by 71% here. Although it was considered important by 60% of those employing the direct supply channel. The reputation of the supplier was considered unimportant by the largest percent of those buying their PC through the indirect channel (57%) whereas 68% of the direct consumers considered it important.

Other areas where differences occur between home consumers utilising the differing channel types are illustrated in table 7.49.

TABLE 7.49 RESPONDENTS LEVEL OF UNDERSTANDING OF PC BY CHANNEL TYPE

Channel Type Respondents' Understanding of PCs	Direct	Indirect
Understand the technical and practical side of using PCs	30%	11%
Find PCs easy to use, but don't understand the technicalities	47%	49%
Can use PCs by following instructions carefully	17%	26%
Can use PCs if shown how to use them	6%	13%
Have problems using PCs & need a lot of support.	___	1%
Total	100%	100%
Sample	30	70

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From table 7.49 it should be noted that those using the direct channel have a slightly higher level of knowledge of PCs compared to those using the indirect channel. For example, 30% of those using the direct channel understand the technical as well as the practical side of using PCs compared to 11% of those using the indirect channel. 40% of those utilising the indirect channel need some assistance whether in the form of an instruction manual or personal aid from an 'expert'.

TABLE 7.50 CONFIDENCE IN OWN KNOWLEDGE OF PCS BY CHANNEL TYPE

Channel Type / Level of Agreement	Direct	Indirect
Strongly Agree	23%	10%
Agree	40%	46%
Neither	27%	19%
Disagree	10%	22%
Strongly Disagree	—	3%
Total	100%	100%
Sample	30	70

A higher percent of those using the direct channel are more confident in their own knowledge when purchasing PCs compared to those using the indirect channel. This probably accounts for their use of the indirect channel. They do not need personal attention from their supplier. They know what they want and can give these specifics via the telephone.

TABLE 7.51 RISK TYPE AND LEVEL BY CHANNEL TYPE

Risk Type	Physical Risk	
Channel Type / Level of Risk	Direct	Indirect
High	27%	43%
Medium	70%	52%
Low	3%	5%
Total	100%	100%
Sample	30	70

The only risk type that varied in levels between the channel types was that of physical risk . Those utilising the direct channel generally perceived a lower level of physical risk compared to those choosing the indirect channel.

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TABLE 7.52 PREVIOUS CHANNEL UTILISED BY CURRENT CHANNEL TYPE

Current Channel / Previous Channel	Direct	Indirect
Direct	14%	30%
Indirect	86%	70%
Total	100%	100%
Sample	30	70

Table 7.52 demonstrates that a high percent of people switched from the indirect to the direct channel.

The reasons for changing channels have also differed depending on their current channel choice. Those who currently employ the direct channel have changed for the following reasons: Convenience(30%), disliked previous channel (15%), better quality at reasonable price (15%), and 45% changed channels because of their brand choice. Those who currently utilise the indirect channel changed channels for the following reasons: Convenience (20%), better offer received elsewhere (40%) , bad service received from previous supplier(10%), wanted a different brand (30%). Although many reasons differ, one of the main reasons is the same, i.e. brand.

Some of the PCs uses have a significant relationship also with the channel type

TABLE 7.53 PC USES BY CHANNEL TYPE

Channel Type / PC Uses	Direct	Indirect
Word Processing	97%	78%
Multi-Media	47%	23%
Spreadsheet/Accounts	80%	59%
Programming	22%	9%
Sample	30	70

It is interesting to see that a higher percent of those using a PC for programming utilise the direct channel. By its nature programming requires a technical knowledge of PCs and so it is interesting to note that these people have opted for the direct route. This reinforces table 7.17 which demonstrates this point also. It is also interesting to

note that where the PC use has a significant relationship with the channel type, it favours the direct channel.

Another area where consumers utilising the different channel types differed is whether they would change their brand in the future. Twnety five percent of those using the direct channel said yes, whereas 50% of those utilising the indirect channel said yes. As already established the brand and the channel are interdependent so the above figures will have implications for the channels in the future. Their reasons for wanting to change are also significantly related to the channel type chosen.

Finally, demographic characteristics are also significantly related to the channel type chosen, particularly age. Those in the older categories tend to favour the indirect channel, e.g. 86% of those aged 35-44; 71% of those aged 45-54 and 65% of those aged 55+. 60% of those utilising the direct channel are aged 15-34, whereas only 40% of those utilising the indirect channel are aged 15-34.

Figure 7.5 Age By Channel Type
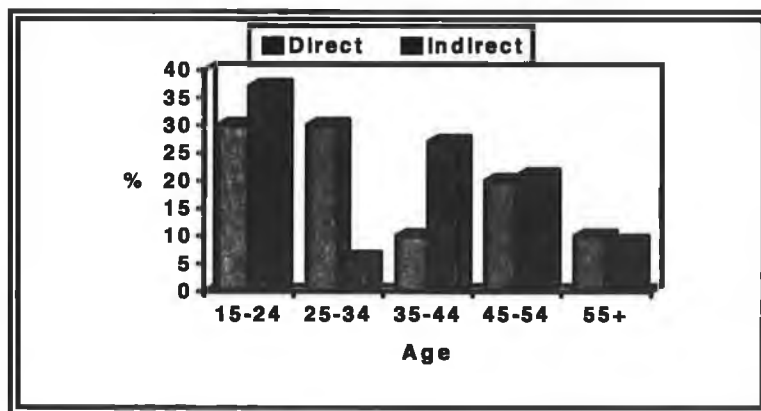
Certain age groups appear to veer toward one channel or the other. For example, the 25-34 age group are predominantly utilising the direct channel, but the 35-44 are predominantly utilising the indirect route. When examining this figure it must take into account the overall split between indirect and direct, i.e. 70:30, this explains the relatively even percentages in the older age groups. In fact the split for the 45-54 age group is 60%:40%, and the split in the 55+ age group is 63%:37% (this age category only accounts for 8% of the sample). The first three age categories are the interesting

ones to look at as they account for 71% of the population and are the ones more likely to purchase again in the future.

With regard to sex 73% of those using the direct channel are male and 27% female. Lastly, social class is also a related factor.

TABLE 7.54 SOCIAL CLASS BY CHANNEL TYPE

Channel Type Social Class	Direct	Indirect
AB	50%	26%
C1	27%	38%
C2	23%	36%
Total	100%	100%
Sample	30	70

Figure 7.6 Social Class By Channel Type
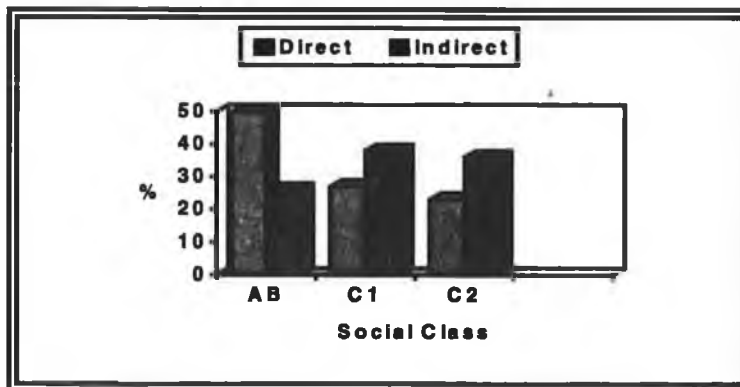
It is clear from the above diagram and table 7.54 that there is a predominance of consumers in the AB social class utilising the direct channel. Those using the indirect channel are fairly spread throughout the social classes, but with a predominance of those in the lower C1, C2 social classifications.

Section B: Business Consumers

In comparing consumers utilising different channels, the ratio of consumers using the different channels must be taken into consideration. 25% of consumers utilise the

direct channel solely, 58% utilise the indirect channel solely, and 18% utilise both channel types. Of those that utilise the indirect channel type, the following breakdown occurs; 14% use the specialist computer shop, 14% use the computer warehouse, and 77% use the non-retail computer agent. There is a certain amount of overlap with people using multiple suppliers, some of which are a different channel type. The task then is to discover the differences between people using the different channel types, particularly between people using the direct versus the indirect outlet.

The first area that can be examined is whether the channel choice reasons vary between consumers utilising the direct and the indirect channel. This has been dealt with earlier in table 7.13. Of the consumers utilising the direct channel, the main reasons for their channel choice were firstly price (74%), then service and support (63%), and finally prompt delivery (29%). In comparison, of the consumers utilising the indirect route, the main reasons were mainly service and support (61%), then price (38%).

However, as many use more than one supplier it is important to look at the reasons for choosing the principal supplier.

TABLE 7.55 REASONS FOR CHOICE OF PRINCIPAL CHANNEL BY CHANNEL TYPE

Channel Choice Reasons / Channel Type	Direct	Indirect
Reliability	22%	61%
Service & Support	67%	78%
Efficiency	11%	33%
Price	78%	33%
Prompt Delivery	33%	33%
Standardisation	22%	11%
Built Up Relationship	--	28%
Quality	22%	28%
Sample	*36*	*65*

In Table 7.55 certain trends and differences do emerge between the two groups. It is clear that service and support is important to both groups, but slightly more important to the indirect consumers. Price is more important to consumers utilising the direct route and reliability is a more important issue to consumers utilising the indirect route. It is also interesting to note that only those utilising the indirect route have given relationship with their supplier as a valid reason.

The next area to examine is how important certain factors in influencing the choice of the actual PC itself. The consumers were given a list of factors and asked to rate them using a scale of importance, 1 being very important and 5 being very important. Because of the size of the sample certain variable received very low responses and so they were recoded into a scale of three (1= Very important, 2= Important, 3= Unimportant).

TABLE 7.56 IMPORTANCE OF FACTORS INFLUENCING PC SELECTION BY CHANNEL CHOICE

Channel Type	Direct			Indirect		
	Very Impt.	Important	Unimportant	Very Impt.	Important	Unimportant
Quality Product	77%	23%	---	67%	33%	---
Price	71%	29%	---	54%	41%	5%
Brand	14%	54%	32%	22%	48%	30%
Easy to use	26%	40%	34%	40%	37%	23%
Compatibility	60%	29%	11%	65%	25%	10%
Sample	*36*			*65*		

From table 7.56, differences appear regarding the importance of certain factors when selecting the actual PC itself. Again price is important among those selecting the direct

route, and ease of use is more important to those using the indirect route. The brand is slightly more important to those using the indirect route. Quality is important to those using both routes as is compatibility with current system..

Other areas where differences exist between consumers using different channels have been examined under objective two. They are in-house expertise (table 7.40), purchase complexity (table 7.41), and perceived risk (table 7.42). They demonstrate that, of consumers who use the direct channel, 55% have a computer department, whereas 48% of those using the indirect channel have one. Of these consumers, 86% chose the non-retail agent. The direct consumers see the purchase as being less complex than the indirect consumers. Those buying directly perceived a higher financial risk levels but lower degrees of performance and physical risk. Whereas those buying indirectly perceived lower levels of financial risk, but higher levels of performance and physical risk. This is reinforced by the fact that price is the most important factor to those buying directly, whereas reliability and ease of use are more important to those buying indirectly. (See tables 7.55 and 7.56.)

Finally, the last area to examine is whether the demographic factors (i.e. industry type and company size) have any influence over channel choice.

TABLE 7.57 INDUSTRY TYPE BY CHANNEL TYPE

Channel Type Industry Type	Direct	Indirect
Manufacturing	34%	30%
Transport/ Communications	9%	10%
Wholesale	23%	16%
Retail	23%	23%
Finance	--	5%
Services	11%	16%
Total	100%	100%
Sample	36	65

There are no differences in the industry breakdown of consumers using different channels.

TABLE 7.58 COMPANY SIZE BY CHANNEL TYPE

Channel Type Company Size	Direct	Indirect
Small (1-20 employees)	9%	13%
Medium (21-100 employees)	40%	57%
Large (101+ employees)	51%	30%
Total	100%	100%
Sample	*36*	*65*

It is clear from the above table that the direct route is predominantly used by large companies and the indirect route is predominantly used by medium sized companies. Of the small companies surveyed (12% of the sample), 73% utilise the indirect route, this is not demonstrated in the above graph because of the size of that group. These companies in general have no in-house expertise and need a lot of support in setting up computer system in their company.

7.3.9 Conclusions From Objective 4

Section A: Home Consumers

There are certain differences between those utilising the direct and indirect channels in the home consumer market within the PC industry.

- When purchasing a PC, consumers from the two categories feel different factors to be important in influencing their decision. Those utilising the direct channel find after sales service, brand name and past experience important. Those consumers using the indirect channel feel that ease of use, brand and price are very important.

- The consumers using the direct channel appear to have a greater understanding of PCs than those utilising the indirect channel. Also, the direct consumers are more confident in their knowledge of PCs when making the purchase decision.

- Those utilising the indirect appear to perceive a higher level of perceived physical risk than those utilising the direct channel.

- Channel changing reasons also differ between the two sets of consumers. Those who currently employ the direct channel changed because of convenience, disliked previous supplier, better quality at reasonable price elsewhere and brand choice. Those who currently employ the indirect channel changed suppliers for the following reasons: better

offer elsewhere, bad service from previous supplier, and again the brand, which appears to be the major influencing factor.

- PC uses also differ among the consumer categories, the most interesting one is programming. Those who use their PC for this purpose predominantly utilise the direct channel. This can be linked back to those with technical knowledge using this channel.

- Future brand switching is also related to channel choice. 50% of the indirect consumers said they would change brands in the future, whereas only 25% of the direct consumers said this. This has obviously implications for channel switching in the future.

- Finally, demographic characteristics differ between the two groups, particularly age. The older consumer has veered toward the indirect channel, whereas 60% of those using the direct channel fall into the 15-34 age categories. Those utilising the direct channel are predominantly male. 78% of the female respondents chose the indirect channel. Also, those utilising the direct channel fall mostly into the AB social classification (50%). Those in the lower classifications (C1, C2) have opted for the indirect channel. 76% of those in the C1 social class and 77% of those in the C2 social class are currently utilising the indirect channel.

Section B: Business Consumers

There are certain differences and also some similarities between those utilising the direct and indirect channels in the business consumer markets in the PC industry in Ireland.

- When selecting a channel through which to buy a PC, various reasons have come to light. Of those who have chosen the direct route, the main reason given was price, followed by service and support, and prompt delivery. The reasons for choosing the indirect route were more widespread. The only reason chosen by a large percent was service and support, as with those utilising the direct route. However only 38% listed price as a reason, compared with 74% listing it of those using the direct route. Reliability and building up a relationship were listed by more of those utilising the indirect route. Quite a few (17%) of those using the direct route felt that it was cheaper and more efficient to cut out the middlemen altogether and go straight to the manufacturer.

- As a large percent of consumers use more than one supplier it was important to discover who their principal supplier was and why they chose them. Services and support was an important reason given by both those using the direct and indirect channel. Price then

was an important reason listed by those using the direct channel, whereas reliability was important for those using the indirect route.

- Factors influencing the choice of the PC itself were also examined. Again price arose as the most important issue of those utilising the direct route. Ease of use was an important issue for those choosing the indirect route. The brand name was not as important an issue, but of those who stated it as an influencing factor, it was slightly more important to those utilising the indirect route. Quality and compatibility with currently system was viewed as important by both sets of consumers.

- Other areas where consumers using the two channel types differ are purchase complexity and perceived risk. Those using the indirect channel view the purchase of PCs as a more complex purchase than those using the direct channel. Those who perceive a higher level of financial risk mainly use the direct channel where prices and costs are lower. Those who use the indirect channel perceive mainly performance and physical risk, where ease of use, reliability and after sales service have already proved very important.

- The industry breakdown does not noticeably differ between the two channel types. However, there are some differences in company size between the two channel types. Those using the direct channel are predominantly large companies and those using the indirect channel are predominantly medium sized companies. 73% of small companies use the indirect route.

7.4 References

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Chapter 8

Overall Conclusions & Recommendations

8.1 Introduction

Chapter seven detailed the main findings and conclusions of the study by each research objective. This section sets out to summarise the overall conclusions and consequently make recommendations for future research and to the industry.

8.2 Overall Conclusions of the Study

8.2.1 Objective 1

To determine current patterns in the marketing channel in the PC industry in Ireland and how it has evolved.

This was addressed in the literature, the industry interviews and in the consumer surveys. From the literature and the industry review, it can be seen that the PC channel has been in a state of confusion since the traditional three tier structure came under threat with the advent of the direct selling manufacturers. These companies, most notably Dell Computer Corporation, pioneered the idea of adding value to the channel with the provision of after sales and support services. This put pressure on the traditional manufacturers to change and adapt. It brought about the realisation that the PC was becoming a commodity, and the way forward would be with services and support in attempting to gain a competitive advantage. The threat was so real that the existing manufacturers attempted an entry into direct selling, e.g. IBM and Digital. However, this created havoc in their existing channels. Their dealers protested that the manufacturers were putting themselves in direct competition with their dealers. Consequently all withdrew and concentrated on improving their existing channels.

This then led to the nature of the traditional three tier structure changing. The channel became more integrated. The dealers had to become more involved in providing value adding services to the customer. They were no longer dealers but VARs (Value Adding Resellers). The manufacturers then began working more closely with the VARs to catch up with the direct sellers in providing the necessary services. The most recent development is the attempt to make these VARs their business partners, and both work close together, using their combined set of skills, to provide solutions for their customers. A partnership assumes much more involvement from the dealers than previous relationships. It moves the relationship from an transactional level to a strategic level, where all involved work equally hard to achieve a strategic advantage and customer satisfaction (Burnes, New and Young:1995:8), and may also shift the focus towards complementary products, e.g. software, services and maintenance. This has certainly proven to be the case with, for example, Digital becoming involved in customer and software support with their new company DECexecutive, as have most companies. Most now have the capacity to provide solutions for any type of machine. IBM has also been successful in turning their dealers into their business partners, with both parties working together to provide customised solutions for their customers (Gleeson 1996).

However, all has not been straight forward within the direct channel. Confident with their successful entry into the PC arena, they felt they should not confine themselves purely to their route. Some, e.g. Dell, began distributing through selected VARs. They were slightly more successful in entering a different channel type as there was not the same conflict of interests.

Consequently, it appears that it is easier for a direct selling manufacturer to utilise the indirect route than it is for the indirect sellers to utilise the direct approach. This was backed up in the interviews. Although, it is also generally agreed that each should concentrate on their core channels.

The confusion has been accentuated by the consumers, who have been switching channels when purchasing new PCs. Most have switched away from the non-specialist retail outlets. A significant proportion have switched to the direct selling manufacturers. Price is generally accepted as an important criteria and was named as one of the most important

reasons for switching. The manufacturers also felt that service and support would be important. However, the home consumers felt that the brand was very important in selecting or switching channels. The business consumers were more in line with traditional values, i.e. price/value, quality, and service and support.

This was where the brand was first noted as a factor of importance influencing the channel choice of the consumer. The home consumer thought of it as a major reason for switching channels, both in the past and the future. When buying a new PC, home consumers felt that the brand was the most important influencing factor and the channel chosen depended on the brand in a lot of cases. The main reason given by home consumers for switching suppliers was to get a better brand also.

The business consumers, however, do not perceive the brand as important. Their main channel switching reasons were service and support, with price and value also having an influence. It was also noted that almost half of this sample used more than one supplier and, of this, almost half have no principal supplier. This would appear to be an area worth examining. These consumers are constantly switching suppliers looking for the best of what is on offer.

It is also agreed that consumer orientation is the most important factor for the future, and the consumers appear to be the driving forces behind the evolution of the channel. They are demanding more and more value for their money, using the competitive environment to their advantage. PC companies are now custom fitting services to meet individual customer needs (Francis 1993). The current competitive marketplace was stated as a reason why business consumers use more than one supplier/channel. Consequently, it is up to the distributors to respond to their changing needs in order to remain competitive. As a result, the manufacturers have to get close to their customers, whether they use the direct or indirect route.

8.2.2 Objective Two

To determine changes that are taking place in the different consumer markets and the implication they have for the marketing channel.

The market has changed considerably in the last few years. There is evidence from the literature, the industry interviews and the consumer surveys that consumers of all types have become much more comfortable using PCs, and consequently, they are becoming more knowledgeable. They know what they want from their PC and their PC supplier. They are using the competitive environment to their advantage. There is also evidence that the level of knowledge possessed by a consumer directly effects their channel choice, for example, those with technical and practical knowledge are more likely to choose the direct route, whereas those who feel they require some level of assistance will generally use the indirect route.

This increase in confidence and knowledge has also changed the purchase decision process in the business markets. Everyone in the DMU now has some level of influence over the purchase decision, down to and including the end users.

However, although confidence has increased, most home consumers still consider PC purchase to be above average complexity relative to other similar product purchases. This is likely, however, to recede as the home consumer market is still at an early stage in the adoption process in Ireland. The business consumers see it as an average complexity purchase, and so when the home consumer market reaches the same stage in the PLC, they may have a similar view. Although it is still likely to remain a relatively substantial purchase for the home user.

A lot of companies (48%) in the business markets have their own IT personnel. These companies tend to require little aid from their suppliers, which also effects their channel choice. However, the manufacturers feel that more and more skills will be outsourced in the future as most computer companies are setting up call centres to deal with customer

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enquiries and most are dealing with enquiries regarding a range of brands. For example, Digital have a support centre in Dublin which deals with enquiries about IBM, Motorola. These centres are certainly extremely important for the home consumer and the SMEs. This again emphasises the move towards the service and support sector in the PC industry as the main area of competition as the hardware moves towards commoditisation.

The level of risk perceived is also changing. There are lower levels of risk perceived in the business consumer markets, where the product has been around longer. For instance, in a lot of cases, companies have some kind of in-house expertise, and as a result perceive lower levels of risk. The risk factor is still quite high in general in the home consumer market, except where the person has a great deal of computer knowledge.

One of the major changes in the market is the increasing size of the home consumer market. This segment is expected to reach up to 50% of the total market over the next few years (Rothery 1994, D'Arcy & Smith 1995/6). This has major implications for the distributors. They all agree on the swing towards consumer orientation. Most, up to now, have concentrated on the business market. But, with the home consumer market increasing so rapidly, it cannot be ignored. In fact, Mitsubishi Apricot launched their product on the Irish market as a primarily home consumer multi-media PC (Hughes 1996). For the other distributors, like Compaq, the problems they foresee with the home consumer market is that all want to be treated as individuals, and want their PCs and PC services tailored to their needs. Consequently, each individual consumer will demand the same attention as a company who would be buying more PCs. However, all are working on overcoming these problems.

8.2.3 Objective 3

To determine how the business and home consumer segments compare and/or contrast.

In comparing the two markets, it must be borne in mind that they are at different stages in the PLC. Consequently, the questionnaire for the two segments had to be tailored to suit.

This section has been mainly dealt with in the surveys. There was little, if any, information on this in the literature.

The industry interviews showed that branding would be important in the future. However, it only appears to be important in the home consumer market from the surveys. It was of little consequence to the business consumers. In fact, many had switched away from the big brand names. In the interviews, it was discovered that they felt price, followed by after sales services, to be important factors in influencing home consumer purchase behaviour. Quality product at the right price were the influencing factors for the business consumers. But in the surveys the home consumer cited the brand and price to be equally important, and after sales service was only mentioned by a small proportion, and the business consumers cited price and after sales services. So not only do the requirements between the two segments differ, the customer requirements also differ from those assumed by the suppliers.

These purchase influencers were the main differentiating factor between the two consumer types. Another area that differed was perceived risk, the home consumers perceive higher level of risks than the business consumer, and also view PC purchase as a much more complex transaction than the business consumer.

8.2.4 Objective 4

To determine what, if any, differences exist between consumers utilising differing channels.

Again there was little, if any, research undertaken on this area previously. The industry interviews brought nothing to light in this area either.

The main differences would appear to be factors influencing purchase and channel selection and switching reasons. The channel type utilised is also related to a consumer's level of knowledge. For example, those consumers with high level of IT knowledge tend

to opt for the direct channel. Demographic characteristics also differ between the two groups.

Another area was purchase complexity. Those utilising the indirect route view the purchase of a PC as a more complex purchase than those using the direct route. Risk differed between the two also. Those who perceived higher levels of financial risk opted for the direct route where costs and prices are lower.

An interesting area of differentiation was that of a relationship between the supplier and the customers. Those business consumers utilising the direct route do not perceive relationship with the supplier as important, whereas it was important for those choosing the indirect route. This would imply that the purchase exchange between direct sellers and their clients is of a transactional nature.

This was dealt with in more detail in section 7.3.9.

8.3 Recommendations

8.3.1 Recommendations to Industry

8.3.1(a) Recommendations with regard to the indirect channel

It is apparent from the research that changing channels is extremely difficult for manufacturers. This is particularly true for manufacturers utilising an indirect route. A manufacturer with an established indirect route should not subsequently employ a direct route. This would only put their existing channels in jeopardy, as their dealers would feel that the new route is in direct competition with the existing channels of distribution. As a result conflict occurs within the channel. This could then be costly for the manufacturer as the time and money spent in building up relationships with dealers would be wasted. At this stage then, should the manufacturer decide to revert to the original channels of distribution, the resources spent on setting up the direct route of supply would be wasted.

Therefore the way forward for manufacturers with established channels of distribution through dealers should look to getting closer to the customer by working interdependently with their dealers. This is one of the reasons why manufacturers selling direct to the customer have become so successful in their self-made niche. By selling direct, you are in direct contact with your customer, which means immediate feedback on the customers' level of satisfaction with the product. Direct sales also help the manufacturer gauge trends in demand more quickly, and so they can plan more effectively. Therefore, indirect selling manufacturers need to build on their relationships with their dealers to the extent that they can get the same level of information from their dealers. They need to work with the dealers so that they understand the level of information needed from the customers. They can also monitor their dealers' sales of products in order to determine trends in demand.

Another advantage that the direct seller has over the indirect seller is the inventory turnover time. Dell, for example, turns over its inventory every 14 days on average, compared to about 50 days for Compaq, the best of the indirect PC makers. Goldman Sachs, an investment bank, says this alone gives Dell a 3% cost advantage over Compaq (The Economist 1996). This is an area that needs to be dealt with by the indirect sellers. About 80% of the cost of a PC is made up of components, such as the processor chip, that fall in price by an average of 30% a year. Each day those parts sit on a shelf, they devalue. In the best of times, too much inventory leaves a PC maker with machines that are higher priced than speedier competitors. Consequently, if the PC maker works on building a close relationship with their dealers, to the point that they can use both set of skills to come up with quicker solutions for the customer, then they can get immediate feedback from the customer and gauge trends in demand more effectively and efficiently. Then, perhaps the inventory turnover time can be shortened, thus reducing costs, leaving more leeway for reducing prices, aiding competition with the lower priced direct sellers.

For newer indirect selling PC makers to the market, the option of selling directly may still exist. If the marketing channel is not yet established and relationships are not yet built up the opportunity may exist. Thus, if the PC maker makes its plans known from the start, then the conflict may not arise as the dealers will know from the outset of the relationship that the PC maker also plans to sell directly. Therefore, the dealer would be there to

service customers who prefer the tangibility and safety of seeing the product prior to purchase. A large percentage of people in this country, particularly home consumers and SMEs still prefer to go to their dealer, with whom they build up a relationship and consequently reduce the level of risk they perceive with regard to purchasing PCs. The people that will go direct to the manufacturer are those with more confidence in their own ability and it is likely that they would go to a direct selling manufacturer anyway and consequently would not really be in direct competition with their own dealers. This reduces the likelihood of conflict within the channel.

8.3.1(b) Recommendations with regard to the direct channel

The direct selling PC makers will not experience the same type of conflict as an indirect selling PC maker by moving into the other channel type. When a direct selling PC maker employs an indirect route they are not going into competition with established dealers. The new dealers are aware that they are only secondary sources of supply. Therefore, channel conflict does not occur in this respect. However, a direct selling PC producer must still be careful when moving into the area of retail sales. For example, if a new PC is offered through the direct channel, the older PCs still on the shop shelves immediately lose value, possibly forcing the PC maker to compensate retailers. However, if they were to supply the retailer on request, i.e. depending on sales, and a retailer could order the PCs in at the same rate of sales, then perhaps they would not be left with older products on the shelves, consequently, that problem would not occur.

In general, however, it would appear that the direct selling PC makers have carved their own niche in the market. This appears fairly untouchable by the indirect sellers. Therefore, they should aim to increase the size of the niche. This country is very traditional with regard to sales. People are slow to buy things that they cannot see first. This is particularly true of the home consumer. As this market seems likely to increase in size dramatically, the direct sellers need to place emphasis on this area. Performance risk is a deterrent for home consumers to buy direct. The direct sellers need to reassure and educate these consumers about buying direct. The direct sellers provide a very high level of service and support with 24 hour customer care lines etc. This should be stressed as a method of

reducing this performance risk. If a problem occurs, all the consumer needs to do is pick up the phone, and they are straight to the point of manufacture, where the experts know more about their machine than any retailer. This also applies to small businesses.

Another problem for the direct sellers is that of building a relationship with your customer. In the business surveys, most used a principal supplier, with whom they had built a relationship with over time. This, particularly, applies to the larger companies. It also appears from the survey that none who have utilised the direct route feel that there is any relationship with their supplier. This can be a problem as most large customers generally want a relationship with their supplier, so there is someone within reach when things go wrong. Consequently, most prefer to use a local intermediary, even though it would be cheaper to buy directly. Therefore, the direct sellers need to concentrate on building some sort of relationship with their customers, through meetings, demonstrations, newsletters with regard to new products or services. They need to be able to service these big customers whenever necessary. This, however, may mean a trade off between service and price. Most of their current customers think price important and service less important. But it would seem that building a relationship should be important, and none of their customers perceive one, it is also one reason why some consumers select the indirect route over the direct route. The direct sellers need to examine this in greater detail, then, perhaps they could expand their consumer base and build some form of loyalty with their customers. They also need to listen to their customers with regard to what they want from their suppliers and not just make assumptions with regard to requirements. This will also help the innovation process and bring them much closer to their customers, and help to form a relationship.

8.3.1(c) Recommendations with regard to targeting consumers

The main area of consideration here is the fact that there are two main customer segments and although most of the requirements are similar, there are some differences.

From the research it became apparent that a gap exists between what a customer looks for from their supplier(s) and what the supplier thinks they want. For example, branding was considered by the PC makers to be one of the most important factors in the future. Whereas, in the surveys, branding was considered unimportant by the business consumers, but it was of the utmost importance for the home consumers. In fact, a large percent of the home consumers who had switched channels or would switch in the future were directly influenced by their choice of brand.

Consequently, in future campaigns, for companies concentrating on and trying to attract the home consumer, it would be advisable to build a strong brand name and image. This determines the route that the consumer takes in buying a PC. Also, a substantial proportion of consumers have bought new PCs in order to buy what they perceive as a better brand. This, for the consumer, is a method of reducing risk, even if it means buying a more expensive brand, they felt safer with a brand name they knew.

However, this was not a universal opinion. Business consumers did not believe the brand to be an important factor influencing their purchase decision. A high percent of business consumers have switched away from the bigger brand names such as Compaq and IBM. However, this may be due to the fact that there are other brands available at a lesser price and business consumers are becoming unwilling to pay premium prices for the bigger brand names. This is also as a consequence of the commoditisation of the PCs. Most machines have similar applications and facilities, e.g. "Intel inside" and Microsoft Windows.

Unlike the home consumer, performance risk is not an important factor, but financial risk is. Consequently, the business consumers are looking for a quality machine at a reasonable price. This is an area that the direct sellers need to stress when dealing with their business consumers, especially because the brand name is not necessary to the business consumer. If they stress the lower costs and prices, this will help reduce the level of financial risk perceived and those who perceive high levels of financial risk will tend to opt for this solution. This was backed up in the research where a high percent of those who perceived higher levels of financial risk opted for the direct channel. This should be capitalised on by the direct sellers.

This an area of concern for companies like IBM and Compaq. However, what businesses are prepared to pay for is the add-on value, the services and support that the supplier can offer. So if they can maintain their pricing at a reasonable level and offer added value for the same price, they may compensate for their higher prices. Another area of importance would be their ability to service the company as a whole regardless of the different brands a company has. They should offer the added value of service and support, whether as a separate item, or as part of the overall price of the PC. Businesses are switching to the suppliers that provide this value. Therefore, PC companies need to provide a comprehensive range of services to suit their customers, as this is the main factor influencing the business consumer in choosing their supplier.

The business consumers are also using the competitive environment to their advantage. Most use more than one supplier and shop around for the best value. Almost one third of companies with more than one supplier have no principal supplier. This is an area of opportunity for all. If a supplier offered their machines at reasonable prices with high quality services and support operations, with the facility to provide service and support for other PC makers machines, they could attract this section of the population. This is an area for the direct sellers to look at, as they would not have to try to break the existing ties that consumers may have built up. These people are looking for lower prices and service, which is exactly what the direct seller have in their favour. This is an area where the direct sellers could start building relationships as these consumers have no ties at present. So if a supplier met their requirements continuously, they may remain with that supplier.

Building relationships with customers is an area of extreme importance in the present climate of consumer orientation. This is where the indirect sellers have an advantage as they have strong relationships with their dealers, who in turn have relationships with the customer. The future for them, is to work with their dealers, who are now becoming business partners, where both are working together, to provide solutions for the customer, and therefore building a form of direct relationship between the manufacturer and the end user as well as the traditional relationships. As a result, they bring the manufacturer a step closer to the consumer, aiding the manufacturer to discover the consumer's requirements from both the product and the suppliers.

The direct sellers are in direct contact with their customer and most keep a database of all their customers. However, it does not appear that the consumers feel they are building a relationship with their supplier, so although it is direct contact, it is not seen on a personal level as they might have with their local dealer. This is an area for the direct sellers to improve.

In targeting home consumers, suppliers must realise that consumers are becoming more comfortable using PCs and more confident in their own knowledge of PCs. So although they may not have the technical expertise, they do know exactly what they want from their machine. A home consumer requires as much attention, in some cases, as a business as they have their own problems and service and support requirements and so are a more difficult segment to deal with and target as each individual has different requirements.

8.3.2 Recommendations for Future Research

An area which has not been covered in this research is that of the dealer or business partner. It would be beneficial to determine how they have contributed to the changes that have taken place in the PC industry and the channel, and also, how they have adapted to changes that have taken place to date. It that can be seen from this study is that the dealers have prevented indirect sellers selling directly. It is clear from the industry interviews and the literature that they have strong relationships with their suppliers. It is also noted that they have built relationships with their customers. However, it would be interesting to see how they fit themselves into the constantly changing picture. It would also be interesting to compare their views with the manufacturers and the consumers to discover how each have contributed to the channel, and how each compare or contrast with regard to their contribution to the channel and their requirements from the channel.

The PC industry is changing and evolving so rapidly that it would be useful to monitor this process over a period of time to see the mechanics of change taking place. For example, the main factor driving the industry at the moment is the consumer. The industry has

become very consumer oriented. The consumer markets themselves are constantly changing as are their requirements. The consumers are demanding more and more value for their money. The home consumers are becoming more comfortable with PCs and know what they want from their PCs and their PC supplier. It would be interesting to see how this continues and effects the industry. The business consumers are no longer looking for a good brand name, they are looking for a quality machine at a reasonable, and in recent years, added value services have become the important criteria when selecting suppliers. These requirements have also being changing as the market changes, so this could be monitored.

Another area of research would be to conduct it with only those consumers who have bought more than one PC. This would give a good insight into changing consumer requirements and the effects it has on the channel. The first purchase is always the most difficult, but as Michael Dell (1995) said "You are only a first time buyer once". So although Ireland still has potential for 80% first time home consumers at present, at the rate the home consumer market is increasing, it is second and third time buyers that suppliers will have to concentrate on in the future. Therefore, research in this area would be very useful to suppliers to determine more fully what people want from their supplier and why they change suppliers.

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Appendix A

Sample Theme Sheet

Section 1: General Introduction

♦ What changes have taken place in the PC Industry in the last decade?
Prompt if necessary: Commoditisation of PC
                      Product Life Cycle
                      Entrance of Direct Selling Manufacturers
                      Consumers becoming more comfortable with computers
                      Price Wars

♦ Do you think the market is consumer or supplier driven?
Discuss consumer orientation trend

Section 2: Distribution Changes

♦ What changes have taken place with regard to distribution in the PC industry in the last decade or so?
                      Direct Vs Indirect
                      VARs
                      Superstores

♦ How has the changing market effected distribution for your company?
◊ Did you try the alternative channel?
◊ Did it succeed?

♦ How have your current distribution channels evolved?
◊ Why did you opt for your current channels?

Section 3: Value Adding

♦ With the PC becoming commoditised, how do you differentiate yourself from your competitors?

♦ Discuss the increase in the demand for value adding services, what services does the company currently provide, what are the plans for the future in this area.

♦ What does the company think that the home and business consumers want from their suppliers?
◊ What influences their choice of PC and supplier, and why?

Section 4: Consumer Segments

♦ Does the company have clear customer segments?
◊ Do you think that the consumer segments are blurring at the edges, with people in general, becoming more comfortable using PCs, and consequently each want the same level of service and machines?
◊ If so, how do you deal with that, with regard to distribution and marketing - does everyone have the opportunity to go through any channel they wish?

♦ How are you dealing with the rapid increase in the home consumer market?

Section 5: Miscellaneous

♦ Discuss the shortening PLC and the effects it has had on the company and its distribution patterns over the last few years?

♦ Discuss their view on the future of the PC Industry with regard to the channel, the product, the market and how they will evolve or change.

Appendix B

Table 11: Persons, males and females classified by socio-economic group.

Socio-Economic Group	Total Persons	Males	Females
Farmers, farmers' relatives and farm managers	491	351	140
Other agricultural occupations and fishermen	2,128	1,382	746
Higher professional	19,674	10,776	8,898
Lower professional	26,791	8,762	18,029
Employers and managers	29,316	15,372	13,944
Salaried employees	10,489	6,169	4,320
Intermediate non-manual workers	93,715	34,733	58,982
Other non-manual workers	83,630	42,027	41,603
Skilled manual workers	98,706	58,247	40,459
Semi-skilled manual workers	42,187	16,036	26,151
Unskilled manual workers	37,609	22,589	15,020
Unknown	58,013	21,544	36,469
Total	502,749	237,988	264,761

Table 15: Persons, males and females classified by social class.

	Social Class	Total Persons	Males	Females
1	Higher professional, higher managerial, proprietors employing others and farmers farming 200 or more acres	41,571	22,230	19,341
2	Lower professional, lower managerial, proprietors without employees and farmers farming 100-199 acres	56,537	24,808	31,729
3	Other non-manual and farmers farming 50-99 acres	99,236	39,773	59,463
4	Skilled manual and farmers farming 30-49 acres	110,401	64,939	45,462
5	Semi-skilled manual and farmers farming less than 30 acres	79,962	34,954	45,008
6	Unskilled manual	56,822	29,583	27,239
7	Unknown	58,220	21,701	36,519
	Total	502,749	237,988	264,761

Table 16 : Persons in each Ward classified by social class.
(for definition of social class groups, see Table 15)

Ward	Social Class							Total Persons
	1	2	3	4	5	6	7	
Dublin County Borough	41,571	56,537	99,236	110,401	79,962	56,822	58,220	502,749
Dublin County Borough North	22,324	34,813	62,628	73,076	51,744	33,085	30,144	307,814
1. Arran Quay A	90	166	204	209	174	135	119	1,097
2. Arran Quay B	104	373	357	315	227	272	1,297	2,945
3. Arran Quay C	45	75	112	255	320	312	139	1,258
4. Arran Quay D	95	320	541	607	745	592	616	3,516
5. Arran Quay E	105	'312	671	653	549	380	458	3,128
6. Ashtown A	416	729	1,223	823	425	248	409	4,273
7. Ashtown B	299	531	814	548	295	144	386	3,017
8. Ayrfield	470	839	1,089	1,812	883	322	295	5,710
9. Ballybough A	102	185	605	945	776	725	570	3,908
10. Ballybough B	81	259	450	449	353	353	311	2,256
11. Ballygall A	90	178	592	841	648	444	172	2,965
12. Ballygall B	148	295	637	610	461	225	150	2,526
13. Ballygall C	501	753	1,356	1,174	589	220	443	5,036
14. Ballygall D	234	270	671	666	462	308	181	2,792
15. Ballymun A	29	47	211	648	309	556	367	2,167
16. Ballymun B	44	127	603	1,494	1,082	818	854	5,022
17. Ballymun C	150	317	1,010	1,843	1,394	1,346	1,346	7,406
18. Ballymun D	17	104	465	774	856	637	1,150	4,003
19. Ballymun E	468	475	733	432	201	54	57	2,420
20. Ballymun F	111	557	993	859	479	129	164	3,492
21. Beaumont A	343	544	1,182	1,203	508	151	149	4,080
22. Beaumont B	356	660	1,012	1,330	611	207	190	4,366
23. Beaumont C	386	671	1,225	1,138	594	186	159	4,359
24. Beaumont D	310	525	549	574	229	108	122	2,417
25. Beaumont E	263	514	847	815	398	99	152	3,088
26. Beaumont F	336	526	897	811	426	159	135	3,290
27. Botanic A	541	532	750	409	245	105	253	2,835
28. Botanic B	446	574	879	402	255	102	386	3,044
29. Botanic C	285	380	638	280	207	94	263	2,147
30. Cabra East A	524	892	1,102	616	480	251	339	4,204
31. Cabra East B	141	299	895	1,303	899	581	350	4,468
32. Cabra East C	230	551	813	653	498	446	305	3,496
33. Cabra West A	69	122	343	638	476	282	119	2,049
34. Cabra West B	48	131	425	943	746	593	240	3,126
35. Cabra West C	102	244	544	990	779	562	346	3,567
36. Cabra West D	122	281	416	538	751	320	198	2,626
37. Clontarf East A	517	633	1,151	908	470	198	233	4,110
38. Clontarf East B	1,513	1,417	1,580	770	458	181	391	6,310
39. Clontarf East C	799	780	594	274	155	54	212	2,868
40. Clontarf East D	780	725	695	223	208	65	161	2,857

Table 16 (contd.): Persons in each Ward classified by social class
(for definition of social class groups, see Table)

| Ward	Social Class							Total
	1	2	3	4	5	6	7	
Dublin County Borough (contd.)								
Dublin County Borough North (contd.)								
41. Clontarf East E	324	342	383	204	156	78	168	1,655
42. Clontarf West A	377	566	920	744	421	190	224	3,442
43. Clontarf West B	94	185	484	815	700	555	327	3,160
44. Clontarf West C	436	568	713	312	231	85	221	2,566
45. Clontarf West D	115	325	622	460	319	144	162	2,147
46. Clontarf West E	197	344	830	626	401	183	169	2,750
47. Drumcondra South A	467	717	845	544	372	156	462	3,563
48. Drumcondra South B	82	98	319	291	169	124	220	1,293
49. Drumcondra South C	369	643	957	637	386	284	589	3,865
50. Edenmore	211	335	825	1,062	1,016	535	187	4,171
51. Finglas North A	73	132	708	1,285	1,054	650	528	4,430
52. Finglas North B	91	218	669	1,119	954	457	318	3,826
53. Finglas North C	153	482	981	1,137	707	222	166	3,848
54. Finglas South A	60	124	658	1,015	948	635	231	3,671
55. Finglas South B	80	128	478	1,374	879	757	294	3,990
56. Finglas South C	38	97	683	1,365	1,081	755	351	4,370
57. Finglas South D	42	145	501	1,039	765	561	254	3,307
58. Grace Park	620	1,021	1,185	943	557	206	374	4,906
59. Grange A	305	582	878	1,277	660	299	128	4,129
60. Grange B	100	328	491	766	349	182	103	2,319
61. Grange C	157	456	971	2,039	1,085	539	166	5,413
62. Grange D	455	601	1,005	1,278	711	466	306	4,822
63. Grange E	249	398	798	1,217	655	388	292	3,997
64. Harmonstown A	314	481	1,041	1,091	726	272	270	4,195
65. Harmonstown B	253	386	837	868	716	418	206	3,684
66. Inns Quay A	157	419	566	379	291	242	1,312	3,366
67. Inns Quay B	109	277	439	522	418	483	351	2,599
68. Inns Quay C	75	85	229	382	417	465	329	1,982
69. Kilmore A	16	43	325	683	506	308	76	1,957
70. Kilmore B	55	120	656	1,283	1,329	752	275	4,470
71. Kilmore C	40	97	340	679	839	355	182	2,532
72. Kilmore D	192	377	804	1,012	606	253	101	3,345
73. Mountjoy A	57	111	261	614	545	886	748	3,222
74. Mountjoy B	88	114	250	298	288	321	282	1,641
75. North City	86	174	100	143	158	245	300	1,206
76. North Dock A	29	102	261	428	244	183	123	1,370
77. North Dock B	77	189	698	1,076	1,096	602	283	4,021
78. North Dock C	30	88	216	571	550	683	534	2,672
79. Phoenix Park	34	69	154	74	83	71	346	831
80. Priorwood A	58	117	332	556	380	130	56	1,629
81. Priorwood B	32	55	398	1,049	766	819	501	3,620

Table 16 (contd.): Persons in each Ward classified by social class.
(for definition of social class groups, see Table 15)

Ward	Social Class							Total
	1	2	3	4	5	6	7	
Dublin County Borough (contd.)								
Dublin County Borough North (contd.)								
82. Priorswood C	34	99	459	1,086	994	843	*lll	4,125
83. Priorswood D	41	116	528	1,129	1,188	635	514)	1,797
84. Priorswood E	157	315	584	1,042	768	346	16/	1,779
85. Raheny-Foxfield	480	626	888	779	474	260	1.20	1,535
86. Raheny-Greendale	265	316	555	915	574	348	101	1,154
87. Raheny-St. Assam	1,128	1,049	1,225	509	321	93	14'.	4,470
88. Rotunda A	128	134	160	281	387	465	4'16	2,011
89. Rotunda B	40	82	107	150	151	225	204	1,017
90. Whitehall A	540	719	919	537	322	52	*11	1,420
91. Whitehall B	369	638	1,290	1,415	738	399	84	3,191
92. Whitehall C	200	343	704	740	308	217	114	2,466
93. Whitehall D	235	324	524	461	364	269	141,	2,523
Dublin County Borough South	19,247	21,724	36,608	37,325	28,218	23,737	28,070	14,935
94. Chapelizod	356	345	366	255	138	131	154	1,741
95. Cherry Orchard A	7	17	19	4	5	20	149	221
96. Cherry Orchard B	40	105	637	1,127	990	682	151	3,532
97. Cherry Orchard C	4	62	395	1,243	841	1,192	674	4,163
98. Crumlin A	100	221	782	1,361	929	637	164	4,092
99. Crumlin B	89	208	764	1,170	702	604	407	3,339
100. Crumlin C	91	163	442	646	465	510	797	2,514
101. Crumlin D	161	291	790	1,128	845	554	445	4,234
102. Crumlin E	63	116	602	926	738	634	382	3,461
103. Crumlin F	139	388	804	874	515	186	552	3,461
104. Decies	39	138	664	1,205	837	724	422	4,029
105. Drumfinn	62	175	764	1,600	1,266	1,044	313	5,224
106. Inchicore A	66	234	473	640	462	314	232	2,401
107. Inchicore B	71	112	374	646	462	415	207	2,287
108. Kilmainham A	27	102	450	717	569	560	314	2,741
109. Kilmainham B	70	117	231	293	164	150	143	1,138
110. Kilmainham C	117	273	726	936	760	594	534	3,936
111. Kimmage A	50	142	439	807	569	450	267	2,724
112. Kimmage B	67	183	827	1,321	963	865	537	4,843
113. Kimmage C	251	236	425	501	347	343	317	2,420
114. Kimmage D	116	185	538	800	494	363	227	2,723
115. Kimmage E	211	266	626	939	627	599	322	3,85
116. Kylemore	58	99	573	1,063	921	682	372	3,74
117. Mansion House A	72	85	298	543	623	691	674	2,995
118. Mansion House B	203	151	138	43	72	34	172	827
119. Merchants Quay A	55	30	102	233	249	407	251	1,327
120. Merchants Quay B	92	93	220	355	354	424	222	1,756

Table 16 (contd.): Persons in each Ward classified by social class
(for definition of social class groups, see Table 15)

Ward	Social Class							Total
	1	2	3	4	5	6	7	
Dublin County Borough (contd.)								
Dublin County Borough South (contd.)								
121. Merchants Quay C	39	83	250	413	349	512	556	2,202
122. Merchants Quay D	117	259	533	588	347	231	231	2,306
123. Merchants Quay E	94	189	262	175	145	25	144	1,034
124. Merchants Quay F	76	238	356	457	365	404	621	2,517
125. Pembroke East A	96	140	628	1,189	967	1,035	403	4,458
126. Pembroke East B	705	668	761	359	307	172	412	3,383
127. Pembroke East C	1,127	788	686	162	118	53	443	3,377
128. Pembroke East D	1,144	642	540	337	281	220	1,045	4,209
129. Pembroke East E	835	442	379	100	101	77	308	2,242
130. Pembroke West A	242	363	654	733	389	412	440	3,233
131. Pembroke West B	526	358	479	139	160	142	524	2,328
132. Pembroke West C	799	820	727	184	217	101	755	3,603
133. Rathfarnham	1,326	827	603	182	174	87	658	3,857
134. Rathmines East A	794	808	932	198	232	164	998	4,126
135. Rathmines East B	1,006	713	731	180	221	90	825	3,766
136. Rathmines East C	1,174	719	767	183	204	71	540	3,658
137. Rathmines East D	413	571	750	218	214	118	498	2,782
138. Rathmines West A	231	572	949	484	599	267	568	3,670
139. Rathmines West B	255	348	626	293	273	228	486	2,509
140. Rathmines West C	594	485	545	148	136	49	546	2,503
141. Rathmines West D	433	573	724	271	263	206	463	2,933
142. Rathmines West E	538	755	838	311	261	126	400	3,229
143. Rathmines West F	483	547	802	203	158	96	541	2,830
144. Royal Exchange A	94	160	164	160	135	140	288	1,141
145. Royal Exchange B	66	67	174	222	208	346	253	1,336
146. St. Kevin's	270	352	564	366	390	334	791	3,067
147. South Dock	206	325	443	558	395	353	688	2,968
148. Terenure A	409	727	1,068	538	442	225	299	3,708
149. Terenure B	431	670	982	707	396	320	347	3,853
150. Terenure C	660	488	432	152	63	30	115	1,940
151. Terenure D	343	238	155	73	55	22	67	953
152. Ushers A	54	162	172	115	161	76	277	1,017
153. Ushers B	4	16	54	102	87	138	168	569
154. Ushers C	38	67	317	676	508	665	533	2,804
155. Ushers D	54	155	273	455	322	280	346	1,885
156. Ushers E	64	212	303	369	320	378	354	2,000
157. Ushers F	119	255	409	483	409	350	723	2,748
158. Walkinstown A	74	197	582	772	397	292	153	2,467
159. Walkinstown B	147	286	639	790	376	138	128	2,504
160. Walkinstown C	187	335	797	902	410	173	143	2,947
161. Wood Quay A	19	84	250	439	375	493	488	2,148
162. Wood Quay B	284	483	839	563	381	289	522	3,361
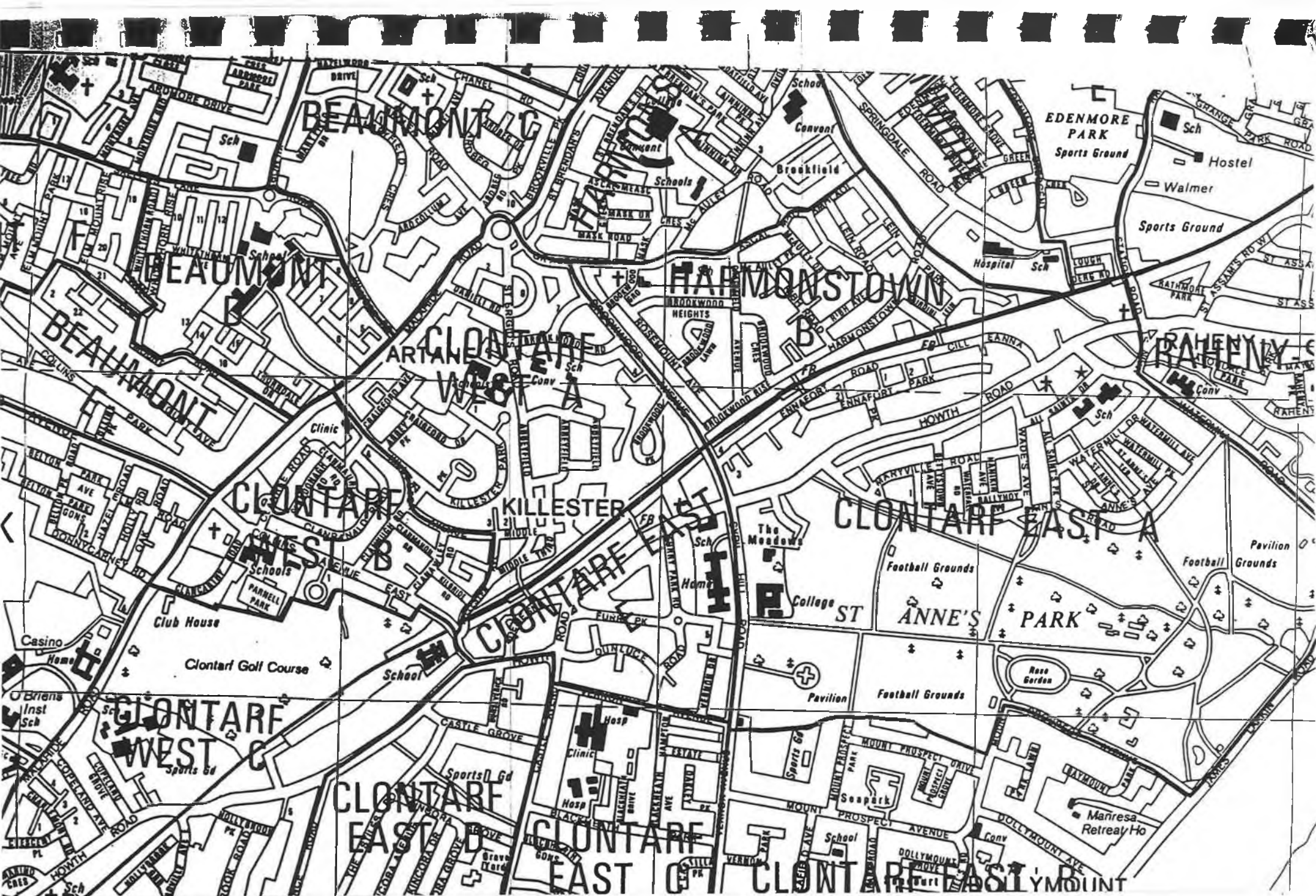
Appendix C

Appendix D

Sample Letter Sent to Prospective Respondents

Dublin Institute of Technology.
Mountjoy Square,
Dublin 1.

Respondent's Name,
Respondent's Address.

Dear XXXXXX,

My name is Orla Kane. I am a student in D.I.T. Mountjoy Square, where I am studying for the award of a Masters Degree, under the Strategic Research & Development Programme. This programme was established to encourage research of strategic importance to Irish Industry. In an effort to achieve this I am examining the changing market in the Personal Computer Industry.

The proposed research aims to discover what influences the business consumers when purchasing a PC and also what business consumers require from their PC supplier. I would be most appreciative if you would help me in this matter by completing the enclosed questionnaire. As the research pertains to PC purchase behaviour it is imperative that the person responsible for purchasing PCs for your company complete the questionnaire. All information given will be treated with complete confidentiality.

I have also enclosed a stamped self-addressed envelope for the return of the questionnaire, or it can be returned by fax to: Orla Kane, Post Grad. Office, @ 4024299. If you have any further queries, please contact me @ 4024154.

Thanking you in anticipation,

Yours Sincerely,

_____

Orla Kane

Appendix E

Home Consumer Questionnaire

Section 1 - (Establish suitablilty of respondent)

(1.) Do you have a PC in your home?

Yes ❑   No ❑   **(If no, terminate interview)**

(2.) Who purchased it?

_____

_____

(3.) How much influence did the following have over the purchase of the PC?
(1=Most influence; 2=A lot of influence; 3=Some influence; 4=A little influence; 5=No influence)

	1	2	3	4	5
Parent	❑	❑	❑	❑	❑
Spouse	❑	❑	❑	❑	❑
Offspring	❑	❑	❑	❑	❑
Sibling	❑	❑	❑	❑	❑
Friends	❑	❑	❑	❑	❑
Comany	❑	❑	❑	❑	❑
Respondent	❑	❑	❑	❑	❑
Other (Please state)___	❑	❑	❑	❑	❑

Section 2

(4.) What brand is your PC?

Compaq	❑	IBM	❑
Dell	❑	Gateway	❑
Hewlett Packard	❑	Siemens Nixdorf	❑
NEC	❑	Mitsubishi Apricot	❑

Other (Please state)_____

(5.) Was it purchased

Direct from manufacturer	❑
Indirectly	❑

If indirectly, from which of the following outlets was it purchased?

Through work supplier	❑
High street shop (Electrical)	❑
Specialist computer shop	❑

Other (please state)_____

Section 3 - (Determine purchase influences)

(6.) When purchasing a PC, how important are the following factors in influencing your decision?

	Very Important	Important	Neither	Unimportant	Very Unimportant
Price	❑	❑	❑	❑	❑
After sales service	❑	❑	❑	❑	❑
Quality	❑	❑	❑	❑	❑
Ease of use	❑	❑	❑	❑	❑
Reputation of supplier	❑	❑	❑	❑	❑
Friends advice	❑	❑	❑	❑	❑
Well known brand	❑	❑	❑	❑	❑
Previous experience	❑	❑	❑	❑	❑
PC brand used at work	❑	❑	❑	❑	❑
Other_____	❑	❑	❑	❑	❑

Section 4 - (Determine past behaviour regarding the purchase of PCs)

(7.) Is this your first PC?

Yes ❑   No ❑   **(If yes, go to qu.10)**

(8.) Have you changed brands?

Yes ❑   No ❑   **(If no, go to qu.9)**

(8A.) Which brand did you have previously?

Compaq	❑	IBM	❑
Dell	❑	Gateway	❑
Hewlett Packard	❑	Siemens Nixdorf	❑

Other (Please state)_____

(8B.) Why did you change brands?

_____

_____

_____

(9.) Have you changed your supplier in the past?

Yes ❑   No ❑   **(If no, go to qu.10)**

(9A.) What type of supplier did you change to?

Direct from manufacturer	❑
Through work supplier	❑
High street shop (electrical/hardware)	❑
Specialist Computer shop	❑

Other (please state)_____

(9B.) Why did you change suppliers?

_____

_____

_____

Section 5 - (Identify level of expertise with PCs)

(10.) Do you subscribe to a computer magazine?
         Yes ❑   No ❑

         If yes, which one _____

(11.) Which of the following uses do you or your family use your PC for?

Word Processing	❑	Multi Media	❑
Games	❑	Internet	❑
Educational	❑	Entertainment	❑
Spreadsheet	❑		

         Other (please state)_____

(12.) Which of the following statements describes your understanding of PCs best?

I understand the technical and practical side of using PCs	❑
I find PCs easy to use but I don't understand the technicalities	❑
I can use PCs if I follow the instructions carefully	❑
I can use PCs if someone shows me how to use them first	❑
I have a lot of problems using PCs & need a lot of support	❑

(13.) State your level of agreement with the following statements on a scale of strongly agree, agree, neither agree nor disagree, disagree or strongly disagree:

	SA	A	Neither	DA	SDA
I am much more comfortable using PCs now than I used to be	❑	❑	❑	❑	❑
I have a lot of confidence in my own knowledge of PCs	❑	❑	❑	❑	❑
When purchasing a PC I need a lot of advice from the supplier	❑	❑	❑	❑	❑

Section 6 (Determine if risk is an influencing factor, level & type)

(14.) How would you rate the purchase of a PC compared to other high priced purchases, such as washing machine, furniture etc.?

Above average complexity	❑
Average complexity	❑
Below average complexity	❑
Equal	❑

(15.) When you purchased your PC, how certain were you on a scale of 1 - 5 (1=Very certain, 5=Not certain), that

You would be able to purchase a PC at an affordable price

              1   **2**   **3**   **4**   **5**

Very certain ____ ____ ____ ____ ____ Not certain

The PC would be easy to use

Very certain ____ ____ ____ ____ ____ Not certain

The PC would not be prone to breaking down

Very certain ____ ____ ____ ____ ____ Not certain

You would get good after sales service

Very certain ____ ____ ____ ____ ____ Not certain

(16.) How important was it to you, on a scale of 1 - 5 (1=Very important, 5=Unimportant), that

You would be able to purchase a PC at an affordable price

              1   **2**   **3**   **4**   **5**

Very important ____ ____ ____ ____ ____ Unimportant

You would find the PC easy to operate

Very important ____ ____ ____ ____ ____ Unimportant

Your PC would not be prone to breaking down

Very important ____ ____ ____ ____ ____ Unimportant

You would get good after sales service

Very important ____ ____ ____ ____ ____ Unimportant

(17.) How confident were you in your own knowledge of PCs when purchasing your PC, on a scale of 1 - 5?

              1   **2**   **3**   **4**   **5**

Very confident ____ ____ ____ ____ ____ No confidence

How important was it to you that you had some knowledge of PCs when purchasing your PC?

              1   **2**   **3**   **4**   **5**

Very important ____ ____ ____ ____ ____ Unimportant

(18.) If you were going to buy a PC in the future,

* Would your information needs:	Increase	❑
	Decrease	❑
	Stay the same	❑
	Not sure	❑

* Would you upgrade your PC with more features		
	Yes	❑
	No	❑

* Would you change brands:	Yes	❑
	No	❑
	Maybe	❑

Why?_____

_____

* Would you buy a :	More expensive PC	❑
	Less expensive PC	❑
	Either	❑
	Not sure	❑

Why?_____

_____

Section 7 (Demographics)

(19.) Age

15-24 ❑	35-44 ❑	55-64 ❑
25-34 ❑	45-54 ❑	65+ ❑

(20.) Sex   Male ❑   Female ❑

(21.) Occupation of Head of Household

AB ❑   C1 ❑   C2 ❑   DE ❑

(22.) Level of Education

Primary school	❑
Secondary school	❑
Third level	❑
Post graduate	❑

Appendix F

Corporate Consumer Questionnaire
(To be completed with person responsible for PC purchasing)

Section 1: Introduction

(1.) Does your company have a computer/systems department?

Yes ❑   No ❑

If yes, how many people are in that department?_____

(2.) Do you have

A network of PCs   ❑   Individual PCs   ❑
A mainframe computer   ❑
Other(Please state)_____   ❑

(3.) How many PCs do you have? _____

Section 2: PC Brands

(4.) What brand(s) of PC do you currently have?

Compaq	❑	IBM	❑
Dell	❑	Gateway	❑
Hewlett Packard	❑	Siemens Nixdorf	❑
Mitsubishi Apricot	❑	NEC	❑

Other (Please state)_____

(5.) Have you ceased purchasing any particular brands in the past?

Yes ❑   No ❑   **(If no, go to Q.8)**

(6.) Which brand(s)?

Compaq	❑	IBM	❑
Dell	❑	Gateway	❑
Hewlett Packard	❑	Siemens Nixdorf	❑
NEC	❑		

Other (Please state)_____

(7.) Why did you cease purchasing that/those brand(s)?

_____

_____

_____

Section 3: PC Supplier(s)

(8.) Do you purchase your PCs
    From one supplier   ❏
    More than one supplier   ❏

(9.) From which of the following types of suppliers do you purchase your PCs
    Direct from manufacturer   ❏   **Go to Q.10**
    Indirectly, through a dealer/retailer   ❏   **Go to Q.9a**
    Both   ❏   **Go to Q.9a**

(9a.)   If indirectly, from which of the following outlets do you purchase?
    Retail outlet (e.g. Powercity)   ❏
    Specialist computer shop   `..`   ❏
    Computer Specialist Agent (Non-Retail)   ❏
    Computer Warehouse (e.g. Compustore)   ❏
    Other (please state)_____

(10.) Why do you purchase through this/these particular channel(s)?

_____

_____

_____

(11.) If more than one supplier,

    * How many? _____

    * Why do you use more than one supplier?

    _____

    _____

    * Which was the most recent type of supplier utilised and why?
      (See categories in Q.9&9a)

    _____

    _____

    _____

    * Which type is your principal supplier and why?
      (See categories in Q.9&9a)

    _____

    _____

    _____

(12.) Have you ceased purchasing from any particular supplier in the past?
    Yes ❏   No ❏   **(If no, go to Q.15)**

(13.) What type of supplier(s) did you cease purchasing from?

Retail outlet	❑
Direct from manufacturer	❑
Computer (e.g. Compustore)	❑

Other (please state)_____

(14.) Why did you cease purchasing from this/these supplier(s)?

_____

_____

_____

Section 4: Factors Influencing Purchase

(15.) How important are the following factors with regard to selecting a <u>PC supplier</u>?

	Very Important	Important	Neither	Unimportant	Very Unimportant
Organisational policies	❑	❑	❑	❑	❑
Suppliers' Reputation	❑	❑	❑	❑	❑
Level of after sales support	❑	❑	❑	❑	❑
Supplier previously used	❑	❑	❑	❑	❑
Fast/On time delivery	❑	❑	❑	❑	❑
High quality product	❑	❑	❑	❑	❑
Right price offered	❑	❑	❑	❑	❑
Other Services on Offer	❑	❑	❑	❑	❑
Reliability	❑	❑	❑	❑	❑
Technologically up to date	❑	❑	❑	❑	❑
Other (State)_____	❑	❑	❑	❑	❑

(16.) How important are the following influences with regard to selecting a <u>Personal Computer</u>?

	Very Important	Important	Neither	Unimportant	Very Unimportant
Quality	❑	❑	❑	❑	❑
Price	❑	❑	❑	❑	❑
Well known brand	❑	❑	❑	❑	❑
Ease of use	❑	❑	❑	❑	❑
Other (State)_____	❑	❑	❑	❑	❑

(17.) How much influence do the following have over the purchase of PCS ?

	Total	A Lot	Some	A Little	None
Those who use the PCs	❑	❑	❑	❑	❑
Purchasing department	❑	❑	❑	❑	❑
Computer department	❑	❑	❑	❑	❑
Senior management	❑	❑	❑	❑	❑
Other (Please specify)_____	❑	❑	❑	❑	❑

(18.) How would you rate the purchase of PCs compared to other purchases of plant and equipment

Above average complexity ❑
Average complexity ❑
Below average complexity ❑
Equal ❑

(19.) When purchasing PCs, how certain are you on a scale of 1-5 (1=Very certain, 5=Not certain) that:

You will be able to purchase PCs at an affordable price

        1   2   3   4   5
Very certain ____ ____ ____ ____ ____ Not certain

You will be able to judge the relative merits of the many brands of PCs available
Very certain ____ ____ ____ ____ ____ Not certain

Buying PCs will be money well spent
Very certain ____ ____ ____ ____ ____ Not certain

The PCs will be easy to use
Very certain ____ ____ ____ ____ ____ Not certain

The PCs will not be prone to breaking down
Very certain ____ ____ ____ ____ ____ Not certain

You will get good after sales service
Very certain ____ ____ ____ ____ ____ Not certain

(20.) How important is it on a scale of 1-5 (1=Very important, 5=Unimportant) that:

The price of the PCs fall with a certain bracket

        1   2   3   4   5
Very important ____ ____ ____ ____ ____ Unimportant

You can judge the relative merits of the different PCs available
Very important ____ ____ ____ ____ ____ Unimportant

The PCs prove to be value for money

	1	2	3	4	5	
Very important	___	___	___	___	___	Unimportant

The PCs are easy to operate

Very important ___ ___ ___ ___ ___ Unimportant

The PCs are not prone to breaking down

Very important ___ ___ ___ ___ ___ Unimportant

The suppliers provide good after sales service

Very important ___ ___ ___ ___ ___ Unimportant

(21.) The following are definitions of very formal and informal organisational structures. Each definition represents the end point on a scale of 1 (very informal) to 5 (very formal). Circle the point on the scale that best describes your company's structure

1 - Very Informal:- There is no clear hierarchy. Authority and responsibility are are based more on ability than formal job title.

5 - Very Formal:- There is a distinct hierarchy. Limits of authority and responsibility are clearly laid down.

Very Informal 1   2   3   4   5   Very Formal

(22.) Which one of the following statements best describes your company's equipment replacement policy.

(A) We like to keep up to date with new technology and change our equipment if something new and suitable comes on the market ❑

(B) We only replace equipment when it is absolutely necessary ❑

(C) We have a planned replacement programme based on an estimated life expectancy. We will however make exceptions where appropriate ❑

(23.) Industry Type:

	Manufacturing	❑
	Transport/Communications	❑
	Wholesale	❑
	Retail	❑
	Finance	❑
	Services	❑

(22.) No. of Employees   _____