

EXCLUSIVE VS. NON-EXCLUSIVE DISTRIBUTORS. A CASE STUDY OF ELEVATOR INSTALLATION & SERVICE INDUSTRY IN ALBANIA

Mimoza MANXHARI

University of Tirana

183 Square "Mother Teresa", Tirana, Albania

mmanxhari@yahoo.com

Rezarta HASANAJ

University of Vlora "Ismail Qemali"

L. Pavarësia, 9400 Vlorë, Albania

rezarta.hasanaj@gmail.com

Abstract. *The evaluation of the performance of distribution channels often has its focus on both ends of its extremes: manufactures performance and consumers benefits. Ways in which these companies operate in the market will affect their performance. One of the most important stages of this process is the distribution channel and distributors, find it necessary to evaluate their performance. The paper starts with the importance of distribution channels. Decisions about the structure of the distribution channel are important in at least two dimensions. First, the decision has a direct effect on pricing policy, advertising, packaging, etc. Second, decisions regarding distribution channels require a long-term commitment. It takes several years to be deploying a desired distribution system and can't be changed easily. Distribution means delivering the product to the consumer at the right time and place. Thus, a company must decide the number of distributors needed on each channel while using different distribution strategies. Distribution channels always include the manufacturer and the final consumer, the main duty of distribution system that places goods to a potential customer is to be at the right time and place. Thus, an evaluation of the performance of distributors is done considering both the manufactures performance and consumers benefits. In this study, two kinds of distributors are considered, exclusive distributor, ED and non-exclusive distributors, NED. The focus of the paper is an Elevator Installation & Service Industry in Albania while looking at three significant elements of the distributors: rationalization, communication, and perceived performance. The paper was qualitative and empirical data were collected through questionnaire and in-depth interview. SPSS was used in analyzing the data gathered from the sample (13 respondents from 22). The study revealed that even though ED agreements are characterized by an asymmetric power structure, data shows that producers and ED tend to have with each other a more stable and closer relationship compared to NED. In addition, the positive result of evaluation performance and commitment of ED is higher than NED. Their commitment is seen in the form of investments in the exclusive distribution channel. This commitment motivates producers to consider ED.*

Keywords: *distribution channels; non-exclusive distributors (NED), exclusive distributors (ED), performance.*

Introduction

The starting point of this paper is the term distributors, distribution channels, and its meaning. Who are the distributors? The words distributor encompass a wide range of different means and refer to different people. There are basically two different types of distributors. At one end of the spectrum, there are general distributors who can provide a variety of different goods in different geographic regions. On the other side, there are specialist distributors that offer information and technology services and applications of handful products. Public Distributors titles like wholesaler, distributors of general shopping, association distributors, storekeeper distributors (Kotler & Armstrong, 2012).

Components of distribution networks include manufacturers and importers of goods to networks; wholesale that is an intermediary between producers and final distributors; exclusive agent; retailers that are the final supplier of goods and services to consumers; on sale at retail; other elements of the retail distribution; a consumer that export goods from storage and use.

Distribution channels are more than simple collections of firms tied together by various flows. They are complex behavioral systems in which people and companies interact to accomplish individual, company, and channel goals. Some channel systems consist only of informal interactions among loosely organized firms. Others consist of formal interactions guided by strong organizational structures. Moreover, channel systems do not stand still new types of intermediaries emerge and whole new channel systems evolve. A company's work does not end with the production of a product. One of the most important stages of this process is the distribution channel.

The term "distribution channels" is a collection of affiliate organizations and individuals that place product or service to end-customers. Distribution channels connect the goods producers and customers to each other. The simplest method is direct sales but it may not be possible and also the intermediaries are used. Severity level selection and extent of distribution can affect the number of intermediaries. Intermediaries form the components of the distribution channel. Companies can choose a distribution channel or a combination of different channels to reach their consumer while achieving an optimal dispersion with each channel reaching a different segment of customers. Distributors can help generate sales; however, the company tends to lose that direct contact that it has with its customers. Thus, a company must decide the number of distributors needed on each channel while using different distribution strategies.

One of these strategies is the exclusive strategy, where the number of distributors is limited. It is used when a company wants to have control over the service provided by the resellers. Often this strategy includes exclusive agreements for a specific territory where the producer and reseller both benefit from it. This brings about a stronger partnership between seller and reseller and results in strong bonds of loyalty. Part of the agreement usually requires the dealer not to carry competing lines, and the result is a more aggressive selling effort by the distributor of the company's products, e.g. an exclusive franchise to sell a vehicle brand in a specific geographical area, in return for which the franchisee agrees to supply an appropriate after sales service back-up.

Exclusive agreements are among the most used forms of contractual relations). Little attention has been given to these agreements; thus, little is known about the impact they have on the contractual performance of distribution channels. Unlike non-exclusive agreements (NED), exclusive agreements refer to a form of distribution channel in which contractors use only the product of the manufacturer or provider, furthermore, they are not allowed to use products of competitor producers (Besanko & Perry, 1994). Operating conditions of ED differ from those of the NED. Often the choice to operate as ED is a choice of their own for the following reasons (Scherer, 1980):

- To be able to gain the right of distribution or use of the product.
- To take advantage of the reputation of the manufacturer.
- To gain assistance in terms of different disciplines like management and finance from the manufacturer side.

A distributor cooperating with one manufacturer creates a dependent relation from that manufacturer. This manufacturer has a considerable power in relation to ED regarding the decision in distribution channels. Asymmetric impact of power is a characteristic of the way ED operate (Dant & Berger, 1996). Examples of this form are found in the different industries such as automobile manufacturing, construction, production of soft drinks in trade sector etc.

ED agreements bring different impacts on the behavior of the intermediaries, operating on exclusive agreements. A question that needs to be addressed is: Does the performance of ED and NED differ from one another?

This study is focused on how ED agreements affect the perception of intermediaries in three main directions: rationalization, communication, and perceived performance. A discussion will follow discussing why these elements were chosen and the importance of each one. In this paper, a revision of the literature related to ED will be introduced, following the hypotheses build, following the methodology for collecting and processing the data and the end the results of the study including limitations will be present.

Literature review

Anderson and Weits (1992), view ED agreements as a preventative form of involvement in the distribution channels. They estimate that there are positive correlations between ED relations and engagements of actual distributors in the relationships created among members of the channels. Sengupta (1995) estimates that investments in assets promote ED agreements, while technology developments reduce the possibility of using these agreements. In his literature, Sangaputas' focus is mostly on horizontal relationships between firms. The legal and economic literature emphasizes the lack of competition that these agreements form barriers to entry and expansion of potential intermediary distribution channels; thus, increasing the cost of entry into the market (Bolton, 1987).

However, as quoted above, ED offers several competitive advantages over NED. Such advantages are:

1. ED agreements encourage resellers to focus on selling a product, by educating distributors about the brand. This is difficult to accomplish in NED.

2. ED agreements enable quality control of the product, while in NED agreements do not.
3. ED agreements do not allow any leak of the company's products.
4. Creates high dealer loyalty and considerable sales support
5. Limits potential sales volume
6. ED relations stimulate investors to invest more in distribution channels operating in a less risky environment (Sass & Gisser, 1989).

All these features are reached by the continuous support from the management, promotion, training, technical knowledge etc.. (Burnett, 2012; Steuer, 1983).

Hypotheses

Rationalization

ED's success is closely linked to the production line of the main producer. Even though distributors operate under the ED or NED, they have the right to employ as many distributors they find necessary. ED are more dependent on their producers compared to NED. Therefore, producers that contract ED have greater power over them compared to producers that contract NED, where an opportunistic behavior is shown from the manufacturers that use ED.

This opportunistic behavior is seen to have exploitative tendencies, and the party with more power aims to have more opportunistic behavior by benefiting more from the resources (Kale, 1989). Walker, 1981, found that the most powerful party aims to have opportunistic behavior during the negotiation process. This behavior can increase conflicts among members of the channels pushing manufacturers toward their personal interests. Taking into consideration this aspect, the level of rationalization will be lower in ED channels than NED channels. Rationalization refers to the long term mutual relationship (Kaufmann & Dant, 1992). Rationalization is used to measure the quality and nature of the dynamics of relations and processes between firms (Dant & Schul, 1992).

Arguments suggest that manufacturers that used ED have a reduced level of opportunistic behavior compared to manufacturers that use NED. They are collaborative and rational.

Two factors support this argument:

1. Economic and legal literature suggests that manufacturers become part of the agreement to capitalize loyalty and to gain attention from ED at the same time keep away competitors from using the current distribution channels (Bolton, 1987). To secure these benefits manufacturers should adopt a long-term relationship with ED. ED agreement will be created as a form of a partnership, or as a form of an alliance that shares profits and losses. NED are not motivated to build lasting rational relationships.
2. Mutual relations theory supports the fact that an action taken by a party to the relationship ED, will be reciprocal by the other party (Kelly, 1983). Anderson and Weitz (1992) claim that these accepted agreements of ED, affect positively the

perception of producers about the commitment of ED. Therefore, providers prefer to invest in ED channels than in NED channels (Shaffer, 1993).

Following these arguments we build the first hypothesis:

H1. The level of rationalization will be higher in ED compared to NED.

Communication

A channel of distribution by its very nature is made up of people. Ideally, a channel member should coordinate his or her efforts with other members in such a way that the performance of the total distribution system to which he or she belongs is enhanced. This is rarely the case. Part of this lack of cooperation is due to the organization structure of many channels, which encourages a channel member to be concerned only with channel members immediately adjacent to them, from whom they buy and to whom they sell. The dimension of communication has been incorporated into the study.

Channel communication is sending and receiving information that is relevant to the operation of the channel. It is critical for the success of the channel member to work to create and foster an effective flow of information within the channel. Communication in the distribution channels may be a one-way or two-way (Mohor, Fisher & Nevin, 1996). Communication refers to the extent in which the members of the channel share information with each other in a proactive manner (Anderson & Narus, 1990).

Communication is perceived as a critical element in the distribution channels, while it represents the means by which business transactions are coordinated, and cultivate trust among the members of the channel (Nevin, 1990). Because of the different hierarchy levels within the distribution channels, various studies emphasizing one-way communication (Dansereau & Markham, 1987), making ED dominate in the communication process.

A two-way communication is considered to be an effective communication tool for the coordination of activities between the parties (Mohr, Fisher & Nevin, 1996). Studies show that ED is more likely to invest in relationships with their manufacturers, thus, increasing competitiveness in the market (O'brein & Shaffer, 1993).

H2: Communication of ED firms is at higher levels compared to the communication of NED firms.

Perceived performance

Perceived performance is defined as a general assessment of the performance of a party done during the cooperation with another party. The evaluation of the performance of the distribution channels is believed to have a strong impact on the creation of relationships between members (Campbell, 1997). The nature of the agreements of ED does not allow them to use or sell the products of competitors, limiting the range of products, compared to NED. From the perspective of opportunistic behavior, the manufacturers will benefit more from the agreement. This theory evaluates the performance of sellers ED perceived to be at low levels.

According to Kelley (1983), the theory of reciprocity will compensate ED for not using or selling competitors' products (Sass & Gisser, 1989). Because of the product differentiation, ED will generate higher profits (Besanko & Perry, 1994). ED retailers

could operate more efficiently compared to NED. This logic suggests the following hypothesis:

H3: Perceived performance of producers about ED channels is higher than the perceived performance of NED channels.

Methodology

To test the above hypothesis, we selected the elevator installation and service industry in Albania. We found both forms of distribution channels ED and NED. In addition, we choose a sample of companies that sell, install and repair elevators in Albania. Addressing QKR, Vlore which provides online access on a national level, we were provided a list of businesses that offer these services. Companies were selected based on the description of the product/service they offered. From the completion of the questionnaire, it was observed that very few firms offering other products. As a consequence, the possibility of leaving out of the study other firms is small.

Sample selection

Data selection was a two steps process. First, a total number of 22 companies were selected and contacted via email. From those, only 13 responded. Then a survey was distributed via email. From the data collected, the companies were divided into two groups ED (5 firms) and NED (8 firms). This division was made possible due to the nature the questions had. Companies were requested to answer all of the survey questions relate to the three hypotheses raised above. For data analysis was used Statistics F (Fisher) and SPSS.

Model setup

The tree variables used were rationalization, reciprocity, and perceived performance. Rationalization depends on three norms: reciprocity, solidarity, and integrity (Dant & Schul, 1992). Reciprocity refers to the extent parties share in a fair and equal way their losses (Boyle et al., 1992). Solideratiti refers to the extent both parties value long term relationship. Integrity refers to the extent the relationship between the parties is valued beyond the transaction. In the communication section, questions that highlight issues of one-way and two-way communication were addressed. The perceived performance was addressed with three questions. Likert scale rating was used, 1-5, 1-not at all and 5 fully agree.

Analysis

Table 1. Data on the number of ED/NED firms

No.	Description	Number	Total Percentage
1	Total firms	22	100%
2	Firm – fills the questionnaires	13	59%
3	ED firms- fills the questionnaires	5	38%
4	NED firms- fills the questionnaire	8	62%

From the data given, it is noted that 62% of respondents, operate as NED, while 38% operate as ED.

Table 2. Collaboration between members of the distribution channels)

No.	Description	Purchase technical parts	Design of the elevators	Training	Technical support, legal, finance. etc	Financing
1	ED firms	100%	100%	80%	75%	60%
2	NED firms	100%	100%	0%	10%	0%

Two of the main functions of ED and NED are purchase and design. The table shows that there is not a noticeable difference between the two functions they provide. The difference is that the makes 50% of design is done by NED. The rest is made possible with the help of alliances 50% or by the manufacturer 40%.

In relation to other important functions like training, financing, technical support, ED benefit from their providers more than NED.

Table 3. Product offered from ED and NED firms

No.	Description	Installment	Maintenance	Modernization	Design
1	ED firms	100%	80%	100%	100%
2	NED firms	100%	100%	0%	100%

Table 4. Consumers segment of ED and NED firms)

No.	Description	Residents-Hotels	Public transportation	Shopping centers	Other
1	ED firms	100%	80%	100%	50%
2	NED firms	100%	0%	0%	0%

Table 5. Number of producers NED and ED firms

No.	Description	Number of producers, 1	Number of producers, 2	Number of producers, 3	Number of producers, > 3
1	ED firms	100%	0%	0%	0%
2	NED firms	50%	25%	25%	0%

ED operate in larger segments compared to NED. It is worth mentioning that at the beginning of their activity, NED operates with only one producer 50% of the cases. Despite that, the relationship of NED is not regulated by an exclusive agreement. The number of producers who collaborate with NED is relatively low.

The dimensions of the three variables to test the three hypotheses were grouped as follows. They were evaluated by Likert scale.

Rationalization

1. Reciprocity

- In relation to the manufacturer, one party benefits more than deserved.
- Each benefit on the basis of the contribution provided.
- Distributors help more the producers than they help them.
- Cost and Benefit balance over time.

2. Solidarity

- Consider the manufacturer they collaborate with the same as any other manufacturer.
- The relationship is considered long-term.
- The relationship is considered ongoing process of collaboration.
- The relationship is considered as a group of collaboration for each project.

3. Integrity of roles

- Manufacturer discusses with your firm, not only for the purchase and sale of the product
- Expectations between the parties are complex and do not only concern business relations.
- Roles are separated: you are the buyer and they are the seller.
- Manufacturer satisfies the requirements of the firm in relation to quantity, delivery conditions, and price (Dant & Schul, 1992).

Communication

- Inform each other about events that may affect the activity of firms
- Often informal information exchange.
- Exchange information beyond what is in the agreement.
- Expected to be informed about any situation that affects your work by the manufacturer (Nevin, 1990).

Perceived performance

- Your relationship is productive.
- Investment in energy, time, and assets is productive.
- The relationship is satisfactory (Campbell, 1997).

To interpret the results of hypotheses tested, a summary of the data given was done and how they operate in the market. ANOVA analysis of variance was used to analyze each of the three variables.

Table 6. Averages and hypothesis

Hypothesis/ Variables	Average ED	Average NED
H1: Rationalization	3.6	3.1
H2: Communication	3.4	3.1
H3: Perceived performance	3.8	3.7

The above table shows that the average of ED is higher than the average of NED when looked at the first variable, rationalization. The highest value of the average belongs to the integrity of roles as part of the rationalization. To evaluate whether this difference is important to prove hypothesis 1, test F is used. Test F results higher than the critical value for the three hypotheses. Specifically $F_1 = 8, 7$, $F_2 = 8.1$ and $F_3 = 7$, for $F_{critical} = 4:55$, thus, proving the three hypotheses.

Data analysis shows that firm size does not affect the three selected variables. Fisher test results are lower than the critical value: the results from the averages confirm the same result.

Conclusion

To conclude, as mentioned above, decisions about the structure of the distribution channel are important. Distribution means delivering the product to the consumer at the right time and place. The products are delivered using distribution channels which are more than just a simple collections of firms. They are complex behavioral systems in which people and companies interact to accomplish individual, company, and channel goals. Some channel systems consist only of informal interactions among loosely organized firms. Others consist of formal interactions guided by strong organizational structures. Most producers use intermediaries to bring their products to market. They use a set of interdependent organizations in the process of making a product or service available for use or consumption by the consumer or business user. This process is what has been known as a distribution channel. A company must decide on the distribution channel and the number of distributors needed on each channel while using different distribution strategies. Distribution channels always include the manufacturer and the final consumer. This paper discusses two kinds of distributors, exclusive distributor, ED and non-exclusive distributors, NED. The focus of the paper is an Elevator Installation & Service Industry in Albania while looking at three significant elements of the distributors: rationalization, communication, and perceived performance. SPSS was used in analyzing the data gathered from the sample (13 respondents). This study compared Ed to NED using as sample elevator installation & service industry to test the hypothesis. Even though ED agreements are characterized by an asymmetric power structure, data shows that producers and ED tend to have with each other a more stable and closer relationship compared to NED. In addition, the positive result of evaluation performance and commitment of ED is higher than NED. Their commitment is seen in the form of investments in the exclusive distribution channel. This commitment motivates producers to consider ED. Moreover, ED do not show opportunistic behavior, making them more attractive.

Limitations

These intriguing findings should be interpreted with some caution, however. First, we only sampled companies in the elevator service industry. These companies do not represent all the forms of ED and NED. Second, the number of the companies that took part in this study is relatively small.

Future research should take into consideration the consumers to test the relationship between ED/ NED and consumers, making the study more complete and reliable.

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